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## M&A for Staffing Services: Preparing for a Successful Sale

By Steve Sorrentino, Principal, MergeQuest

Over the years as an M&A advisor, I have come to appreciate that the sale of a staffing business can be one of the most challenging, yet rewarding, endeavors of a business owner's career. Whether it's motivated by a planned exit strategy that leads to retirement, or perhaps other compelling reasons, careful planning for the future sale of your staffing business, along with understanding how to maximize the value received for your business, is time well spent. With this in mind, I would like to share with you my list of "must do" things that will help you prepare for this undertaking.

### Basic Preparation

First and foremost, you will need to "get your house in order" – which essentially means organizing, reviewing and updating the following things:

- Financial books, reports and general business records. Enough cannot be said about ensuring that your accounting records and financial reporting are up to date and current. This information is critical in first, preparing a market valuation for your firm, and secondly, presenting your firm's financial history and performance to a prospective buyer. You will also want to ensure that your employment records (including employee files and records) are orderly and in compliance with federal and state employment laws. It's also important to note that your financial statements should be at very least "reviewed" by a CPA.;
- Business and employment taxes. You will need to be certain that your firm's business and employment taxes have been paid and that copies of at least the past 3 year's of all federal and state tax returns are available for review. It is also a good idea to check with your state's Department of Revenue or Secretary of State's office and request what is known as "Certificates of Compliance" or "Certificates of Good Standing". These certifications will serve as proof to a prospective buyer that your business and employment state taxes have been paid and that your company is in good standing with your state government;
- Insurance. The key area is Worker's Compensation Insurance. Be prepared to have at least the past 3 year's of Worker's Compensation premium information, including modification rates, claims history and current open claim information. Call your broker or insurance company and request a current list of open claims – including your firm's claim history for the past three years;
- Legal. It will be important to review the status of any pending litigation, either as a plaintiff or defendant. It's a good idea to have your attorney run what is known as a "UCC search" (which is an action that most buyers will undertake as well). This action will uncover any known and unknown liens against the assets of your business. Banks and other creditors file UCC certificates with your state's Secretary of State. This is a public document that is designed to alert potential creditors (or buyers) that certain liens exist against your business assets (and some of these liens may in fact be old and inaccurate – as a former banker or other creditor may not have removed a prior lien after you settled your debt with

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them). In short, you cannot sell your business assets without the removal of any UCC certificates that may exist against them.

- Customer contracts. Make a list and prepare copies of any and all customer contracts and agreements – something all buyers will want to review. Make note of any contract or agreement that are not assignable and that require the approval and consent of the customer prior to assigning the contract. Be prepared to have a plan of action in mind for the eventual approach and negotiation with your customers for the assignment of their contract to a new owner. As you can imagine, any buyer will want to be certain that your customer contracts are assignable to them before they buy;
- Leases. Prepare a list and make copies of all business leases (e.g. leases for office furniture & equipment, computers, automobiles and real estate). Make note of any leases that are not assignable and that require approval from the Lessor before you can transfer the lease to a new owner. This is particularly important for real estate leases where you may have several branch offices with multiple landlords. Again, any buyer will want to be certain that your branch office leases are assignable to them before they buy.

Bear in mind that it's also important to stay focused on running your business during the marketing of your firm – while simultaneously working to improve its financial and operating performance. This means that you should continue to:

- Drive profitable sales revenue growth;
- Focus on improving your firm's Gross Margin level;
- Reduce operating costs where possible;
- Hire competent employees to fill any internal job vacancies;
- Weed out and terminate any under or non-performing employees;
- Keep collection efforts focused on collecting past-due receivables;
- Maintain your advertising and promotion programs;

### **Assembling Your Advisory Team**

The sale of your business will require the help of professional advisors, which should consist of an industry-experienced M&A Advisor, a CPA and an attorney. It's important to keep your advisors focused on their areas of specialty: attorneys for legal matters, CPA's for financial and tax matters and your M&A advisor for such things as business valuation, deal structure, negotiation strategies, as well as other sale-related transaction matters. It's equally important for you to understand the skills, strengths and limitations of your advisors and how, when and where to use them. My suggestion is that you take some time to call your attorney and CPA and explain that you are thinking about selling at some point and could they explain to you what their involvement would entail, how they would proceed, what information they would need – and could they give you some idea of their fees for this service. Next I would call an industry-experienced M&A adviser and ask the same questions. Any reputable adviser will be more than happy to give you a comprehensive overview of not only their services and fees but what you should know about the role and involvement of your attorney and CPA.

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## Maximizing Value

Perhaps the most appropriate place to start in understanding the concept of value is: first understanding what a potential buyer would value. Though buyers may view value somewhat differently, there is at least one viewpoint they all share: every buyer is looking for *predictability and certainty*. Knowing this, owners should be mindful that any financial or operating characteristics a prospective buyer may see during an evaluation of your company that create uncertainty and hinder predictability *will reduce value*. In preparing your business for ownership transition, *your central objective is to reduce perceived uncertainty and improve predictability for prospective buyers*.

That said, let's consider some of the areas that can create uncertainty and cloud predictability for a prospective buyer:

- **Financial Performance.** Your financial performance over the last three to five years is where most buyers start their analysis. The buyer is looking at past results, predicting future results based on the past, and paying you today for that future stream of cash flow. The key here is that *consistency* in revenue and profit growth increases value. In the Staffing Industry, buyers are particularly concerned about your Gross Profit Margin – both in year over year growth and maintaining consistent levels as a percentage of revenues.

Also, one final note on financial reporting: audits by a reputable CPA firm are a worthwhile investment. Reliable financial information during the years leading up to a sale will verify your company's track record and eliminate uncertainty for the buyer.

- **Customer Connections.** Longstanding, stable relationships with a fairly diverse customer base without reliance on one or a few key customers increases value. Customers that command over say 20% of your total revenues can spell *risk* to a potential buyer. Buyers do not want to see reliance on one or a few key customers.
- **Human Capital.** Astute buyers know that employees are critical to realizing future value, especially in a service business. Since your staffing business is essentially driven by the efforts of your employees, you are well advised to meet with your key people – to “re-recruit” them – to ensure that they are happy and satisfied with their employment relationship and experience. A strong management team, complemented by talented and loyal team members, adds tremendous value.

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### Success Starts With a Plan

In conclusion, my sincere advice is to take the time to sit and concentrate on writing a simple plan that will keep you focused on the necessary things that will help you prepare for the inevitable day when you say to yourself, “you know, I think it’s time to think about selling my business.” And when that day comes, you can say with confidence that you and your company are well prepared for a successful journey.

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