Distressed Companies for Sale

How can viable companies suddenly find themselves in distress? There are a number of unpredictable reasons; new competition enters the market, a significant customer falls on hard times, the economy goes into recession or a key employee resigns.

Often, however, there are early warning signs that a company may experience hardship. The Turnaround Management Association lists the following as symptoms of impending trouble:

- Ineffective management style
- Poor lender relationships
- Family vs. business issues
- Weak financial function
- Over diversification
- Operating without a business plan
- Lack of operating controls
- Changes in the marketplace
- Explosive growth
- Changing customer base

A company can bounce back from its difficulties if it recognizes the problems early, embraces the reality of the situation, and takes steps to prevent a crisis. Sadly, one of the common issues with business owners is overcoming denial that there is a problem in the first place. These businesses can quickly find themselves in distress and the owners may feel their only recourse is to put the business up for sale.

The trickiest aspect of the distressed business sale is determining the valuation price. Applying industry benchmarks or multiples is often not applicable because these standards are set based on financially healthy firms. Generally, a realistic projected cash flow, with adjustments, will need to be determined to properly value a distressed business. Given the complexity, a business valuation should be performed by a certified valuation specialist to determine an accurate market value.

How careful does a business owner need to be in disclosing the problems to potential purchasers? There may be a temptation to present only the positive side of things, but owners are required to fully disclose any potential problems of their business or risk possible exposure to a future lawsuit. Any written material passed on to buyers, should be reviewed with the business owner's attorney. Although disclosure is necessary, an owner should also present possible solutions to problems in their discussions with potential buyers.

To get the maximum value from a business transfer and to avoid the pressure of a distressed sale, carefully plan the decision to sell a company three to five years in advance. Create contingency plans, should emergencies threaten the business, and include detailed succession scenarios. This positions the business to successfully transfer ownership in the future and is most likely to fulfill the personal goals of the business owner.