

# PACKAGING YOUR STAFFING COMPANY FOR SALE

By *Alan M. Tarter and Arthur Zagorsky*



*Alan M. Tarter*

Selling a staffing company is much like selling any other business, but the nature of the industry makes packaging one for sale a unique process. As the seller, your first steps include prioritizing goals, setting up a timeline, devising an exit strategy and assembling a professional team. Next, the valuation and sale of the business must be done at the right moment, so that the price tag will be reasonable to a buyer and also meet your expectations.



*Arthur Zagorsky*

By prioritizing needs and desires, you can generate a list to use when making decisions about the sale. For instance, all-cash deals can enable a clean break from the company, while financing part of the sales price can provide the leverage to raise the asking price. Keep in mind that rarely does a sale meet every objective. The list of priorities will help you decide which objectives to forego.

Planning for the sale is vital to successfully achieving most of your goals. Ideally, the right time to sell is when the business is doing well. It usually takes at least a year to completely “clean up” the business to get it ready for a sale, and up to another year to find a buyer and complete the transaction. When you package a staffing company, every aspect of the business should sparkle. In many instances, this will require going beyond what you have done in the past. If you want to realize top dollar, you cannot afford to neglect this step.

Allowing time for the sale puts you in a position of power, with less pressure to enter into a bad deal simply for the sake of getting out fast. Also, it gives you time to renegotiate key contracts with clients that the buyer will want or need to have locked in before taking over. Buyers want the predictability associated with contracts that have been negotiated prior to a sale. Therefore, your company’s well-respected, longstanding reputation for providing excellent

services and obtaining favorable rates from clients is of little relevance if there are no guarantees for the future. What is more, key contracts should be assignable to the buyer.

## **Assembling a Team**

Choosing a team of professionals for the deal is another crucial stage that requires thoughtful planning and early action. To sell a staffing company successfully, you need the assistance of an accountant, lawyer, business broker, business appraiser/valuation expert and tax expert. Each professional will play an essential role in packaging the company.

Your accountant and attorney will assist you in considering, selecting and optimizing your objectives in structuring the sale – e.g., stock versus asset sale, all cash or partial earn-out. They may also be aware of potential buyers and will be able to refer you to other key professionals. A good accountant is a business advisor who will guide you in the clean-up process discussed above, as well as recommend what parts of your business need to be improved and how to achieve the improvements.

When you are contemplating a sale, retaining counsel at an early stage is crucial. Your attorney will help protect your confidential information, client and contract information and trade secrets by preparing a confidentiality agreement to be signed by any prospective buyer, and will advise you concerning what information should or should not be shared at various stages of the process. Together with your accountant and other business advisors, your attorney will negotiate the terms and structure of the sale, and then prepare a term sheet and/or letter of intent for negotiation by the parties. He or she will assist in the due diligence process, and, after you and the buyer have agreed to terms, prepare definitive agreements for the sale.

Your attorney will also assess any legal considerations that could expose you to liability. He or she will determine what disclosures must be addressed up front to avoid problems at the eleventh hour, after the parties have invested significant time and money, and to avoid possible future claims. In

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addition, your attorney will help you reduce exposure to liability after the transaction is complete.

### **Valuing the Business**

The business appraiser on your team will ensure that the price is just right, because if the “porridge” is too hot or too cold, a potential buyer may look elsewhere. The appraiser will first look to cash flow, future earnings, and the ability of the company to function after your company’s principals have left.

You may want to take proactive measures to improve the financials of your business and obtain a higher valuation. Buyers will generally turn to the income statements and assess earnings before interest, taxes, depreciation and amortization (EBITDA), hoping to find steady, predictable and high income streams. Often buyers will calculate an offer using simple multiples, such as EBITDA, or sometimes multiples of gross revenue. The valuation report will serve as a check on the buyer’s offer, ensuring that it meets your asking price, or is reasonably close to it. It will also provide the buyer with proof that your asking price is reasonable.

Projections of future earnings, based on financial statements from the last two to five years, will be critical. These projections will give you an opportunity to bolster the case for the future success of the company by citing new processes and methods that you may have implemented and/or new lines of business or contracts that should produce significant growth. For example, the projections may highlight your successes in adding higher-margin premium placements, expanding the customer base, providing incentives to sales and operations staff, improving customer service to increase client loyalty, lowering recruiter turnover, fostering company loyalty and teamwork, incorporating value-added services like background checks and drug testing, and reducing costs through automated timekeeping, tracking and payroll functions. Finally, demonstrating diversification of revenue will increase your chances of getting a favorable valuation and terms that meet your needs.

However, although these successful business practices make your company more attractive in theory, they will not be of much value unless an experienced manager or team of employees is in place to keep them going after the company’s

principals sell and leave the company. Unless the buyer wishes to actively manage the company, ultimately replacing the manager and employees or incorporating the business into an already existing company, he or she will want reassurance that your management team and key employees will remain with the company after the sale. Providing job descriptions, organization charts and procedural operations guides will help give the buyer confidence in a successful transition, succession and continuation of the business. Also, providing incentives such as retention bonuses, phantom stock and/or value appreciation plans, will improve the likelihood that employees will remain with the company and therefore increase the company’s value to the buyer.

To recap, successfully packaging your staffing company for sale requires that you:

- Plan carefully and prioritize your goals;
- Assemble a team of professionals and retain counsel at an early stage;
- Marshal all the facts justifying your asking price in the valuation report; and
- Provide for a smooth transition.

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### ***About Alan M. Tarter, Partner***

*Alan is the Managing Partner of Tarter Krinsky & Drogin LLP and an Industry Partner of the New York Staffing Association. For his clients in the staffing industry, he provides not only legal counsel, but also advice on a variety of issues involving business growth and strategy. Alan can be reached at [atarter@tarterkrinsky.com](mailto:atarter@tarterkrinsky.com).*

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*Arthur is a member of TKD’s Corporate and Real Estate Practice Groups. He represents a broad range of clients, from start-up businesses to publicly-held companies, and has represented many clients in the staffing industry on mergers and acquisitions, shareholder and operating agreements and other contractual matters. Arthur can be reached at [azagorsky@tarterkrinsky.com](mailto:azagorsky@tarterkrinsky.com).*

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