PREPARING TO SELL YOUR LANGUAGE BUSINESS

LT LANGUAGE
Transactions

HOW LONG WILL IT TAKE?

- Even with a quick transaction, minimum amount of time would be 4-6 months
- More likely 10-12 months
- Can be several years
  - How long did it take you to sell your house?

HOW MUCH PARTICIPATION IS REQUIRED

- It is an ongoing effort:
  - Talking to prospective buyers
  - Meeting with prospective buyers
  - Preparing and maintaining financials
  - Working with consultants
- The amount of time is dependent on number of ‘buyers’ and size of your team

FIRST STEPS: DETERMINE WHAT YOU WANT

- Take cash and leave next day
- Stay on four years, transitioning slowly
- Work for one more year, then leave
- Plan to retire
- Plan to change careers
- Plan to build a competitor

VISION FOR YOUR EMPLOYEES

- Grooming your replacement
- Will your employees keep their jobs?
- What kind of synergy is possible with new company?
- What kind of training will be offered?
- What opportunities are there for your staff?

VISION FOR YOUR BUSINESS

- Keep the name
- Grow the business
- Specialty business for larger partner
- Not important what happens

DETERMINE HOW MUCH YOU NEED: $$

- What is the amount you want?
- Evaluate your financials for the past four years:

  Revenue & EBITDA numbers

  Is business growing/shrinking

EBITDA

- EBITDA= earnings before interest, taxes, depreciation and amortization
- EBITDA is essentially net income with interest, taxes, depreciation, and amortization added back in
- Used by companies starting in the 1980's to determine ability to pay back debt
- Globalization industry average:

2.5 – 4 X EBITDA

CASH FLOW

- EBITDA is not the only factor to determine your financial health and value
- Cash flow is a more current reflection of companies' financial health
  - What are monthly payments received
  - How quickly are expenses/debts paid

IS YOUR SALE PRICE REALISTIC

- Is your sale price 2.5-4 X EBITDA
- If not, how to justify higher/lower value
- Are your revenue numbers declining? Why?
- Are your clients locked into long contracts?
- What is your actual cash flow?

PREPARE FINANCIALS

- Have accountant update financials for past 4 years: P&L, Balance sheet, revenue numbers

  by client
- Have financial history from day 1 available
- Have federal and state tax returns available

CREATE A BROCHURE

- Create a 1–2-page marketing brochure
- Summarize your business strengths:
  - Specialization, longevity, quality, process
  - Put general financials
  - Describe top accounts
  - List awards or achievements
  - Include any items that add to your 'brand'

WHERE TO FIND A BUYER

- Get listed with a general brokerage service
- Work with a specialized Globalization broker like Language Transactions
- Contact larger MLVs to let them know your intention
- Go to globalization trade shows: GALA, ALC, ELIA

NEXT STEPS: INTRODUCTIONS

- Once you identify a buyer(s), set up a time to talk
- Exchange an NDA as you will be providing financial data and client information
- Determine the seriousness of the buyer and set-up a company visit

DO YOU LET YOUR EMPLOYEES KNOW

- Letting employees know your intention to sell
  - Personal decision based on size and history of your company
  - Relationship and history with managers
  - Your decision will impact the logistics of the visit

PURCHASE OPTIONS

- Myriad of options depending on multiple factors.
  - Offer is a cash up front deal and you leave day one
  - Offer is 60% of purchase price paid up-front and 40% paid over next four years in bi-monthly installments
  - 50% is paid up front, you stay on for two years and the future payment is determined by revenue numbers(an ‘earn out’)

DOES YOUR VISION MATCH WITH YOUR BUYERS VISION

- You want your employees secure, your business to grow and you stay on with new company for 4 years—does this match with the 'buyers' intention/culture
- How well does the 'buyer' retain employees, facilitate growth, support new businesses/specialties

OFFER LETTER

- Good meeting, good discussion, ‘buyer’ sends a ‘Letter of Intent’.
- Numbers are good, amount is better than expected and you sign and return
- Now plan the vacation to Disney World….not so fast

OFFER LETTER

- You receive offer letter and amount is too low
- Equipment costs are left out
- Not enough cash ‘up front’
- You counter-offer and ‘buyer’ accepts and sends a new offer letter
- You sign and now plan the trip to Disney World…not so fast

NEXT STEPS: DUE DILIGENCE

- A ‘Letter of Intent’ is just that—an ‘intent’ to buy. The next step is due diligence.
  - Review articles of incorporation, stockholder list
  - Review contingent liabilities—any litigation past or present
  - Review regulatory compliances with state and federal government
  - Review list of clients—does one client represent 50% of your business

DUE DILIGENCE (CONT.)

- Review financials from past four years
- Evaluate state and federal tax returns
- Look at debt, property, equipment, insurances

WHAT CAN GO WRONG

- Your company has one client representing 50% of annual revenue—'buyer' backs out/renegotiates
- Your company has debt that was not disclosed—buyer backs out
- During due diligence—your top account goes elsewhere—buyer backs out
- During due diligence, 'buyer' discovers that the bulk of your state and federal contracts are in category of 'minority' owner-status. The status changes with purchase—buyer backs out/renegotiates

MOVING FORWARD: FINAL STEPS

- Letter of intent is signed
- Due diligence is completed
- Date for purchase is confirmed
- Write out next steps for transition:

  inform employees, define your role,

  create action items for smooth hand-off

WHAT IS NEXT?

- Now plan your trip to Disney…Bahamas… back yard garden.

CONTACT INFORMATION

Michael Klinger
Language Transactions
239 Arlington Street
Acton, MA 01720
mklinger@languagetransactions.com
+1 978 429-8014
languagetransactions.com