CASE STUDY

Advice that Yielded an Extra $4 Million to One Client

The following case study is based on a true story. It highlights the importance of getting ready for exit years prior to the event, the value of an experienced team of advisors, and the benefits of working with the team at NAVIX.

Steve owned a successful transportation and logistics company. His company enjoyed a gold-plated customer list, and achieved strong revenue and profit growth for many consecutive years.

Before we met Steve, he had unsuccessfully tried to sell his business. Doing everything himself, he found a potential buyer through industry networking. He and his buyer had quickly agreed upon a purchase price of $12 million-half cash, half seller-financing.

However, during due diligence several issues arose. First, Steve's company did not have audited financial statements. The buyer raised concerns about how revenue from some of the long term customer contracts was recognized. The buyer also objected to Steve's adjusted EBITDA figures, for Steve had taken above-market compensation and owner-related expenses from the company over the years, but did not diligently track those items.

Second, the buyer was concerned about one large customer which accounted for 20% of Steve's revenue and 30% of his profits. Expected future orders from this same customer were likely going to increase its percentage of Steve's business. The customer had required Steve to use its contract, which included a 30-day out.

The ultimate nail in the coffin however involved Steve's employees. None had signed non-compete or non-solicitation agreements. Steve's top three employees were well known in the industry, and maintained most of the large customer relationships. If any of those three employees left, customers would be at risk. Making matters worse, several years earlier Steve had put in place an executive compensation plan that would bonus these three employees 5% of the sale price, if and when the business sold. The buyer was deeply concerned that upon sale one or more of these top employees would take the cash and run. Steve's three employees were unwilling to change their compensation plans at the last minute when the buyer presented its objections.

At that point, the buyer pulled out. Steve was stuck.

A short time later, we met Steve through an introduction from his accountant. The CPA knew Steve wanted to sell the company, and needed time and help preparing the company for sale. Steve engaged our NAVIX team to get his company and himself ready for exit. Steve understood that the work would take several years, but he was committed achieving a successful exit.

Shortly into our process, we recommended to Steve that his company get annually audited financial statements, and he engaged the CPA to get started. Steve also brought in a part-time CFO to work with his company's controller. The part-time CFO upgraded the company's accounting and financial systems, and changed the revenue recognition process to bring it in line with industry norms.

With that underway, we worked with Steve to change his sales team's compensation plan, emphasizing greater compensation for new customer sales. Over the next three years, sales to the one large customer grew by 5% per year, but sales to all other customers grew by more than 10%. The one large customer still remained Steve's biggest account, but the customer concentration trend was now moving in a positive direction.

Our NAVIX team also worked with Steve and his employees. Steve implemented a policy requiring all company employees to sign non-compete and non-solicitation agreements, which were drafted by his lawyer. To Steve's surprise, no employees quit over this new requirement. As for the three top employees, we redesigned their executive compensation plan. The changes included a higher payout amount above the existing 5%, tied to increased EBITDA growth. So Steve would potentially pay them more, but only if the company grew faster. Another change was that upon sale of the company, any funds earned by these three key employees would not be paid out immediately at sale, but rather paid in six equal quarterly installments over the next 18 months. If the employees quit, they would forfeit any unpaid dollars. This would give a potential buyer 18 months to achieve a smooth transition, and time develop its own relationship with these top employees, with the goal of retaining them for the long term.

Finally, after slightly more than three years of getting ready, Steve engaged a professional M&A team to run a process taking his company to market. With all of the preparations we had made, the M&A team quickly found several serious strategic buyers. Steve ended up selling for more than $16 million in an all cash transaction-more than $4 million above his first price, and without seller-financing.

Steve, the former stuck trucker, achieved a happy exit: selling for maximum value, rewarding his top employees, and exiting on his own terms.

NAVIX

NAVIX® is a proprietary process that helps business owners plan for and achieve successful exits.

NAVIX® helps owners of closely held businesses plan for and execute successful exits: achieving financial freedom, creating a sustainable legacy, and exiting on their own terms.

NAVIX® was designed out of experience seeing business owners struggle to achieve financial freedom, create a sustainable business legacy, and exit on their own terms. NAVIX® is a dual track process, that prepares both the business and its owner(s) for exit. NAVIX® is not just about planning; we also help clients execute the strategies and tactics needed to achieve a successful exit.

To learn about the NAVIX® program, please visit

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