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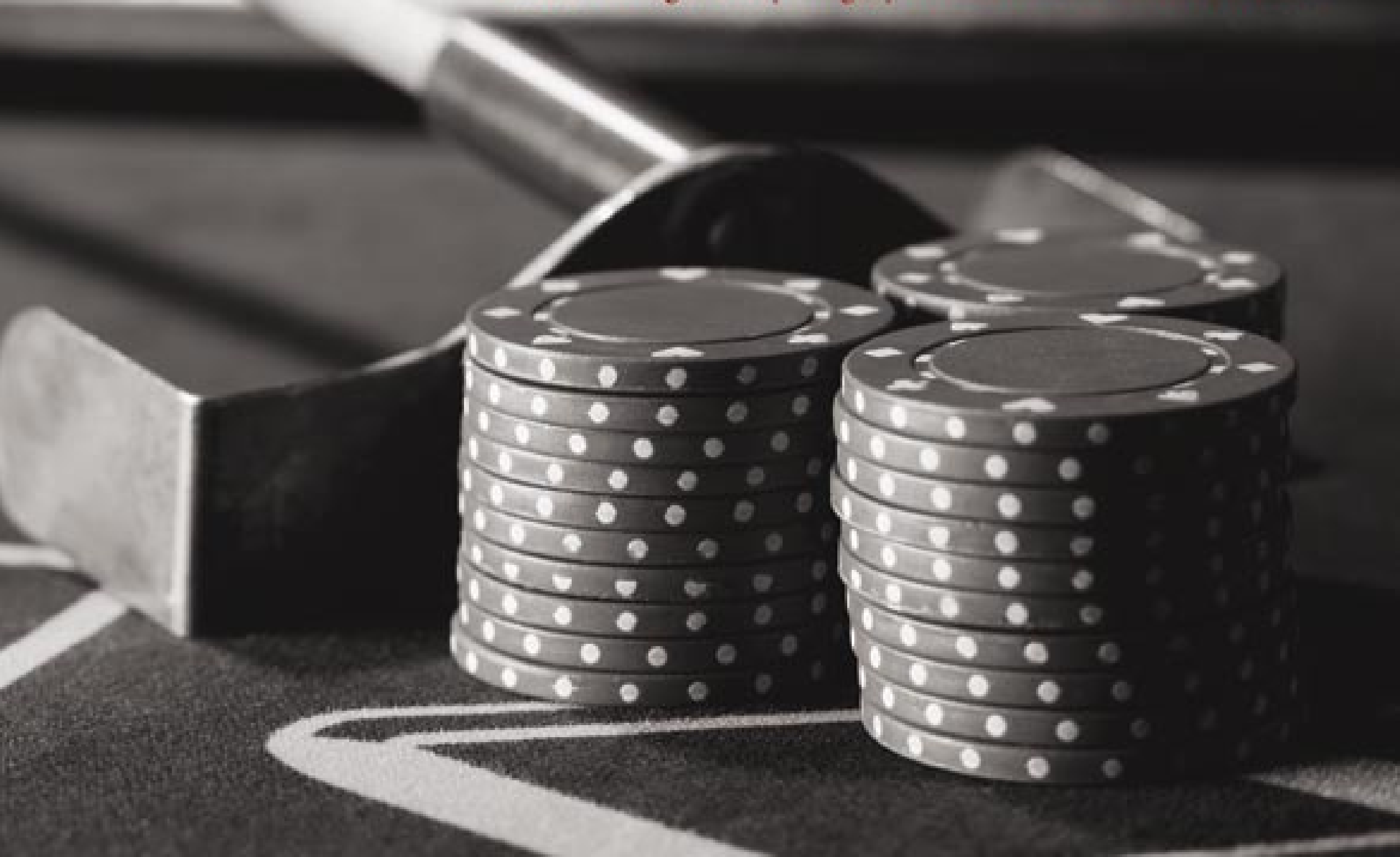
Is It Time To Cash in?

PCT helps you answer that question in this Special Report on the mergers and acquisitions market.

Inside: Timing is Everything, by Lance Tullius of Tullius Partners



Timing Is Everything

With merger & acquisition activity and consolidation of PCOs running rampant, timing proves to be a critical factor in determining company value.

by Lance Tullius

As you're busy managing the day-to-day challenges of your business, how often do you stop and think about what's happening in the world around you? Particularly, what's going on in your industry that you might not be aware of. And despite your lack of awareness, how might these outside forces be impacting your business? If you're like most of your peers in the pest control industry, you would probably say that you don't have time to think about anything *other than* the inner workings of your business if pressed with these questions. Yet with what's happening in your industry today, you can't afford *not to* spend considerable time thinking about those outside influences.

The saying "Timing is Everything" is one that we've all heard often enough. Frequently, though, we discount someone doing something at an opportune time as being "in the right place at the right time" or being the beneficiary of good fortune rather than good sense or proactive thinking. And in many instances, that's the case. After all, a little luck never hurts. But is it merely a function of luck that most people that operate with a conscientious sense of awareness of the world around them and then move proactively based on their own and others' insight, always seem to be "in the right place at the right time"?

As an investment banking firm, Tullius Partners has worked with small, medium and large businesses, mostly in the capacity of facilitating merger, acquisition and sale transactions, for more than 25 years. In that span, we've been involved in several hundred transactions. And without question, the single largest factor in determining the success of an owner's investment in their company is the timing at which they made various moves over the life of the business. Yet most business owners today do not appreciate the significance to which the element of timing matters.

For instance, I can't tell you how many calls I get each month from companies telling me they want to buy another business or multiple businesses. Now some of these "buyers" are experienced acquirers, are well capitalized, and have invested considerable time and resources in creating their growth plan. They know and have an appreciation for what goes into the comprehensive and oftentimes complex process of making an acquisition. But in most cases, within just a few minutes of a conversation, it is clear that the business owner with acquisition motives has little sense for the exercise they are about to embark upon, nor the understanding of how existing market conditions will impact their stated strategy. We are today in the midst of one of the most aggressive seller-friendly markets that the pest control industry has seen, and yet *good* companies with little if any acquisition experience and inadequate capital to fund such transactions, want to acquire. Don't they say "when everybody's buying, it's time to sell," and vice versa?

So when is it the right time to buy, and how might the answer to this question vary from one company to another? First, consider the psychological forces that generally tilt the scales towards someone purporting to be a buyer rather than a seller. Buying, in a fundamental sense, symbolizes power, expansion and growth — all terms that are synonymous with making us feel secure and in control, as if to reassure ourselves that we are moving in the right direction. Selling, on the other hand, is often perceived as resignation or defeatism, as if we're "throwing in the towel." We don't want to experience these feelings, let alone have our peers perceive this of us. But acquiring a business comes with substantial risk, increased responsibility and inevitable change. As with any other major decision, there is a time to acquire and a time not to acquire, and that decision may very well be different for you than for another company.

PURSUING AN ACQUISITION. Before pursuing the acquisition of another business you must first have a very clear sense of why you want to acquire that business. What is acquiring another business going to do for you? And realistically, what is it going to cost you to make the acquisition? These questions and their answers are not mutually exclusive. For example, there are a lot of great things that can result from an acquisition of another company: stronger market coverage, greater competitive advantages, increased profitability, etc. But any one of these positives can be outweighed by what it costs to make the acquisition. In deciding to go after an acquisition, many buyers give sole consideration to the internal aspects of their business, and from that vantage point, an acquisition may appear to make perfect sense. But in contemplating the same acquisition, those same buyers neglect to give real appreciation to what's taking place in the world beyond them.

For a few years now, the pest control market has been witness to major consolidation, with large volumes of capital being deployed into the market. This has spurred a seller's market, characterized by not only higher company values, but also more favorable terms and conditions. Therefore, if you're considering an acquisition, no matter how good the prospects might look on paper, the impact of the market's current consolidating activity should be considered. For there is a better than average chance that you will be competing for the acquisition with better-capitalized buyers that are likely operating under a different set of buying parameters that can essentially enable them to justify a higher price for the same acquisition.

That's not to say that even in a seller's market there won't be situations where it makes sense for smaller independent companies to buy. While most all of us talk in terms of dollars and cents when it comes to mergers and acquisitions, price is not *always* the most important factor. Perhaps you're looking to expand into a new geographic market and you've concluded that it would make more sense to acquire an existing business with a reputation and foot-hold in that market rather than enter from scratch. In this case, the personnel of the business you're looking to acquire, as well as the infrastructure they have in that market, are as or more important than the accounts they service. As a result, you're looking for the management of the company you acquire to stay with the business, and looking to capitalize on the business and legacy that company has already built. While there may very well be other competing acquirers interested in this business, their motives for the acquisition could be simply to increase existing market share in this market, and as a result, the value they put on management and the infrastructure of the company may be next to nothing. Additionally, it could be that the seller of the business is not ready to leave the business and retire and also wants to maximize the likelihood of his people having continued employment with the company. While price will most certainly be an issue for this seller, these other desires may take precedence.

It also could be that you're looking to acquire in a market you're already operating in, and for whatever reason, other better capitalized strategic buyers are not presently actively acquiring in your market, meaning you could be the best strategic source for a potential seller. Maybe your market is one that hasn't yet become a priority to the industry's major acquirers, or possibly those acquirers are consumed with the many other acquisitions they're presently involved in. This, once again, is an issue of timing, and in this circumstance the timing implies that you should pull the trigger and acquire.

A FINE LINE. There is a fine line between buyer and seller. The above example provides a good segue to demonstrating the impact that timing can have in rapidly turning a "buyer" into a "seller." At any given time, especially in a seller-friendly market, the line between a buyer and seller can be quite thin. In theory, almost every buyer will become a seller at some point in time. That, of course, is the nature of a market. However, many of the supposed "long-term" buyers within an industry become sellers sooner than they had originally planned. For the most part, the market's timing threw them a curveball that they couldn't afford not to make a change in direction. For example, the situation described above where a company finds themselves as the leading strategic buyer in their existing market as a result of the lack of attention that market is capturing from larger industry buyers, can change in an instant. Let's say that by way of a few acquisitions in its market, this company in a span of a few years, has gone from a pack of equals within the market, to the head and shoulders leader of the market. They own the largest market share and most attractive book of business in the market. And all of a sudden, that market hits the radar screen of even just a couple of the industry's most frequent acquirers. You can bet the first company those buyers are going to make a play for, and will accordingly justify paying the most money for, will be the company with the largest market share; that company presently considered "a buyer".

Of course, that "buyer" can deny the interest of this acquirer, but it does so at the risk of losing what could be a significant opportunity to capitalize on a premium value for its business. The buyer desiring entry into this market will likely then pursue the next largest company in an effort to accomplish its objective. And if it does so successfully, all of the sudden the original "buyer" has not only a new competitor doing business in the market, but also one that is another buyer for acquisitions in the market. As this buyer is probably bet-

Questions to ask *(and answer)* before considering:

A sale of your company…..	A purchase of a company….
1. Why am I selling?	1. Why am I buying?
2. What factors are most important to me in a sale (i.e. cash, price, future role, employees, etc.)?	2. What am I looking for in a purchase (i.e. improved position in existing market, new position in new market, complementary service, etc.)?
3. Is my company in such a condition that my negotiating position will be maximized?	3. How will a purchase improve the value of my company?
4. What will I do after my business is sold?	4. How will I capitalize, and thus structure the purchase?
5. How and by whom will the sale process be managed? Have I assembled a capable team?	5. If I'm acquiring a business versus accounts only, is the culture of the acquired business compatible with my business?

ter capitalized, it will likely raise the bar in terms of the going rate for other acquisitions in the market.

In many cases, however, this represents a classic example of how one active acquirer becomes an unexpected seller. And while the timing at which a buyer becomes a seller may be unexpected, the process of acquiring businesses, integrating and building them, and subsequently selling the resulting product, is a strategy that while not easy to pull off, is attempted quite often. It's also one that is done with varied results, largely because the timing at which market dynamics take place is ignored.

WHEN TO SELL. So when is the right time to sell? One of the first things to realize is that you'll never know when the absolute best time to sell is. Like predicting the future, nobody can do that without some element of speculation. I can tell you, however, that I have witnessed people so paralyzed by trying to ensure that they sell at that exact perfect moment, when all of the proverbial stars are aligned, and as a result of that paralysis, they miss the "window of opportunity." When it's all said and done, and with the benefit of hindsight, there are some sellers that will say had they waited a few more months or years, they could have fielded more for their business. And perhaps they're right. But in nearly every case, the amount a seller "leaves on the table" is much less when they sell too early than it is when they sell too late.

As with buying, a variety of circumstances factor into the desire, and timing at which a business is sold. Unfortunately though, market conditions are far too often not among them. Too often, company owners are driven to sell because they're either ready to do something else and "move on" or especially in the labor intensive service sector, they lack the necessary resources to further grow their business. While these are certainly valid and understandable reasons, they aren't motives that generally put people in a position of negotiating strength. Business owners tend to have one thing in common amongst them and that is to sell their business at the highest price. How can you give yourself the best chance of doing just that? As with most any other goal, it starts with a plan.

PLANNING FOR SUCCESS. Some people do get lucky. And yes, sometimes those people never had a plan. But that's an awful excuse for not having one. You may still get lucky even though you have a plan. But without a plan, your ability to capture success is left to only luck. A good motto is to always be prepared to sell your business, yet operate with the mindset that it will be yours forever. To that end, you should plan a course for your business that will culminate with an exit strategy. It's not important that you set an exact date at which you will exit (in fact you should not set an exact date), but rather that you identify a range of time, say within a two or three year horizon. As part of your plan, consider what you want your business to do for you and thus what factors you would like to drive the eventual sale of your company. Is it an amount of money, a certain age, the size of the business, or a combination of these and other factors?

Once these factors are identified, you need to determine what it's going to take to get the business to where you need it to reach whatever milestones are important to you.

When developing your plan, make sure you think about what's going on in your market, your industry and the world economic markets. Force yourself to take an objective look at what's happening in these areas, talk to other people and speculate on what certain trends could lead to in the time frame of your exit strategy. Too many business owners operate as if the value of their company is and will be strictly a function of its internal condition. So emotionally tied to their business, they fail to appreciate that however unfortunate it may be, a company's value is very much dependent upon outside conditions, largely beyond their control. As a result, they plan for selling their business when they think its value will be high, as measured by internal performance, with little if any consideration to the external forces.

Finally, make it a prerequisite that you be prepared to call an audible and change on the fly if necessary. By proactively heeding this advice, you will in fact position your company such that you are able to take advantage of those special opportunities that come along so infrequently. Because remember, *timing is everything*!

The author is a principle with Tullius Partners, an investment banking firm that specializes in providing merger and acquisition, corporate finance and financial advisory services to companies in the pest control industry. For more information, visit www.tullius.com.

Preparation is the key. *By Tom Aho*

Planning to sell means knowing what buyers are looking for. Of course, this strategy varies from buyer to buyer, but overall, they all want the same things:

1) A stable customer base with little turnover
2) Long-term satisfied employees and last but not least,
3) Profit margins that will help pay for the business after they purchase it.

These three items help to assure buyers they will get their money's worth after the sale. How do you accomplish these three important things? Of course, there is no right answer and every situation is different, but with the right focus, they are all attainable.

If you are considering the sale of your operation, now or in the future, be sure to get advice. This is the one time in your life where an experienced consultant will serve you well. Remember, you only get once chance to sell your business. Don't make expensive mistakes.

When it comes time to court potential buyers, keep the following items in mind:

- **Order:** Buyers of businesses like to see order and they want to know that a business has been well run and efficient.
- **Keep Solicitations:** When the time is right, start contacting these people to see what they are interested in. In other words, shop around.
- **Know Buyers:** Getting to know the potential buyers and the way they do business will help you decide which buyer will satisfy your needs.
- **Know the Terms of Sale:** You will want to receive the most value for your business.
- **Confidentiality:** Be sure to get a signed confidentiality agreement from all potential buyers before you release any records in order to keep current employees happy.
- **Referrals:** Don't rely on hearsay or letters written by the seller. Ask people who have sold their business to the buyer.

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