Industry Trends, Topics Can Spur The Toughest Choice

This step-by-step primer helps explain how to sell your limousine company — or buy one.

By Ron Sorci

OUR INDUSTRY HAS GONE THROUGH many cyclical periods when merging, buying or selling companies became leading topics.

Once again, the idea of exiting or expanding through acquisition are worthy subjects with the rise of transportation network companies (TNCs), more government regulations, complex labor and wage laws, and the challenge of maintaining profit margins.

Asking Questions

To begin the process, you must ask yourself, "Am I ready to sell, and if so, why?" Most companies in our industry have started with one vehicle and built up larger fleets. The comment most heard deals with a seller's belief that he should be paid a premium for the blood, sweat and tears he put into building his business. The reality is the buyer understands the emotional thought process. But his focus is on the company's pre-tax profit, cash flow and EBITDA (earnings before interest, taxes, depreciation and amortization). Both sides must understand the differences in thinking here.

The personalities of buyers and sellers are an interesting dynamic, and like all essentials of business, the need for strong chemistry will enable the possible deal to move forward.

Documenting

The initial process begins with the seller getting his company ready for sale. Many documents are needed that will also be used in the due diligence process. Expect to have bound and ready the following once the buyer has signed non-disclosure and confidentiality agreements:

- Two to three years of federal tax returns
- Reviewed, audited or internally prepared financial statements for the same period. It should include income statements, balance sheets and statement of cash flow
- Revenue by client for a three-year period
- Schedule of vehicles to include year, make, model, mileage, term, monthly payment, lender's name and balance remaining
- Schedule of other assets
- Organizational chart
- Building lease
- List of employees, their positions, and annual salaries
- Schedule of all benefits

You will need several other items, but the above list is a strong sampling.

Negotiating

Assuming you both agree on the initial terms and conditions, all of which are subject to due diligence, you will then be moving toward the letter of intent (LOI).

The LOI is essentially a non-binding document that lays out the foundation for a structure between both parties. Established timelines will ensure the process moves along.

The next step is the due diligence work. In addition to all of the previous items, you can expect to receive a thick stack of documents the buyer and his team will want to review. In speaking with various sellers over the years, many have compared the due diligence efforts to going through an audit. As a seller, you must simply view this as a necessary step for the buyer to confirm everything you have told them. Respond to any questions as quickly and thoroughly as possible. Never forget you are trying to reach your goal of selling your company.

Other steps will include "reconstructed financial statements," which reflect all expenses not present upon final sale. That may include all or a portion of your salary, salaries of certain employees who will not be needed, various perks, bonus payments, extraordinary expenses, etc. The purpose of reconstructed financial statement is to show a higher profit, which will increase the overall purchase amount. For every dollar added to profit, the seller will receive multiples of those dollars in the purchase price.

Last Steps

The final step will be the definitive purchase agreement, which may be attached to employment agreements for you and key individuals within your company. There may also be earn-out agreements enabling you to receive additional dollars that depend upon the future profitability of the company. Typically, your company will be sold as an asset sale whereby you keep the accounts receivable and accounts payable as of the date of closing. The vehicle debt or assumption of debt is negotiable.

As I've explained in my book, *Selling Your Company In the Millennium*, buying or selling a company can be a daunting task, spanning multiple emotions. Proper guidance can ease the process and stress, and enable buyers and sellers to reach their goals. LCT

RON SORCI is the founder and CEO of Miami-based Professional Consulting Resources Inc. (www.pcrforyou.com). A former senior executive at public and private companies, Sorci most recently worked as CFO of Aventura Worldwide Transportation in Miami. He also served as President of the National Limousine Association from 2009-2010. He can be reached at Ron@pcrforyou.com or (786) 229-3662.