

## **The 10 Biggest Mistakes Made by Sellers of Middle-Market Companies** **By Dominic C. Mazzone, Managing Member of Mazzone & Associates, LLC**

1. **Thinking you can do it yourself.** Selling a company is one of, if not the most, important events in a company's history – and typically the lives of the members of its management team. Unlike mowing your lawn, which we admit some of us even struggle to do, selling your company is not an undertaking the company should try to do itself without an advisor. A good advisor helps you maximize the purchase price you receive by canvassing the marketplace appropriately, driving the execution of the transaction and adding value through effective negotiations. Management and principal shareholders of the company generally do not have the appropriate time or expertise to undertake this endeavor alone and, even when they do, they would likely benefit from having a third party advisor helping them with this process.
2. **Missing projections during the process.** One of the most difficult tasks for a management team is to work on the sales process and run the company effectively at the same time because it's really two jobs in one. For this reason, companies often miss their projections during the sales process. Unfortunately, missing projections generally significantly impacts purchase price because it negatively affects both the trailing twelve month EBITDA and the multiple bidders are willing to ascribe to such EBITDA for the company. Missing projections during the process also typically either slows down the process as bidders begin taking more of a "let's wait-and-see" approach or halts it completely.
3. **Not getting your house in order.** The best way to maximize the value of a company during the sales process is by getting your house in order at the beginning of the process – in other words, do your own due diligence review of your company before someone else does and clean-up any potential issues bidders may have with your business. Other than poor results during the sales process, nothing hurts negotiations more than the proverbial "surprise," which tends to cost the seller value in the purchase price negotiations and causes bidders to dig further in due diligence and lose confidence in the management team. A well-organized due diligence process with thorough and prompt responses to inquiries adds value during the sale of the company because it buyers recognize that it is indicative of how management runs the company's day-to-day operations.
4. **Not maintaining control of the process.** Many sellers don't find their buyers – their buyers find them. During strong M&A market conditions, both financial and strategic buyers aggressively seek sellers. When approaching a seller, a buyer will generally reject the notion of the seller running a process and often threatens not to undertake in any auction process run by the seller. However, serious buyers ALWAYS partake in and stay in an auction process. Sellers also make a similar mistake of granting exclusivity too early in the process, which causes the seller to lose most of its negotiation leverage with the buyer to truly maximize the purchase price and value of the business.
5. **Not having a solid business plan or strategic plan or at least a set of projections.** A buyer or buyers doing diligence will be free to make any projections they wish as they analyze the business. Without a solid set of defensible assumptions, a seller will leave them to apply a conservative or even negative bias to the business going forward. Sellers should not let the fact that seat-of-the-pants entrepreneurship has succeeded for them in the past make them complacent about the degree of scrutiny a buyer will apply to their projections. Buyers buy based on fact, analysis and strategy, not arm-waving.

6. **Failing to consider management succession.** For many entrepreneurs, the entrepreneur is the business, and the Company is worth less without that driving force. If you are considering an exit, spend some time shoring up the execution capabilities of the team.
7. **Naiveté in considering and sloppiness in documenting YOUR deal.** Mostly for situations where the owner retains an interest in the selling entity, new ownership probably means reduced autonomy. Because the seller is still involved in the business after the closing, her or his interest in the business now comes with additional responsibilities, authorities, benefits and obligations that often are only defined within the last 10 days of closing. Do you want to continue to run the company? Do you want to control the board? Do you want to continue to take a salary? Are you comfortable that related-party transactions may end? Are you comfortable that your 'car allowance' may end? Are you comfortable that your country club membership dues may no longer be billed to the company? If you are exiting, does or will the buyer require a non-compete? These issues usually do not keep the deal from closing. However, the relationship between the parties typically gets very uncomfortable because these discussions generally come near the end of the negotiations process and can set up a less-than-optimal relationship going forward.
8. **Not optimizing your sale potential.** The most successful sellers recognize how to run their companies to optimize the sale price. Investments, particularly large capital expenditures, for the most successful sellers are made in advance of the sale process and begin driving strong growth to the company's top and bottom lines. Buyers generally add expenditures requirements, thus lower their ability to pay a higher premium, when the seller has made significant investments into the company in the year of or years immediately prior to the sale of the company. Despite any explanation by the seller, buyers add expenditures to conservatively approach the post-closing needs of the operations and ensure their ability to reach their investment goals.
9. **Failing to recognize your potential.** Sellers should seek sound investment banking, legal, accounting and tax advice during any sale process to ensure that they recognize the full potential of the transaction. For example, the structure of the transaction may have a significant impact to the amount of taxes being paid to the government that may be avoided by a more tax efficient structure that has no direct impact on the other terms and conditions of the transaction. As another example, sellers who take "paper" (i.e., seller notes or the buyer's stock) should be advised as to the potential risks of such investments because receiving the buyer's paper is not the same as receiving cash – it is truly an investment in the buyer.
10. **Not considering or discounting post-closing liabilities.** The age-old saying "a bird in the hand is worth two in the bush" is good to remember when considering potential post-closing liabilities. The advisors for both the seller and buyer will discuss the "market" for post-closing liabilities (i.e., the length of time, amount and other terms and conditions related to the indemnification given by the seller to the buyer in connection with the sale of the business). Regardless of what the "market" is or is not for such matters, sellers should ensure that they give serious consideration to the risks associated with the money being held back or placed in escrow at closing.