

Prepare For Your Company's Future Sale



Source: www.TurfMagazine.com

Psst, stranger! Wanna buy a landscape company? How about this 5-year-old lawn care company in Orlando, Florida? Pick up this charmer for an amazingly low \$49,000. Not bad for a one-man operation that notches a cool \$71,000-plus annually. Want something more upscale, you say? How about a Colorado beauty going for a cool \$599,000? Not bad for a company that churns out almost \$1.2 million annually and shows a cash flow just north of \$226,000. Get it before it's gone!

OK, please forgive this silliness that's used for effect only, although the two companies mentioned in the previous paragraph are real. They are among the hundreds of landscape, lawn care, tree care and related green industry businesses listed for sale online. Owners of larger firms generally employ business brokers to help with the sales process.

"Our market is real hot again. It's a great, great time to be in the landscape services space again," says industry consultant Judy Guido, chairwoman and founder of Guido & Associates. She mentions several big deals within the industry involving equity investors and the IPO launched in May 2016 by SiteOne, now being traded on the NYSE as SITE.

"You don't get the best financial minds and the money pouring into a space unless there are big growth opportunities," she says.

Regardless of the state of the economy, there are always owners of green industry service companies leaving the industry and looking to sell.

"Even during a recession, great companies will be in a position to either buy or be targeted to be bought," Guido says.

Are you considering putting your business up for sale in the foreseeable future? If you are, keep reading. You will need this information.

Why are you seeking a buyer?

There are many reasons why you may list your business for sale, if not now, then in the future. This is almost a certainty if you don't have a family member or an experienced manager ready to take over when it's time for you to go.

Which of these reasons are causing you to consider getting out of the industry?

- Frustration because you aren't successful in building or operating your business to the level you want to.
- Boredom and a loss of excitement.
- Exhaustion and illness.
- Divorce or other unexpected family issues.
- Desire to start a new career or fulfill a life-long dream, such as travel, philanthropy, etc.

"What is the percentage of businesses that are listed for sale and never sell? Eighty percent," said Peter J. Holton at the 2016 GIE+EXPO. The No. 1 reason a business doesn't sell is also the most obvious reason – an incorrect price, says Holton.

Holton, managing director of Caber Hill Advisors, based in Chicago, this past spring guided the "partnership" between Sebert Landscaping and Kenosha Grounds Care, Pleasant Prairie, Wisconsin. Sebert boasts six locations in and around Chicago.

This particular transaction appeared to be a big win for both parties. It gave Sebert a strong presence in southeast Wisconsin, and also provided the owners of Kenosha Grounds Care the freedom to pursue new opportunities.

"Kenosha Grounds Care is an extremely well-run organization, which has a very loyal customer base developed over 26 years of putting the customers' needs first. Our goal is to continue the legacy of what Rich and Jill Oscarson have created," said Jeff Sebert, CEO of Sebert.

Added Rich Oscarson, president of Kenosha Grounds Care: "For a couple of years now, we have been looking for the right partner to build upon what our team has created. The vision and roadmap that Jeff laid out to me was exactly what we were looking for."

There seems to be no lack of interested buyers – within the industry and outside it, including private equity – for established, well-run companies with solid financials and at the right price, of course.

That doesn't mean buyers are looking exclusively at rapidly growing companies, although several years of steady growth is a huge plus in the eyes of prospective acquirers. Consolidators may also offer to buy companies that have plateaued. After carefully vetting these companies, they're convinced they can make them more profitable.

"Sometimes an owner realizes they can't get to that next level by themselves.

They either don't have the business acumen, the financial resources, the right team or a combination of those factors," says Guido.

She adds that it's common for experienced business owners between the ages of 40 and 60 to begin looking ahead to the next chapters in their lives. Many begin viewing their businesses as assets that can be sold to start different careers or pursue new passions.

Start preparing to sell now

This leads to the most obvious question of all: When should you start preparing your company to sell?

The best answer is when you start your company. Yes, you read that right – start at the beginning.

But how many of you enter the green industry services industry with a business plan and achievable goals to ultimately build a "sellable" company?

Evidence suggests very few. That's understandable. As an owner/operator you wear many hats as you get your business started. You spend your days dealing with the many competitive, operational, administrative and financial challenges of business ownership. Each day brings new issues to address.

Even so, the earlier you begin achieving success and realize your efforts are producing more than just a job for yourself, that's when you should begin building a sellable company, stresses Guido.

What kind of company must that be? In a phrase, an established company with a profitable business model, strong management and with consistent proven revenue streams. In the green industry, these companies usually perform mow and go, commercial maintenance, tree maintenance and/or lawn care with customer retention rates north of 90 percent.

Guido says landscape companies in the \$3.5 to \$5 million revenue range are particularly attractive to prospective buyers, including other landscape companies or outside investors. These companies may also offer construction as well as hardscape, irrigation, lighting and other specialized services. But it's the prospect of recurring revenue and evidence that these revenues can be increased that excites suitors, she adds.

Quality always sells at a premium

Guido's advice to owners looking to sell their companies and exit the industry is blunt: "You want a solid business model and a success strategy to attract buyers. That means you must deploy the best technology, have the right partners, the right organizational structure, efficient, razor-sharp processes and high-end gross margin services."

Owners who have founded and sold several successful small businesses, including lawn service companies, share another valuable nugget: The best time to sell is when your company is making good money, your market is

strong and you do not need to sell. (Ever try to borrow from a bank when you're desperate to get a loan?)

Factors that influence the buying and selling market at any given time include the general state of the economy, as well as the business environment in your specific market, she adds. Not only does this affect the salability of your company, it also determines, in large part, the size of the offer(s) you will receive. How have similar businesses near your market been priced?

In this regard, local business-buying markets mirror, in some respects, real estate markets. Consider: A neat, well-maintained four-bedroom home in Des Moines, Iowa, may sell for \$299,900, while a similar home in Malibu may fetch as much as \$2.75 million.

In the end, regardless of what you feel your business is worth to someone else, its actual value is the amount someone is willing to pay for it. Your emotional attachment to your business – something you have spent inordinate amounts of blood, sweat and equity building – means nothing to most buyers.

"People often have it stuck in their minds what their businesses are worth," says Ron Edmonds, principal consultant for Memphis-based Principium Group. "Perhaps they have a \$5 million business and they think it's worth about one and a quarter times that. It's not likely that people will be knocking on their door for that in the current market. There has been more discipline in the business world post recession. People's memories are pretty long when it comes to what the recession was like.

"Owners should ask themselves if their business could be sold? If they determine it couldn't be sold, they should start developing a plan to make it marketable. If they feel it can be sold, what would it be worth?" adds Edmonds, whose company offers a range of M&A-related services.

What buyers are looking for

Apart from your financials (revenue and earnings, year-to-year growth and earnings quality – the top driver of valuation), the four most important factors a prospective acquirer will examine when considering your company are:

1. Recurring vs. non-recurring revenue.
2. The strength and longevity of your contracts.
3. How well you manage customer relations.
4. Your customer concentration. (If your company is dependent on just a contract or two for the majority of your revenue, this will discourage potential suitors.)

"The most valuable asset of a business is its future income," emphasizes Holton of Caber Hill Advisors, adding that buyers also closely assess your operations and potential risk factors, too.

"How easy will it be for a new owner to run your business and what employees, policies and operational strategies do you have in place?" Holton asks

rhetorically. "The prospect will also want to get a good handle on whether it will be able to retain your best people and how reliant the company is on you, the owner, for its ongoing success, particularly in relation to sales."

In many buyout offers, the new owner will ask you to remain with the company for a period of time (often several years) to help in the transition phase. This may be attractive to you as it lessens ownership responsibilities and may allow you to focus on aspects of the business that you've always enjoyed.

Starting, running and building a successful and profitable landscape or lawn care company is no small achievement.

"The landscape industry is a rough business, physically and competitively. You have to have a lot of physical stamina, financial resources and business savvy to be successful in the industry," Guido says.

But the rewards of doing so can be great, she continues, adding, "look at how many millionaires, including multimillionaires, our industry has produced. How remarkable is that considering many of them started out pushing lawn mowers as 13-year-old kids."