

Some Advice on Whom to Use to Help You Sell Your Company

There will always be owners who want to sell their security company without using a broker or intermediary. Partly this might be because up until recently in Canada there weren't any brokers that knew anything about the security industry. In the US there have been brokers operating for years. Partly because some owners don't want to pay a broker's fee- although I think that is being "penny wise and pound foolish". Any deal that I have seen or heard of that did involve a knowledgeable broker, the seller almost always "left something on the table."

There are many smart reasons for using a broker.

Firstly, most owners don't have an accurate idea of what their company is worth, even if monitored accounts account for most of the value. A broker can help you with this. Secondly, most owners do not know much about the process of selling a business. And while most owners might know one or two of the better buyers, a good broker should be able to bring more buyers to the table. The reasons to hire a broker go on and on. Selling a company takes much more time than most people think. Given this, it is tough if not impossible to run your company and sell it at the same time. It is equally tough if you are conducting the sales process yourself to keep the fact you are selling confidential. Also countering those that don't want to pay a broker's fee, the stats show that a good broker can make a significant difference in the price you will get. There are two other lesser-known reasons for using a broker. A broker can help you make sure the deal gets closed and secondly closed quicker

A broker or intermediary is the term used for advisors who sell smaller companies. That might include businesses up to \$10 million in annual revenue. These brokers get the majority of their fees from the Success Fee when the business is sold. Success Fees are usually calculated as a % of the final purchase price and range anywhere from 3-10% varying inversely with the size of the deal. Sometimes a broker will charge a small "work fee" to cover his or her time setting the company up for sale

For what it is worth, companies with revenues above \$10-\$15 million generally hire what is known as "investment bankers" to help them sell. Investment bankers usually charge monthly retainers along with a success fee.

What skill or experience should an owner be looking for in a business broker? First and foremost how much experience and success has the broker had in closing deals? What is their success ratio in getting deals closed? What references can they give you? Secondly, has the broker had any experience in selling companies in your industry? This is preferable- but not mandatory. Having experience in the industry helps the broker value the business, know who the buyers are, and structure the deal in a way suitable for both buyer and seller.

I have been a broker now for 12 years. Knowing what I know now about being a broker, I would make sure that the broker does not have such a narrow focus on his business that he or she always going back to the same old industry buyers. To get the best price for a business most always requires a wide search of the market with several different types of buyers: industry players (strategic buyers), non-industry players (industries aligned with the particular industry the owner's business is in) and financial buyers such as private equity firms.

By now, you will have deduced that as professionally trained as your lawyer and your accountant might be, they are not the best people to use to help you sell your business. You will probably need both of them at some time to complete a deal but they do not usually have the skill sets to value or sell your business. Accountants tend to live and die by the numbers and while valuing and selling a company is partly about numbers, that is not the complete story. Creating an enticing selling package on the company which identifies the company's strengths and weaknesses and opportunities for the future, dealing with buyers and doing the negotiating are all skills a broker needs to have.

Also selling small companies with less than \$3-4 million in revenue and dealing with that kind of owner can be quite different from owners of a \$5-10 million company. Ironically larger companies are often easier to sell. The owners tend to be more knowledgeable about the selling process, larger businesses are actually easier to sell than smaller ones and tend to have more systems in place. Finally, larger businesses are generally less dependent on the owner which is important to buyers. If I had a company doing \$2 million or less and wanted to sell, I would look for a broker that had experience selling that sized company.

It is also wise to be wary of the general business brokers. Doubtful that they will have much in-depth industry experience in your industry. Some of these general brokers have a large marketing reach which certainly can be useful. Still, it pays to test these brokers out on basic issues such as what they think your business is worth and who the buyers are they are going to approach. The answers to these questions can tell you a lot. For example, it is not unusual for those unfamiliar with the unique value of monitoring recurring monthly revenue to undervalue it significantly. Also, general business brokers can have fee schedules that are higher than those focused on the security industry. Finally, owners need to be careful with any broker they hire of what we call the broker's "tail". This is the period after the brokerage agreement has been terminated that the broker gets protection on their fees if the business should be sold to a candidate approached while the agreement was in place. The tail should never be any longer than 2 years- less is better - and it should only apply to buyers where there have been serious conversations had about buying the business that goes beyond just signing an NDA and getting the selling package.

Hiring a broker to help you sell your business can definitely help get you a better price and get the deal done more efficiently but you need to do your due diligence on whom you hire.

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