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Would You Pay $6.2 Million for This Business?

By JOSH PATRICK

From time to time, I intend to take a look at businesses for sale. We'll examine them from two perspectives - how attractive the business is at the asking price and what lessons the business may hold for the owners of other businesses.

The first business I want to look at is a heating, ventilation and air conditioning business in the southeastern United States. For obvious reasons, we cannot identify the specific business or owner. This listing was brought to my attention by the brokerage site, Bizbuysell.com. (Editor's note: The author has no current or potential financial stake in the sale of this business, nor does the author certify the accuracy of financial or other information provided by the seller and/or seller's broker.)

Normally construction companies are among the hardest businesses to sell. Buyers often look at them and pass. Why? If the buyer is a competing business, it will often think, "Let them go out of business, and I'll just take them over for free." If it's a financial buyer -- from outside the area or from a different industry -- the lack of recurring cash flow may be the stumbling block.

The seller of this particular business is being represented by a broker, Jim Dunmire, of the Murphy Business and Financial Corporation. Mr. Dunmire specializes in selling H.V.A.C. businesses, a subset of the construction industry that tends to be somewhat easier to sell than other construction businesses. Below is the basic listing information:

Type of Business: H.V.A.C.

Location: Southeastern United States.

Asking Price: $6.250 million, for the business and real estate.

Employees: 26 full-time, two part-time.

Furniture, Fixtures and Assets: $280,000.

Real Estate: 12,900 square feet, estimated value $800,000.

Intellectual Property: Training programs and a successfully developed niche.

Financials

Business Overview

The company has been in business for 14 years. Its founder is the owner and chief executive of the company, which services only homeowners. It does no commercial work and no new home construction work, which is unusual in the industry.

As a rule, the company says it does not bid for work. All of its projects have been negotiated with the customer, and the company policy is to not reduce prices to meet competition. In addition, the company takes only jobs that fall within a radius of 20 minutes from the company offices. There is a marketing plan in place that has been producing new business in a predictable manner.

The company trains all new employees in a training center at the main office. New employees aren't allowed into the field until they have been fully trained in the operations and service skills the owner believes they need.

My Take on This Company

According to Mr. Dunmire, this is a company that has strong profits that are more than three times the industry average (it is *10 times* more profitable than the average H.V.A.C. company, according to Robert Morris Associates, a database that analyzes company profitability). If I were a potential a buyer, I would be eager to look under the hood and find out how the company has produced those results.

The company appears to have a strong niche. The owner has learned how to say no to business that doesn't fit his niche and only accepts jobs that work for his business model. As a result, it seems the company has become very efficient at serving these customers.

In addition, the company has eliminated two significant forms of waste that are common to the industry. By staying within a 20-minute radius, the company avoids having its personnel waste time driving around. And by training its employees at its facility, and not in the field, the company allows trainers to focus on getting a new person acclimated - and not on getting a job done.

Challenges in This Deal

Mr. Dunmire told me the asking price for this business is 3.2 times its free cash flow. This is about a third higher than most companies in the industry ask.

In addition, it is likely that there is little chance for growth in the niche this company occupies. This means a buyer looking to grow would have to either expand lines within the footprint -- which I would not recommend -- or find a way to clone the business in other geographic areas.

It's likely the owner has developed excellent systems and documentation for the results the company produces. During due diligence, it will be important to learn precisely how the profits are produced.

A first glance, this business looks like a great opportunity for a strategic buyer, such as a competitor. That said, some strategic buyers may be skeptical of the results - regardless of the documentation provided. For that reason, a financial buyer may be more likely to buy this high-margin business.

My Suggestions to a Buyer

Any buyer of this company should hold off on making any changes in operations, marketing or training until it has spent a significant amount of time understanding the secret sauce that has made it successful. But a buyer looking for growth should come with a plan to duplicate the operation in other areas. (Here's a guide to selling a business that Barbara Taylor wrote, and here is one from Bizbuysell.com.)

What questions would you want to ask if you were the buyer? Do you think the business is priced right? What would you pay for this business?

Josh Patrick is a founder and principal at Stage 2 Planning Partners, where he works with private business owners on creating personal and business value.