THE M&A SAGA: COLLECTIVE WISDOM FROM HAPPY AND NOT-SO-HAPPY STAFFING EXECUTIVES

April 25, 2014

Guest Author:
Greg Palmer gpalmerandassociates@gmail.com

By Greg Palmer

Do you ever think about selling your business? Do you know when would be the right time or the right way to think about selling all or even part of your business? Have you ever wondered what's the best way to maximize shareholder value and avoid making mistakes that you could regret later? If you have asked these or similar questions, this article is a must-read. And if you're an owner and haven't thought very deeply about these topics, this article will help you plan for the future.

I have spoken with more than 10 former staffing firm owners, who shared their collective wisdom and personal experiences regarding the process of preparing for and selling their businesses. Here are their thoughts.

Timing

This is likely the most important question to ask: "When should I sell?" There is no one right answer for everyone, but reasons tend to fall into a three broad categories: personal, market timing and performance.

Personal. "For personal health and wealth diversification reasons, I knew it was time for me," says Greg Hopkins, former co-founder and CEO of Partner Professional Solutions LLC, which he recently sold to private equity firm Snow Phipps. "I have no regrets with the timing. I feel fortunate that my partners and I contemplated the event three years before we actually sold and we were well prepared from an accounting, legal and management team perspective."

In another instance, age and diversification were the factors. "I knew it was time for me because I had all my eggs [wealth] tied up in one basket [my business] and at my age [58] I did not want to risk going through another recession," says an owner of a firm in the industrial staffing sector that recently sold.

Market. When I was at Remedy, I felt it was too soon to sell at the time. It was 2006. We had just turned the business around, we had strong tail winds in our favor and GDP and sales growth were stronger than ever. We were public at the time the offer came in, and it came down to a key outside board member saying during a rather tense board meeting, "It will take us three years of flawless execution to even get close to the offer price. There is too much risk in not taking the deal." We all know now the Great Recession beginning in 2007-8 would have made even that impossible. We were fortunate to have had such a wise advisor; Bob Elliot remains on my Christmas card list to this day!

Performance. Of course, everyone wants to sell when they are hitting all-time profit and sales records. But buyers are looking for additional forward momentum in the business and in the economic cycle. Therefore, smart sellers realize they need to leave a little bit of the upside for the new buyer. This is a function of understanding both market timing and the execution performance risks of the business.

This often means that to get potential buyers excited about the business at the valuation, they will need to see additional time and opportunity to maximize their investment. Therefore, consider leaving a little of the upside on the table for the next guy; doing so is often a wise move and a little counterintuitive.

“Our situation was really unique and interesting,” says Dan Campbell, founder and CEO at Hire Dynamics, which sold its Nevada offices to EmployBridge. This sale was particularly interesting, considering Hire Dynamics and EmployBridge compete head-to-head in the southeastern U.S. “We compete like crazy in Georgia and surrounding states with EmployBridge, but we wanted to narrow our geographic focus. So we decided to sell the offices that were hard to manage from Atlanta.”

Advisors

Being able to rely on strategic advice through this process is critical. The fact is that most often, the buyer is going to be more experienced than the seller. So do yourself a favor and get the best M&A attorney you can find. It helps if they have staffing industry experience, but minimal experience doing transactions is a must. Also, be sure to seek out a personal business tax advisor to help you structure the most tax efficient deal and help you understand what your net after-tax proceeds will be. Investment bankers are also very important to most sellers. Banks will help you put all the key information of the business together in an organized and easy-to-read fashion.

They also play an important role in negotiating and communicating to the buyer universe and helping to get the deal closed.

“It’s very delicate and important to negotiate a fair deal when emotions are running high during the negotiations. Our bankers [Childs Advisory Partners and in particular Dave Phillips] did great job of keeping us informed, our emotions in check and guiding us along the way,” Hopkins says.

Not having an advisor to smooth the way can be disastrous. “I wish I had hired an accounting and tax advisor [from the outset] to help me understand the after tax and net of all fees, post- close amounts,” discloses an anonymous, frustrated seller. “I wasted a lot time and money because when the offers came in, I was stunned to learn for the first time that the total net proceeds [would not] meet my personal goals, so I had to stop the process and I did not sell the business. It was a very frustrating and emotional time for me and my family.”

Determining the best buyer

This process can be a difficult one. The right buyer can make the process easier. But there is no right or wrong answer when it comes to what would be the best buyer for your organization. It boils down to the combination of valuation, deal structure, vision for the business, cultural match and timing for both the buyer and seller.

Many considering a sale wonder if it is better to sell to a strategic (competitor) or a financial (private equity) buyer. The answer varies depending on the situation. Hopkins says, “We found it all with the private equity firm Snow Phipps. They had just bought HC Tech and wanted more scale in healthcare IT. We were the perfect match for each other.”

“We were happy selling to a competitor,” says Leo Sheridan, founder and CEO of Advanced Group of Companies, a diversified professional staffing firm headquartered in Chicago. Sheridan sold his healthcare MSP practice to MSN Healthcare in 2007. “They understood better than anyone the value of the business we had built and they wanted the management team as well. MSN was able to maximize our unique offering across their national platform. Some- thing that would have taken us years to do on our own,” Sheridan says.

It took an offer from a competitor for Sue Burnett, founder and CEO of Burnett Specialists, to consider selling, but she opted to sell to her employees instead. “My employees were more like family to me than staff,” she says. She was not ready to retire, and her employees wanted to know what the future held for the company. “I decided I wanted a vehicle to transfer the business to the team who helped build the company.” So they decided to create an employee stock ownership plan (ESOP) and sell the business to it. “Now many of our staffing employees are the owners, and I still run the company.” More than three years later, Burnett has no regrets.

Another consideration when selling is cultural fit "I wish when I sold my business the buyer had an operating partner who could have helped in scaling the business," says Michael McBurnie, founder of Progressus, a school therapy-based staffing company, which he sold to Sylvan Learning. McBurnie found that the buyer did not understand his business. This created its own set of problems, such as having to constantly explain the staffing business to them, he explains. It would have made a world of difference to have a buyer that understood the industry, he rues.

But there are those who have no regrets. Take Campbell for instance. "EmployBridge has taken great care of our former colleagues and they have done a good job growing the business," Campbell explains. "The EmployBridge management team and our management team look at the world through a similar cultural lens and for that reason I feel the transition went well for everyone involved, our shareholders, former employees and the buyers."

Valuation, earn-out & more

To make this a win-win for all parties concerned, it is important to determine what the valuation will be. This is very tricky, as is weighing one offer against another. This is one of the reasons having tax, legal and investment banking advisors is so important. They can help sellers understand and properly structure transactions. The advisors also serve to keep emotions in check during a highly stressful time. Valuation ranges will vary widely by size, growth rates, EBITDA margins and verticals. Investment bankers can advise you on what to expect up front before the process begins.

It's rare in today's market that anyone receives a 100 percent cash deal structure without an earn-out (the promise of a future payment based upon achieving future financial targets post close). But an earn-out is not without its risks for the sellers.

In the case of Sheridan, he was disappointed not to receive his full earn-out from his sale to MSN Healthcare. "I'm certain it was the right time for us to sell but once the business was sold the earn-out was outside of our control and was left in the hands of the buyer to perform." MSN during the recession had to file for bankruptcy protection, which ultimately cost the sellers maximum value.

McBurnie had to deal with different issues that also hurt his earn-out. "Unfortunately, [the buyer] made key changes from day one that hurt the business' performance before they completely under- stood our company. … My earn-out was based on net profits that were completely out of my control and the new company weighted us down with overhead burden from day one. I will be smarter the next time around."

While rare, strategic buyers will sometimes buy 100 percent of the firm. For example, On Assignment bought 100 percent of the outstanding shares of Apex Systems in March 2012 for cash and stock equaling approximately $600 million. Most private equity buyers will ask management to roll 20 percent or more of their equity forward for a minimum of three to seven years. Add in the likelihood of an earn-out and it's easy to see why picking the right buyer is so critical.

Getting ready

The best advice is to get and keep yourself ready for when the call comes or when the time comes. You often can't plan exactly when that moment will be. You should run your business using sound judgment and fundamentals, and keep one eye on the future for what for most of you will be an inevitable event.

And if something is likely to be inescapable in business, gaining an understanding of the process is smart. Even though he used a broker, McBurnie wishes he had comprehended the M&A process better. That might have changed many things. "When I sold Progressus [I was not completely prepared for] the time away from my core business and the energy it took meeting with multiple buyers over several months. … I might have kept the company longer had I fully understood the process," he says.

McBurnie's sentiments are shared by many. Paul Heeshen of Heeshen and Associates, Newport Beach, Calif., who has bought and sold numerous companies, has a saying that explains what people like McBurnie feel during the process of selling their firms: "All my wealthy friends sold too early." What does this mean? Without exception, everyone I spoke with felt that as the sale of the business drew nearer, they felt that they were likely selling too early and there was just a little more value they could have squeezed out of the deal or the business.

Readiness notwithstanding, it's a human emotion to feel this way especially when things are going well and momentum is in your favor. Once the dust settles, in retrospect most people were happy they sold.

***Greg Palmer** is founder of GPalmer and Associates, a management consulting firm focused on the staffing industry. For more information, go to www.GPalmerandassociates.com.*

- See more at: http://www.staffingindustry.com/Research-Publications/Publications/Staffing-Industry-Review/May-2014/The-M-A-Saga-Collective-wisdom-from-happy-and-not-so-happy-staffing-executives#sthash.eclVnwxN.dpuf