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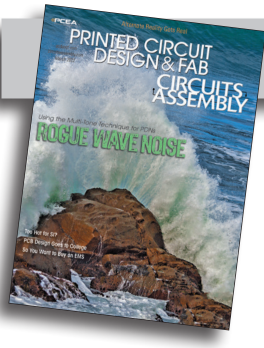

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Planning to Sell Your EMS BUSINESS?

Here are prospective buyers' questions. Do you have the answers? **by BOB ROSSOW**

If you're an owner planning to sell your EMS business, here are questions to expect from would-be buyers. Forewarned is forearmed, as they say. For those who haven't been through the process yet, this is a basic primer before striking a deal.

"Can I relocate your business to my own location?"

Prospective buyers want to increase their sales and bottom lines, so many, if not most, buyers are looking for new customers, not real estate or used equipment. If they can move your customer base into their own shop, they can make much of your labor force redundant and maximize their profit. So, depending on the buyer's intent, this can be *the* question that makes or breaks the deal.

"What is your labor rate?"

This is extremely important if a prospective buyer wants to relocate the business. If your labor rate is lower, then your contract rate is probably lower too. As a result, if they move the business to their location and must pay a higher rate, either they have to raise prices and risk losing customers or take a hit on the bottom line. This can be a deal-killer.

"How long after the sale is the owner willing to stay?"

Other than price, this question is asked most often. The typical agreed-upon timeframe is six months or a year, but this question naturally leads into the next one.

"Do you have a general manager who can take over when you leave?"

If the buyer intends to continue the business at the same location, they will be concerned about what happens to the company when you walk out the door with their money in your pocket. Will the customers leave with you? Will the employees stay? Do you personally have technical expertise that will be hard to replace? Is there a competent GM who can run the business? May I meet them?

The importance of these questions cannot be overstated. If you can't answer them satisfactorily right now, perhaps this is not the best time to sell. You may wish to change things to better accommodate prospective buyers and wait until you have better answers before putting the company up for sale.

"Is this a stock sale or an asset sale?"

Your accountant and lawyer can give the best advice here. A stock sale, of course, means the entire company is sold as-is at the time of sale. An asset sale means only certain listed assets of the company are included in the sale. Buyers like asset sales, as it limits their liability to any and all claims the company may have (or may get from past actions) against it. These issues might include lawsuits by customers, suppliers, employees, etc.

In these sales, tax advantages or disadvantages for both the seller and buyer may come into play. Again, the recommendation here is to get professional help on this decision.

In my opinion, however, the single biggest advantage of an asset sale over a stock sale for the seller is speed. Issues about the company prior to the sale are virtually eliminated, so due diligence is reduced. If a seller must move quickly, an asset sale is a real time-saver. Stock sales can drag out for months, and the amount of paperwork needed can be a time-burner for the seller when they have a business to run as a day job.

"How many customers do you have? What are their sizes? What percentage of your business do your top-three customers provide?"

Customer-base questions such as size and percentage of overall business of the top-three customers are key. Some prospective buyers will pass on the pursuit of companies with a single customer that makes up 30% or more share of gross sales. Generally, buyers want to see a diverse customer base with the largest customers in the 10% range. They worry about the risk of losing customers, of course, so the most attractive scenario is a potential acquisition with relatively smaller and numerous customers. They will also ask how long you've had these customers and what kind of profit they generate.

"What markets are you in?"

You will likely be asked what markets you are in, what dollar amounts you generate in each, how many customers you have in each, what percentage of overall business each market represents, etc. This information may be used to find out how well your business will fit into the buyer's particular mix.

"How skilled is your labor force?"

If you're manufacturing highly complex components that need engineering and design, this will be a key question. Are your engineers long-term employees who are unlikely to quit if the company is sold? Are they being paid at scale for your area? Are they happy? The prospective buyer will see them as valuable assets, and the loss of even one good engineer can be costly. By the same token, if your business is mostly build-to-print, this may be less of an issue.

"How many new customers do you get each year? How many do you lose?"

The prospective buyer is trying to understand how stable the underlying client base is. Are you losing customers regularly? Why? Are you expanding with a net gain of new customers each year? This also gets into the question of sales and the effort you put into this part of your business. Although it seems counterintuitive, buyers sometimes find it positive if sales endeavors are minimal. They see a way to expand the business, especially if there is extra capacity in the plant.

"Is there anything unique or unusual about your company? Do you have a particular specialty?"

FIGURE 1. Prospective buyers like to see things that differentiate a company from others in the field.

Are you known for a niche? Is this something a new owner can exploit? Prospective buyers like to see things that differentiate a company from others in the field. This could be specialty machinery, engineering expertise, a great reputation in a specific market – anything that gives your business a leg up over the competition. Think about it. Why do customers choose you over the next manufacturer down the road?

"What negatives about the company will be discovered in due diligence? Are there any lawsuits in progress, etc.?"

This question does not come up often, but it is something you should consider before putting your company on the block. It is always better to be the one to tell a prospective buyer about a problem than to have them find out on their own. Can you do something about the problem now to lessen its effect on a sale?

"Do you have extra manufacturing capacity if sales increase?"

You may be asked what percentage of the time your major equipment is in use. This can be a selling point if it is low for two reasons: More business can be accommodated without additional capital expenditure, and fewer hours on a machine can mean a longer time before replacement.

Here are the major documents you may be required to furnish:

This will vary with prospective buyers, but the list below is typical, though hardly complete. Variations of these documents, as well as other less common records, may also be requested. Prospective buyers may ask for just about anything, and once in a while, we have to say we don't have exactly what they want.

- Income statement (profit and loss statement) for at least the past three years, sometimes four or five. A year-to-date income statement may also be requested the further into the year it is.
- Balance sheet for the past three, four or five years. A year-to-date balance sheet might also be requested.
- Cash flow statement. Same periods and criteria as above.
- Customer list (with no names) may show dollar amounts of customers listed in order of size. This document often shows the industry of each customer and percentage of the overall business.
- The equipment list should be current.
- Backlog of orders currently in-house. Again, no names.
- Brief history of the company with major milestones.
- Organization chart (titles only).
- Inventory (not an itemized list). Usually, a dollar amount is sufficient early on. If inventory is part of the final deal, a joint accounting (your people and theirs) might be conducted shortly before closing.

Sometimes a question prospective buyers ask might seem irrelevant or may be a bit off-the-wall, but the seller should take it seriously. The buyer is trying to understand your business, and the more questions they ask, the more they will understand. Welcome the questions. Don't get frustrated. The questions indicate interest level and need to be answered before an offer can be made. ❑

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