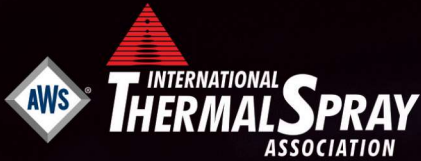


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# SPRAY TIME



## Job Shop Focus



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# Selling Your Thermal Spray Coating Job Shop



**S**o, you've grown your thermal spray job shop into a comfortably profitable, ongoing business that has sustained your lifestyle, provided gainful employment for your employees, and supplied your customers with quality vendor services, which in turn have enriched their businesses and their customers' businesses. But now that it has paid for your kids to have straight teeth and college educations, it may be time to retire or just simply do something different. You

could close the business, liquidate the equipment, and move on. But couldn't someone else take over and continue to provide quality coating services to your customers and keep your staff employed?

If you plan to sell your coating services business, there are four key areas to be addressed: preplanning and getting the business ready to sell, determining a fair price, finding a buyer, and executing the sale.

## Get Your Business Ready to Sell

Start with planning. What are some of the actions/tasks that can make your business more attractive to potential buyers?

Jason Swathwood, merger and acquisition advisor, Indiana Equity Brokers in Indianapolis, Ind., said, “My personal experience is that most business owners fail to properly plan for selling their business in advance. There are so many potential obstacles to a successful sale that planning is a must. If you fail to identify the obstacles, you cannot overcome them. If you do not plan in advance and then one day decide it is time to sell, chances are your business will not be salable or is only salable at a value that is far less than it might have been worth with forward planning. By facilitating the successful transfer of businesses ownership, business brokers play a vital role in helping people and communities thrive.”

Next, make sure your company’s finances are in line with industry standards. Is cash flow positive? How’s the order backlog? Do you have supply or service contracts with key customers? What is the debt ratio of your company? Debt ratios above 50% or 0.50 are considered highly leveraged and can be a red flag to potential buyers. A 50% or more debt ratio means a majority of assets are financed (bought with borrowed money), not owned.

Cash on hand or in reserve, the number of repeat customers, sales agreements with customers, website, geography, and whether or not your business owns the building that houses operations all play into valuing a business, according to Swathwood.

Yet another consideration is the average tenure of your company’s employees. Is turnover per the industry average? The av-

erage turnover ratio for U.S. companies (prepandemic) in 2018 was 22%. If yours is higher, it might reflect poorly on your company and repel buyers (Ref. 1).



*It's important to make sure your company's finances are in line with industry standards.*

Also, just like selling a home, you want to make sure your business has great curb appeal. What buyers see from the curb is your website and logo. When was the last time the business’s website was updated? Is it secure? According to Google, if it says “not secure” in the URL search box when your website is reached, it’s not secure. Websites tend to look dated as soon as



*It is important to have a mobile-friendly site that engineers can use to research coating solutions.*



five years after a major rebuild. These days, according to Kelly Jean Forrest, who writes for SmartBug, websites should have a total rebuild every two to three years (Ref. 2). While that may seem to be a very short time, if your website hasn't been totally revamped for five or more years, the time has come for a rebuild.

Many engineers who specify coatings go straight to the web on their mobile phones when they want to research coating solutions. So, it is important to have a functioning, mobile-friendly website that engineers can use to find your business and answers. Most won't give a website a second chance if it won't load instantaneously or if it's not configured for mobile viewing. Rebecca Dutcher, president of RED66 Marketing, a Grand Rapids, Mich.-based website design and marketing firm, said having a "responsive website design is important." That is where the same content can be viewed on both desktop computers and mobile devices. "When considering the value of a business, the website is a huge asset or a huge drag, depending on the quality of the website," she stated.

Search engine optimization (SEO) is critical also. Is your site optimized with the latest buzzwords for coating technology? According to Dutcher, "SEO creates traffic to your website. Your website is your 24/7 sales rep, so you want to make a good first impression. Websites also should be ADA [Americans with Disabilities Act] compliant, so fonts must be considered as well as images." A professional web design firm can ensure your site is both secure and ADA compliant.

Logos tend to retain their newness a bit longer than websites. However, Eleventy Marketing Group, Akron, Ohio, said, "When people see a logo that looks outdated, they perceive an organization as out-of-touch with modern best practices. A good rule of thumb is to at least consider updating your logo every five to ten years" (Ref. 3).



*A good business broker will help secure financing so that come closing, the seller will walk away with a check in hand.*

## How to Find the Market Value of a Small Business like a Coatings Job Shop

One method accountants use for estimating what a business is worth is to multiply net earnings by a factor of three to five. Anne Marie Craighead, president of AMC Accounting in Naperville, Ill., said, "There are many ways to value a small business. Many businesses are sold based on a multiple of earnings plus the owner's compensation and other perks. This is considered the seller's discretionary earnings. For most small businesses, the multiple can vary widely depending on the industry. On average, I see small businesses sell for three to five times sellers' discretionary earnings."

Craighead continued, "To calculate the seller's discretionary earnings, you would start with earnings before interest, taxes, depreciation, and amortization [EBITDA] and add back the owner's compensation and other perks."

Business brokers are also skilled at appraising the value of a business. They will use financials to come up with a selling price for a business in addition to factoring in other market conditions, like the general economy and location of the business, and will do comparisons, just like a realtor will when determining the listing price for a residential home. They will look at other businesses that have most recently sold in the geographic region and use those sales to adjust the sales price of a business.

"If you think you might want to sell at some point in the future or not, it would be wise to get both an accountant's estimation and a business broker's appraisal of your business," said Swathwood. Further, it is best practice to update the value calculation every two to four years.

## Finding a Buyer

Most business brokers can help you find buyers. They can list your business anonymously on their website or may have a pool of buyers to consider. Is a potential buyer already working for your company? Businesses should always be looking to train and promote from within. Is there an understudy on your payroll who can take over?

A point of caution — it is important to keep the fact that you, the owner, are looking to sell as confidential as possible. Letting it be widely known that a company is for sale is not good for business. Your competitors will use it against you and customers may look to find alternative vendors for fear of being unable to source the services you provide. In other words, posting that your business is for sale on LinkedIn is not a good idea. However, if you contract with an equity broker, they can post an advertisement in publications such as this one, making it known they have a coating shop for sale while protecting the identity of your business so only serious, qualified buyers know.

Making quiet inquiries to your network of contacts within the thermal spray industry is also an option so long as you can trust them. However, as Ben Franklin said, "Three may keep a secret if two of them are dead." So be very selective with whom you share your intentions.

One other possible buyer pool is your competitors. Just like a corporate recruiter, a business broker can make inquiries to one or more of your competitors without letting them know it is your business that is for sale. The business broker would reach out to potential buyers and execute nondisclosure agreements with them to protect your business.

Another sales option is through an Employee Stock Ownership Plan (ESOP). We will discuss more about ESOPs in the next section.

## Financing the Sale

Business brokers can help arrange financing for buyers. Owner financing is an option, but the better option, according to experts, is to sell the business outright and turn over the keys at closing, just like selling a house. The business, if financially sound, can be the collateral for securing a loan for the buyer.

According to Swathwood, a good business broker will act like a real estate agent combined with a title company, lawyer, and financial lender. They will help secure financing so come closing, the deal will be done and the seller will walk away with a check in hand.

Another option is an ESOP. One of the biggest benefits of an ESOP is it is very lucrative for the seller and all but guarantees, if executed properly, a successful transition into the future for the company as an ongoing concern. Seller and buyers reap the benefits. Customers retain a valued, qualified coating vendor as well.

## Should the Seller Plan to Stay and Help after the Sale?

Staying on after the sale has a lot of benefits to the company and the seller. Rather than jumping into the deep end of retirement or a new endeavor, the seller can transition gradually. A must-do is a carefully crafted plan for the seller to transition out of the business, including a timeline and a list of expectations for both the buyer and seller. Friction between the old owner



*A carefully crafted plan is key to successfully selling your job shop.*

(seller) and the new ownership is almost a certainty without a well-defined plan. Furthermore, that friction can create uncertainty among employees and customers as to who is in charge. Business does not like uncertainty and the company will suffer as a result.

## Conclusion

If you're thinking about selling your job shop coating business, keep in mind that the keys to successfully doing so include forward planning, knowing the value of your business, making sure it has the best possible curb appeal, finding a qualified buyer, shoring up finances, and keeping your customers happy. ▲

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