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Opportunities in Troubled Times

By: Doug Robbins

As COVID-19 continues, entrepreneurs are beginning to focus on long-term initiatives that will see them through the pandemic and beyond.

The initial reactionary choices that leaders were forced to make since March/April of last year are being replaced by thoughtful planning as entrepreneurs begin to prepare for a new future. It always amazes me to see how business leaders adapt with so much creativity.

Some entrepreneurs will take advantage of the current economic climate by selling some or all of their assets, perhaps surplus real estate or equipment or a non-strategic part of their business, while others will continue to invest in new technologies and marketing strategies to grow their businesses in the future.

Whether divesting or acquiring, care must be taken to be assured that the steps being contemplated today will bear fruit in the future.

A company may decide to focus only on its core products or divisions and let go of its non-foundational elements. Simultaneously, another company may see opportunity and acquire those resources to ensure their own long-term growth.

Even entrepreneurs that had not thought about purchasing or selling troubled assets before the pandemic should be considering it now as they work to optimize their portfolios.

We strongly urge entrepreneurs to create an "Advisory Board" to assist in the future decision-making process. This mindset is smart and forward-thinking. At the same time, buying or selling a troubled asset is a big decision and requires lots of thinking ahead to assess what the final result could be.

When it comes to the sale or acquisition of troubled assets, there are specific things to consider — for both sides of the negotiation table.

- How strong is your current cash flow?
 - What does it look like for the next 3 / 6 / 12 months?
 - Do you have sufficient working capital?
 - What other sources of working capital are available?
 - Would additional capital be at serious risk?
- Do you have redundant assets or seriously under-used assets?
 - Could some work be sub-contracted out or perhaps could some under-used equipment be sold to a sub-contractor?
 - Could you sell the real estate and lease it back (*with a right of first refusal to repurchase it in the future*)?
- Have you seriously studied the market you are in and have a clear understanding of its future impact on your business?
- Should you be expanding your market, territory, customer-base, or products?
- If you should decide to sell out completely,
 - Have you really considered what you will do with your newfound free time?
 - Do you have a competent team of professional advisors to guide you through the process?

- If you decide to acquire a business or a block of business assets:
 - Do you have the financial resources to acquire and finance the assimilation into your business?
 - Do you have the human resources for an acquisition?
- Would the acquisition complement your existing business?
- Make sure your banker is on-side:
 - Take the time to include them in your decision-making process and if they feel they cannot be supportive, seek out another source of funding.

While these questions may seem simple, there is a lot involved in answering them effectively. Take the time, and spend a few dollars with your accountant to build out financial projections and make sure to include assumptions that are necessary to make the right decisions.

It's also crucial to map out a post-sale plan for your company. It should detail how and when you will communicate the status of the sale, the direction of the company, any integration considerations, and future goals and timelines. That will keep your employees engaged and your business focused.

The variety of opportunities has been magnified due to the pandemic. With more opportunities comes more interest from other players, which means it's important to move quickly. Despite a potentially shorter acquisition time frame, it's still vital for the due diligence portion to be conducted thoroughly.

Bottom Line

The pandemic has brought uncertainty and volatility to entrepreneurs. They are no longer happy using bandages to patch things up to get by. They are changing the very way they function to survive. It is heartening to see the creativity being applied to the challenges created by the pandemic and how entrepreneurs are overcoming those challenges.

The ability to sell troubled assets allows entrepreneurs to receive at least a partial repayment on what they have built. At the same time other entrepreneurs may be able to acquire attractive assets at a discounted rate. The key for success is to find the right business to sell to or purchase from. Many entrepreneurs will work with outside consultants to conduct the evaluation, find and vet potential buyers, facilitate communications for the sale and build out a post-transaction plan. These third parties can be especially helpful when timeframes are truncated and emotions are running high.

About the Author

Doug Robbins, President and Founder of Robbinex Inc.

Doug is an internationally renowned Canadian Business Intermediary and Business Broker. He is a seasoned businessman having completed more than 1,000 assignments relating to advising clients on Mergers and Acquisitions (M&A); valuations; transferring businesses to the next generation; partnership resolutions; refinancing; along with numerous other consulting activities.

Doug has always actively supported the M&A profession through investing significant time and energy by way of memberships, lecturing, and presenting workshops for numerous M&A organizations.

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