

Selling a distressed business

By

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The skills and tactics required in managing distressed purchase and sale transactions are more advanced than those dealing with solvent businesses. There are, of course, the usual issues involved in ordinary buy and sell transactions but added problems are also present such as valuation issues, time sensitivity because of loan defaults and the need to coordinate transaction approval from multiple interested parties. The central figure in all this activity is the turnaround specialist.

The specialist is necessary to help the business determine the best course of action; how to achieve an outcome agreeable to the debtor, the secured lender, other creditors and shareholders. He will start by performing a business and financial assessment and determine the available options. Such options may include internal restructuring, borrowing additional funds, liquidation or selling the business assets as a going concern.

In order to carry out the strategy of selling a distressed business, the specialist must ascertain the valuation of the business. Usually, the first step is to calculate the liquidation value of the assets which usually marks the low end of the valuation range. The upper end of the range is estimated after evaluating what would be deemed important from a buyer's perspective, such as annual revenues and attractiveness of the customer base.

Properly identifying possible buyers for the business and preparing for sale is vital to a successful outcome. The fact is that the best price or market value is usually obtained early on in the sales process. Marketing the business for an extended period of time does not necessarily achieve the best price. As a rule of thumb, the longer the distressed company is up for sale, the lower the eventual selling price.

To find a buyer, the specialist must analyse potential buyers based on financial ability, financial benefits or product/service suitability that would be likely to appeal. Typically, the target list would consist of strategic buyers likely to pay a premium because of their ability to create immediate economies of scale as a result of the purchase.

The actual selling strategy is definitive. The goals are to maximise the proceeds of sale and, most importantly, achieve certainty of result. The distressed business' financial problems will usually dictate that the specialist move speedily. He will want to meet as many buyers as possible and weed out the pretenders from the contenders. From the surviving list of buyers, the specialist will attempt to engage buyers into an informal bidding process whilst ensuring he does not get locked in with just one buyer too early in the process.

Once an offer has been agreed with the consensus of all parties, the deal can be closed. As for the turnaround specialist, he will quietly move on to the next distressed business where his highly specialist skills can again be used to the very best effect.