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Improve your company and raise its value at the same time

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Business owners and executives frequently ask us, "What should we be doing to prepare ourselves for sale someday?"

An old client and friend, Bill D., said it well. Even when not in a "sale mode," always be prepared for a sale because all those things are good for our business now (so why wait to do them?). He was exactly right. The initiatives and attributes that propel a government or defense contractor's growth and success are almost exactly the same as those necessary to be ready for a sale and to receive maximum demand and optimal terms and valuation.

These factors generally revolve around three key themes: business growth, risk (the word of the year in the financial services sector) and leveragability.

Business Performance/Growth

Strong organic growth for government services companies ? top line and bottom line ? is more difficult to come by in today's tighter budget climate. Customers have less money, seem always to be operating under continuing resolutions and, worst of all, typically struggle to understand the concept of best value, versus low cost, which they do understand.

In real estate it's all about location, location, location. For government services businesses, which need the right contracts, the right people and capabilities and the right customer relationships, success and growth are all about management, management,

management.

It takes "A" players to attract "A" players, so having a stellar senior crew is key to building the right team. Fortunately, consolidation activity has increased the pool of seasoned senior executives who have been there, done that.

As the marketplace has become more competitive, differentiation has become more important, while bid and proposal costs have increased and margins have been squeezed. That differentiation can come in the form of intellectual property (formal or informal), key vehicles, clearances and/or key subject matter experts with capabilities that no other company can match. Having the right team in place will facilitate pulling the other differentiators together.

Risk

The degree of risk in a company's business is a crucial driver of deal value and terms. Risk in a deal context is both a business risk and the risk of something embarrassing or controversial. Of course, any business will always have some degree of risk. However, the degree to which a company can mitigate the inherent risk in its business portfolio will certainly increase its attractiveness in a sale.

So what are those risks and how should an owner minimize them?

Obviously, from a buyer's perspective, the loss of any contracts (or the loss of the prime position) post-transaction is a significant source of risk. For that reason, an important step for a growing business in the government contracting arena is to wean itself from small business and set-aside awards and pursue full and open contracts. In some cases, high-quality subcontractor work is viewed as more attractive than prime work awarded with small-business or set-aside preference.

On the financial front, it is always a good idea to have your financial statement audited, or at least reviewed, whether or not you are selling. Moreover, mid-sized to larger buyers and private equity investors (who rely on debt financing) will require at least two years of audited statements. While audits can be done in the months prior to a sale, given that the cost is similar, companies are better served completing audits earlier and getting the benefit of insight, suggestions and peace of mind.

Unlike other sectors, for government contractors the "back-office" is truly a misnomer. Establishing a robust business infrastructure ? including finance and accounting, human resources, and contracts ? will pay dividends in both the short run and the long run. Keep in mind, in the sale context buyers form deep impressions of a business and its management team by how smoothly its internal infrastructure functions and how quickly it can respond to their due diligence questions. In addition, in today's tight labor market, having the ability to quickly identify and hire top talent can be a major revenue source.

Last, but not least, minimize disputes and litigation. Buyers and investors often construe disputes and litigation as indicative of weak internal procedures, oversight or internal controls (such as a poorly managed company). So, to the extent there have been disputes in the past, address the root issues to make sure they don't recur.

Leveragability

Everyone in the deal business talks about one plus one equaling three (or four). Having items or attributes that a larger player can credibly exploit can, when positioned properly, supercharge buyers' interest levels and their valuation analysis.

What are some of those items?

With more and more large ceiling governmentwide acquisition contracts and multiple award schedule contracts, a company's procurement vehicles can often be a key leverage point - the critical "admission ticket" to business opportunities that a set of buyers cannot tap as a prime. Similarly, a business's intellectual property can be another form of leveragability, or competitive differentiator. That property can take many forms ? proprietary software, trademarks, patents, even know-how.

To create these differentiators and maximize the value of its IP, a company should continually invest in its people, processes and technology (either through SBIRs or IR&D). In today's hyper-competitive marketplace, having those differentiators is critical to having access to the right business opportunities and, more importantly, to winning the business on favorable (profitable) business terms.

Selling a business is the culmination of years of hard work. Fortunately, most of what needs to be done on the proverbial "runway" to an exit is also part of a sound medium-term growth strategy.

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