Selling Your Contracting Business

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My firm, A.I.M. Group Canada Ltd., has specialized in the sale of private businesses since 1990. We have sold a wide range of manufacturing and service companies over the years and recently have sold an HVAC Services company to a US based manufacturer of HVAC equipment. Additionally, we are currently in the final stages of selling a commercial and industrial HVAC services company to a national building services contractor.

So, despite the difficult economy we find ourselves in, there is still demand for HVAC and other building service contractors in Canada to be purchased. This is especially true for companies focused on commercial and industrial customers. The most attractive size to buyers today is with companies that have anywhere from $1 million to $10 million of EBITDA (to be defined shortly).

Recent surveys suggest that 50% of the privately owned businesses in Canada (those not listed on a stock exchange) will be sold in the next 10 years and two thirds of those will be sold in the next 5 years. This is mostly the baby boom effect. In view of these statistics, I would recommend you sell your business sooner rather than later with this many companies coming to market.

There is no question that the current public market selloff and grim economic forecasts will limit the number of companies sold. It is also likely the sale process will take longer and prices will be lower than the lofty levels (by historic standards) we have seen the past few years. Nonetheless, well managed, profitable companies will continue to be sold. If you are considering the sale of your business you should not delay because of the current economic turmoil.

Selling a business is a complicated, time consuming and usually quite stressful event. This will probably be the largest financial transaction in your life and I would strongly encourage you to hire an advisor to assist you with the process. At each step of the process you will require advice and assistance that can only come from years of experience doing financial transactions.

It is a time consuming process so you will need someone to manage the process efficiently while you continue to run your business. You also need technical advice regarding valuation (price), structure of the deal and so forth. For these and other issues you will want to have someone as an advisor let alone to provide a buffer in the negotiations.

So what are the steps in the process?

Step 1 – Preparation:

First and foremost you need to get the company and its records in order. This could take anywhere from 2 to 6 months. Your tax planning should already be in place and you should check with your accountant that the sale of your business has been considered as part of your tax strategy. During this phase of the process your advisor will collect information on the operations of the business, the industry you operate in and organize your historical and projected financial information. They will take that information as well as information from outside sources to prepare a Confidential Information Memorandum describing the main aspects of your business.

Step 2 – Valuation:

The value of any company at a point in time is the net present value of its future earnings potential. Another way of expressing this sentiment is achieved by putting a multiple on your EBITDA – Earnings before Interest, Taxes, Depreciation and Amortization. EBITDA is simply calculated by adding your interest expense, depreciation and amortization to your pre-tax earnings, all of which are found on your income statement.

For purposes of determining a Valuation of the business, the EBITDA will be reduced by any capital or other annual expenditures that are required to sustain the business. The multiple used to determine the price will be a function of the sustainability of earnings and their potential for growth. On average these multiples range from 3 to 6 times but vary by industry and by company. Therefore, if you generated $2 million in EBITDA last year and you have good prospects for continued profitability a rough estimate would be an $8 to 10 million purchase price.

Step 3 – Identifying Prospective Buyers (both strategic buyers in your industry and financial buyers such as Private Equity firms are the best prospects. Your advisor will prepare a list with your assistance to determine the best prospects.)

Step 4 – Contacting Prospective Buyers and getting Confidentiality Agreements Signed – (your agent's role).

Step 5 – Delivery of the Confidential Information Memoranda (your agent's role)

Step 6 – Responding to Buyers' Questions (you and your agent collaboratively)

Step 7 - Receipt of Letters of Intent

These non-binding letters outline the price and structure of the proposed transaction as well as the broad terms and conditions the prospective buyers are proposing. It forms the basis for negotiations that will lead to the final deal.

Step 7 – Negotiation of final Letter of Intent (an important intermediary role of your agent)

Step 8 – Buyer's Due Diligence

This involves the buyer reviewing all legal, accounting, tax, banking, human resources, health and safety, information systems, material contracts and other records. They will also make investigations into products, customers, outstanding litigation, environmental issues and so forth. This is a time consuming process and requires a great deal of preparation (let alone photocopying / scanning a large number of documents).

Step 9 – Legal Documentation (the lawyers paper the deal with the agent's supervision).

Step 10 – The Closing (money changes hands and keys are passed). You should expect the entire process to take from 5 to 12 months from the date you hire your advisor to closing.

This is a very brief overview of the many activities involved in selling a business but gives you an indication of the extensive work involved. For further information please contact Mark Groulx who can be reached by email at : mark@aimgc.ca.