Five Ways to Sell at a Premium Price

To sell your company at a premium price “over market” is the optimum objective provided time and other conditions are favorable. Over market refers to any price paid that exceeds what is commonly known as fair market, or that price that will likely be achieved by selling your company to an average buyer under ordinary circumstances. So how can you avoid average buyers and ordinary circumstances to ultimately sell your company at a premium price?

#1 Sell Your Company to a Strategic Buyer

Selling your company to a strategic buyer can result in the highest offer. A strategic buyer will often be a company in your company’s industry or “space” (a popular term for industry or expertise) as a direct or indirect competitor; a Competitor Buyer. Strategic buyers may also come from a different space than your company but have a “strategic” plan and desire to enter your company’s space; an Entry Buyer. For the Competitor Buyers the motives to buy your company are 1) it’s easier and often cheaper to grow sales and profits through acquisition, 2) they acquire new customer accounts and 3) they are putting another competitor out of business. For Entry Buyers their motives are similar to those of Competitor Buyers plus they have the motive to grow their businesses horizontally vs. vertically into new endeavors and markets.

How do you locate Strategic Buyers? The process is as easy as looking at who’s who on your project, sales, job, etc. bid lists. The process is as difficult as searching and mining through postings and data online and elsewhere, and then interpreting the potential “fit” each may have with your company. This is particularly true when seeking out Entry Buyers who could be the highest bidders for your company.

#2 Recapitalize Your Company

A Recapitalization is a business acquisition technique primarily used by private equity groups or “PEGS” and some private investors. This unique sale method would allow you to sell a portion of your company while retaining some equity. The amount of equity you may retain is negotiable but rarely exceeds 45%.

Think of a Recapitalization as selling your company twice. By example let's say the first sale is for 60% of your company. You would be paid for that portion of your company at the 1st closing in an amount that generally reflects market value. The second sale would then occur (typically within 3 to 7 years) when the entire company is subsequently sold to a third party that is most often a highly strategic buyer prepared to pay a premium price. Because PEGS are experienced business operators and partners they have proven records of growing companies in which they partner/invest. While they bring capital to the table, perhaps more critical to grow your company, they also provide entry into new and expanded markets as well as industry, operational and organizational expertise. This results in greater sales and profitability and premium pricing or value for your company. Then when it's eventually sold in its entirety this second sale would include your 40% interest which may be worth a great deal more than the 60% you previously sold.

#3 Choose the Best Time to Sell Your Company

To sell your company at premium pricing you should choose an optimum time and not let the time choose you. In military battles officers want to defend or attack from the "high ground", thereby increasing their control over the battlefield thereby improving their odds of success. How do they gain the advantage of the high ground? This is best accomplished through strategy, execution and TIMING.

#4 Auction Your Company

There are several forms of Auctions but unless your company is failing fast or forced by lenders or bankruptcy a "who will give me one million, do I hear a million! - got a million - now who will give me two?" is not the best auction method to sell your company. Where a well-defined field of high worth buyer prospects can be identified and accessed in sufficient numbers a controlled auction can result in a premium price for your company.

To achieve the best results a controlled auction must be carefully planned in every detail and executed with precision and authority. Provided the foregoing a controlled auction will ideally result in multiple bidders. Once again this sale method will only produce a premium sale price for your company if all the essential elements exist and the auction is executed professionally.

#5 Offer Terms to Purchase Your Company

There are two primary elements of any sale Price and Terms. Usually if a seller demands the toughest of terms which is 100% cash at the close of sale then the buyer will demand a lower purchase price. It's a quid pro quo or balance between the elements. So to increase prices offered for your company you may consider some form of Seller Financing or enhanced purchase terms.
The number and ways to enhance purchase terms are almost limitless. They range from the much ballyhooed ESOP or Employee Stock Option Plan to Earn-Outs to the basic grant to a buyer of time payments to the seller vs. an institutional lender. Understand that with all deferred payment terms the seller risks unpaid principal. So it comes down to weighing risk against reward. Taking Blue Chip stock or an option to do so from a buyer is far less risky than a personal pledge from a third party or a group of your employees in an ESOP.

Regardless the risk factor the vast majority of buyers will demand some form of enhanced purchase terms from you as the seller. If it is clear that certain terms will enhance your opportunity to attain a premium price consider the risks and offer these terms proactively vs. reactively. It's another way to negotiate from the "high ground".

For more information, or a complimentary company value assessment, please contact:

Jim Hines
Managing Partner
Inxcorp Business Advisors
616-822-3223
jim@inxcorp.com
www.inxcorp.com