

Thinking About Selling Your Business? Ask the Right Questions Up-Front

By Thomas E. Knauff

The conversation almost always starts like this: “What’s my propane business worth?” Or maybe “How do you go about valuing a company?” Whether on the sidelines at an industry conference or in a phone call, owners of distribution businesses often ask first about price.

That doesn’t mean price is the only thing on owners’ minds. Although entrepreneurs considering an exit strategy may start with the valuation issue, they are frequently thinking also about their families, employees who have grown to be like family, and customers they have gotten to know in their local communities. Relationships are woven into every owner’s business.

In more than 70 acquisitions and uncounted conversations with propane distributors, there is no denying that “the numbers,” typically multiples of cash earnings, often guide negotiations toward the ultimate purchase price. But non-monetary factors are extremely important, and they can vary greatly, depending on the individual seller and buyer.

If selling the business has crossed your mind, here are some steps to help investigate options and move toward a transaction that maximizes your value—monetary and non-monetary.

Making Personal Decisions

For most owners of propane businesses, human or “soft” factors come to the forefront in pursuing an exit strategy. An owner will be well-served to start addressing these issues early in the process by making some personal decisions based on values and priorities.

A key up-front question is whether you want to stay involved in the business after selling it. Do you want to exit right away, keep working through a transition time, or play a longer-term role?

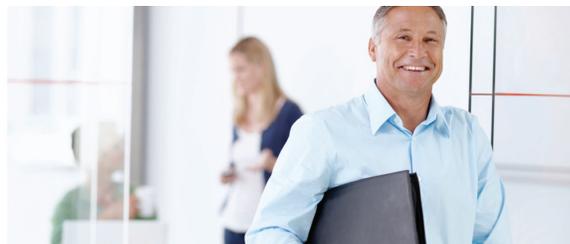
The *legacy* of the business also matters—referring to what endures after you sell. Many owners care deeply because they have invested so much of themselves in building the company. And while some owners move away permanently to retire, most former owners either stay in the same town or retain deep relationships in the community.

Some legacy questions you may want to answer even before you start talking about a sale:

- How will your customers be treated after you sell? Will they thank you? Do you have specific arrangements with customers that are important to protect?
- How will employees be treated? Are your family members employed, or otherwise supported, by the business? Are there key employees you want to ensure are treated in specific ways? Is it important to you to preserve the jobs of your employees?
- Do you want to be sure the company name continues after you depart?
- Are there certain business practices or characteristics

that are important to you and should not be changed?

Of course, your goal in selling the business is to maximize the value you receive—while staying true to personal priorities. In our experience, the ultimate price an owner receives does not vary much between sellers with clear legacy goals and those who think strictly about dollars. But if the answers to legacy questions are important for you, then thinking these issues through in advance will make subsequent discussions easier.



Consider what’s important to you

- How will your customers be treated?
- Will your company’s name be retained?
- Will your employees be treated fairly?
- Do you want to stay involved after the sale?

Source: Energy Distribution Partners

Preparing Your Organization

Well ahead of any potential discussions of a sale, beginning to prepare your company for the process will pay off by helping you maximize the value of the business. This begins with what is important to a potential

buyer and how you can demonstrate the value of your business.

The best thing you can do for the ultimate sale price is to ensure that your business fundamentals are sound. Take an objective look at your operations and practices, and improve any areas of weakness. For example, comparing metrics such as margins and tank control with industry-wide data will reveal possible areas for improvement, although moving the needle on these measures is not always easy. Participating in the National Propane Gas Association's Benchmarking Council and related groups is one way to get valuable guidance on best practices.

Your "back office" practices are something you can influence. Do you have good books and records, providing clear, accurate and concise data on how all aspects of the business perform? Are your safety and regulatory practices up to snuff? Asking your accountant and insurance provider to help evaluate these administrative practices will bring objectivity to your review.

Speaking of outside help, seeking advice from savvy advisers also will pay dividends. Your regular lawyer and accountant may be wonderful for everyday issues but lack "deal" experience, so seek out professionals with transactional expertise and have a conversation on how best to approach the process.

Finding the Right Buyer

At some point, you need to begin talking with potential transaction partners. The first step may be an informal conversation at an association meeting or on a phone call, or in a more formal in-person meeting. At EDP we have many of these conversations, and we try to be forthright and helpful in discussing the process and how we approach transactions.

Ideally, as you get to know people in your state propane association or similar groups, you can build relationships that engender trust with potential partners. Taking your time to explore how a prospective buyer

does deals (and conducts business after the sale) is critical:

- Talk to a potential partner early, and in detail, about legacy issues that are important to you. Ask about retaining the name, key employees and customer relationships. Find former owners who have sold to the company and ask them about the experience.
- Find out how the company handles operational issues. Are you comfortable with how the buyer will operate the business? Will your former customers launch into a gripe session when you see them? Will customers be negatively impacted by bureaucracy, such as a manager or employee in your town having to call a distant headquarters for permission to buy supplies or make routine decisions?



Maximizing Value for a Sale

- Sound business fundamentals
- Operating metrics & benchmarks
- Clear, accurate books & records
- Solid safety & regulatory practices

Source: Energy Distribution Partners

- Ask employees of a prospective buyer about relationships within the company. If a business is well-run, its employees should enjoy spending time together.
- Investigate whether the potential partner is a people-oriented national company that can provide broader career opportunities for your employees.

Very importantly, look at the "maximum value" you are seeking in a holistic way. Yes, selling is about the price—getting full market value. But it's also about structuring a specific transaction to meet *your needs* for cash flow, tax consequences,

and future planning. A buyer should bring to the table flexibility and expertise in structuring an acquisition that works for you as a seller.

Look for a buyer who is serious about acquiring and running high-quality businesses with good people and strong customer bases. Propane business owners who have built a legacy and want to preserve it should seek a buyer who will take good care of the business, its employees and its customers. When you find the right partner, it will be a great match.

Thomas E. Knauff, CEO of Energy Distribution Partners (EDP), has 30-plus years of executive, operations, and financial experience in the propane industry.