How To Maximize Profits When Selling Your Company

Preparing an aviation services business for sale can take up to several years, and to be successful a seller must think like a buyer. The objective is to present your company in the most favorable way possible.

As part of NATA's continuing commitment to provide training for FBOs and other aviation service providers, the association called on industry veterans to develop a financial management seminar to instruct senior and departmental managers on interpreting financial statements and on the best practices for planning and budgeting. The resulting seminar, "Fundamentals of Financial Management," is now a regular part of the NATA seminar series.

Aviation Business Journal has been running a series of articles spotlighting subjects covered in the seminar. The first two articles looked at the basics of financial management and effective business planning. This third article focuses on mergers and acquisitions and the process of getting the most value for your company. This readying process, or preparation for sale, can take up to several years. To be successful, it is best to think like a buyer. The objective is to present your company in the most favorable way possible.

The Decision To Sell

Often the decision whether to sell or not to sell is the most difficult one to make, especially for owners who have spent many years developing the business. The rest of the process, although not without its own complications, becomes clearer once owners make this fundamental decision. Factors influencing the decision to sell your business include the following:

- Timing for the sellers

  Are we ready? What are we going to do after the sale?
- Timing in the marketplace

  Are there potential buyers with money to invest?
- Time commitment required to complete the transaction

  This commitment can be considerable if the sale requires a series of transactions (e.g., first sell flight training and charter separately and then line service) or corporate restructurings that make the transaction more attractive to the buyer.
- Adequacy of the transaction proceeds to meet the shareholders' need for funding retirement

  The answer to this question could be different based on whether the transaction is an asset sale or a sale of stock.
- Seeking a transaction that is a partial sale (e.g., one current owner looking for new partners)

  These types of transactions greatly reduce interest by outside buyers and therefore take longer to complete.

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and

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Operational And Financial Readiness

Potential buyers focus on several operating and financial metrics when assessing transaction value. For aviation services, these key metrics include the following:

- Fuel volume and markup by fuel category (e.g., Jet A, Avgas, Intoplane, Military)
- Percentage of on-airport and regional market share for each department or line of business
- Gross margin by department
- Earnings before interest, depreciation, taxes, and amortization (EBITDA) for the company overall and contribution by department
- Clear explanation of how overhead is allocated
- Identification of financial expenses that are specific to current ownership and would not be present if the business is sold to an outside party (e.g., real estate payments not related to the business, key man insurance, compensation to owners, fuel and maintenance of a personal aircraft, or charitable contributions)
- Fuel farm issues and other environmental issues

If this information is not already available, dig it out and get it organized. In the course of gathering this information, owners often find opportunities for improvement. An interim step may be to focus on one or two metrics, with the objective of

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meeting or exceeding industry standards. For example, you may decide to focus on fuel margin improvements or increasing the gross profit in the maintenance shop, thereby increasing the potential value of a transaction.

Leases And The Airport Relationship

One of the unique attributes of the aviation services industry is our dependence on leased land to operate our businesses and reversion of improvements. The longer your lease(s), the more your business is worth. Leases with a term of ten years or less usually must be extended by the buyer as part of an acquisition. As part of your process, you should consider broaching the subject of extending any short leases with your airport before approaching buyers. In general, if the seller has a good relationship with the airport, he or she can negotiate a better lease extension than a potential buyer. Be mindful that there are airport authorities who would seek to profit from a transaction if they understood a lease extension was critical to finalizing a transaction.

Although all issues in a transaction are negotiable, the following additional airport factors influence the value of your company:

- Outstanding capital requirements for the current lease term. From a buyer's perspective, every dollar of investment required reduces transaction value. They think of this like any other potential liability even though it does not show up on a balance sheet. Furthermore, any recent capital investments made within the current lease term are largely discounted.
- The lessee's inability to encumber personal property and the leasehold with debt. A surprising proportion of leases do not allow the lessee to encumber personal property and/or the leasehold with debt. To all but the proven, consistent buyer (i.e., the Tier 1 buyer described in the next section), these restrictions are problematic, and a seller would be well advised to seek modifications to the lease agreement to provide for the use of debt. Airports allowing this type of encumbrance usually have specific wording that places them in a communication channel should the lessee default on debt payments. Further, the airport generally develops a contingency plan (for the benefit of the lender) to

operate the leasehold in the event of default.

Lack of, or inadequate, minimum standards. Buyers view minimum standards as a way to protect their investment from marginal competition. Important items include the required minimum investment in facilities, level of insurance coverage required, range of services that must be provided, and the existence and privileges of private fuel farms. Changing minimum standards is a lengthy process that needs to be addressed early in the process.

Environmental issues. In general, sellers want buyers to assume the liability of all environmental issues, and buyers, on the other hand, want broad indemnifications from sellers. If a seller can show that environmental issues have been handled responsibly, indemnification required from the seller is usually less stringent. Even if you inherited some of your environmental issues from a previous lessee, do not expect to distance yourself from the problem without some reduction in proceeds. The solution might involve placing a portion of the sale's proceeds in escrow, with the required amount decreasing over a period of years.

Other Factors That Affect Value

Improving any deficiencies in lease terms and minimum standards and dealing realistically with environmental issues can greatly enhance the marketability and value of your company. Other factors that influence the value include the following:

- Geographic location of the airport(s),
- The market strength of local/regional competition,
- Types of services offered,
- Condition of facilities, and
- Intangible items such as reputation, quality of customers, and unique capabilities or expertise.

Types Of Buyers

Part of the process of getting ready for sale is understanding what kind of buyer your company is most likely to attract. Knowing your buyer can tell you a lot about what to expect in terms of the offer you might receive, the rigor of the due diligence process, and the time frame required to successfully

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GET NEW FINANCIAL INSIGHTS

The NATA Financial Management Seminar covers the basics of financial statements and how effective managers can use information being provided by the accounting process. This two-day program covers how financial statements are assembled, with an emphasis on how to interpret the information, make better decisions, plan more effectively, and monitor results. Led by Phil Botana and Mark Chambers, financial basics are discussed and then put into practice using case studies and live examples from the industry.

To review the course outline, go to www.nata.aero, click on "Events," then "Regular Seminars," then "Financial Management Tools & Techniques for Aviation Service Businesses." To register, scroll down to the bottom of the seminar description. The next seminar will be held in March just before the Aviation Industry Week Trade Show in Las Vegas, Nev.

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Table 1: The Sales Process

DESCRIPTION	PURPOSE
Preparation of the business valuation	Seller(s) understand how much their business is worth
Investment memorandum	Marketing document presented to buyers
Contact with best buyers	Contact with the company's best prospective buyers
Confidentially agreement	Protection for the seller (and buyer) from disclosure of confidential information
First on-site visit	Introduce the operation to lead buyer
Letter of intent (LOI)*	Level of interest, price, and time frame for the purchase outlined, but some details yet to be determined
Due diligence	Buyer engages his team to review financial records, leases, and airport issues
Negation of remaining issues	Outstanding issues discussed
Purchase and sale agreement (PSA) and term sheet	Specific wording of the purchase transaction, timeframe, and disposition of all assets
Closing	Closing at an agreed upon date and location. Usually, working capital value is determined at this moment in time
Introduction of new buyer to employees	Employees meet new owner

** Optional: Some buyers develop a purchase and sale agreement at this point.*

close a transaction. We tend to place potential buyers in four distinct groups:

- Tier 1 Buyer: Proven, consistent buyers who have actively purchased companies at reasonable valuations in the recent past. They purchase for consolidation purposes, are well funded, and are looking for companies offering a limited array of aviation services.
- Tier 2 Buyer: The occasional buyer, with funds, who acquires to expand into a specific expertise or geographic region.
- Tier 3 Buyer: Buyers with an investment banking background, typically from outside the industry and generally attracted by consistent returns. Many are unfunded until opportunities are identified. They are looking for a deal, and their money investors are not knowledgeable about the aviation industry.
- Tier 4 Buyer: The local community professional or business owner who has an interest in aviation, generally attracted by the passion of the industry and generally unfunded but able to secure debt financing.

Transaction Road Map

Once the owners have decided to sell, the financial and operational numbers prepared for presentation, the leases reviewed, the tarmac swept, and a buyer engaged, the seller and buyer can proceed to complete the transaction. A summary of a typical sales process is presented above in Table 1.

Although there are exceptions, many successful transactions follow this road map and usually take six to twelve months to complete. Ideally, only your key staff employees (controller, CFO, key managers) are aware that the transaction is being considered prior to the close. This helps to maintain morale and lessen uncertainty. Only the buyer has the answers to the questions your employees will be asking.

Knowledge of how buyers will evaluate your company is essential to maximizing your proceeds from a sale.

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