How To Value and Sell Your Electrical Contracting Business

Why would you sell? Perhaps you are bored with the daily routine. The industry may have changed in ways you don't want to have to accommodate. You may want to retire, but there are no family members who are ready or willing to step into your job. Key managers might not share your vision of the future. With interest rates at historical lows, the company may be well-positioned for a lucrative sale.

It may be tempting to save the sales commission by marketing the business yourself, but a professional intermediary will be more prepared to get the deal done. You are unlikely to get the best deal if you do it yourself because your judgments about the value of your business are clouded by your emotional and financial investment. You don't have the necessary contacts to locate qualified buyers or the background to deal with the legal, tax, accounting and regulatory issues you will face. Most important, you can't broker a sale and run the business, too.

Pricing Your Business. Businesses are valued on a multiple of the bottom line profit. The math is simple, pick a number between 3 and 5, use that multiplier times your bottom line profit. With a few calculator key strokes, you've established your starting price point. The number you arrive at using the multiple-of-earnings approach usually covers the selling price of all business assets excluding cash and accounts receivable. Your broker will help you adjust your profit and multiplier and certainly it will be a point of negotiation with your buyer.

Electrical Contractors completing large projects often have to wait 60 to 90 days (often much longer) to receive final payment. This creates a problem for transitioning the business to a buyer. The buyer will have to cover business expenses of payroll, rent, material purchases, etc. starting day 1 after closing. The buyer may need “gas in the tank” which brings us to the concept of “net working capital”. In accounting terms, net working capital is defined as the difference between a company's current assets, such as cash, accounts receivable (customers' unpaid bills), and inventories of raw materials and finished goods, and its current liabilities, such as accounts payable. The deal structure may require some accounts receivable included in the sale to fund the gap before the buyer generates enough cash flow to sustain the operations.

Remember that buyers want to do more than take over a success story. They want ideas on how they can direct a new, even more exciting chapter for the business. By presenting such ideas for the future, including ways to overcome challenges, you can inspire the buyer to see the upside potential for your business. (adapted from article in "Electrical Contractor Magazine")