How to Prepare for the Sale of your FBO

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Having been involved in FBO purchases, sales and brokerages for many years, I have found that even though similar problems arise in multiple transactions, simple solutions exist to alleviate these problems and help sellers obtain maximum price.

AUDITING HISTORICAL AND CURRENT FINANCIALS

Producing three years of financial records is critical in most transactions. No matter if you have utilized Total FBO, Avman Comptroller or proprietary software (which can be downloaded into Excel), a buyer is likely to engage the *Deal Advisory* services of a certified public accounting firm—or will utilize their trained staff—to conduct a thorough review of your financial records. While the cost of having an accounting firm audit your records is significant, nothing ensures a quicker and more accurate review of your records than having them audited before the sale process. If an audit is too expensive, consider having an outside accounting firm conduct a review. At the least, this will ensure that both your accounting staff and an outside accountant can answer questions and provide necessary documents to a buyer and/or its consultants.

ACCURATE EBITDA OR EBIT AND PROOF OF NON-RECURRING EXPENSES

Most FBO acquisitions (but not all) are based on a multiple of a three-year average of earnings before interest, tax, depreciation and amortization (EBITDA). If the location, competitive position, and/or customer breakdown is important to a buyer, other factors may play a role in determining offering price. While most buyers believe that the synergies they bring to a business are for their account, a buyer may share some or all of these synergies when seeking to rationalize a higher purchase price. As stated above, an audit is the best way to demonstrate what the EBITDA or earnings before interest and taxes (EBIT) really is. Sometimes, when historical EBITDA or EBIT does not accurately reflect the actual value of an FBO, other factors can be taken into account. Recent increased business, entering into a contract with a fractional, winning a bid for a Department of Defense contract, opening and filling up a new hangar and other positive factors can help assess the true value of a business.

It is also possible that a competitor is willing to pay a premium so that after sale, there is less competition, allowing fuel prices to rise to what a business owner believes is a fair and equitable price.

Many FBOs incur costs that are specific to ownership or are not likely to reoccur. While reasonable management salaries will continue, some business owners may pay bonuses, travel, automobile and other deductible expenses that other owners may deem unnecessary. Some businesses use directors' fees, car expenses, memberships and other legitimate deductible expenses as incentives. Even the costs of preparing for a sale are non-recurring. While it is unlikely a buyer will give a seller credit for synergies, a buyer is likely willing to give a seller credit for non-recurring

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expenses, and this amount can be added to EBITDA. These non-recurring expenses when added to EBITDA and multiplied by an agreed upon multiplier can amount to a very significant increase in purchase price.

TERM, TERM AND TERM

While you cannot do much to alter your location, and you may have limited means to prevent or forestall competition, you are likely to have some ability to extend your FBOs lease term by promising to make capital improvements in return for lease term. A lease term of less than twenty years will decrease the price or multiple paid, while a term in excess of twenty years will significantly increase price and multiples. It is best to negotiate and codify these extensions before you sell rather than during the process. Remember, if you have a business that is attractive to buyers, it's the next owner—not you—who will have to invest money back into the business to satisfy future capital improvements (assuming you sell your FBO). However, even if you have to spend the money now because a renovation or certain repairs are necessary, an extended lease term makes this expenditure an attractive option.

SIMPLIFY

Simplicity is always better than complexity. Many FBOs are a mailgram of multiple leases, some with conflicting terms. Airport sponsors are sometimes willing to consolidate and produce a single lease document. However, if the price of a consolidated lease is giving up a valuable right, it may not be worth it.

UPDATED MINIMUM STANDARDS

The FAA suggests that Minimum Standards be updated from time to time. Many airports with Minimum Standards (they are not required) have outdated standards that do not account for the realities of modern day general aviation and the use of jets and turbine aircraft. It is always in the existing FBO's interest for Minimum Standards to require (1) at least as many services as the existing FBO(s) provides, (2) similar land acreage, and (3) as many hangars, the size of which equals the existing FBO. Since incumbents are grandfathered in and do not have to comply with standards requiring more than the existing FBO provides (unless the incumbent seeks a lease extension), Minimum Standards tougher than what the existing FBO provides are sometimes worth supporting, but note if you decide to upgrade your facilities or request a lease extension, it is likely you will be asked to comply with the revised Minimum Standards.

PREPARING THE SPONSOR

Even if leases do not contain a change in control provision, buyers may still insist on some form of consent or approval to a sale, and in an asset sale, consent is almost always required. While it is always smart not to disclose a possible sale to an airport sponsor until it is absolutely necessary, there are ways to prepare for consent. First, understand whether it is a county or municipal executive, or the governing body of the county, municipality or airport board that will be called upon for consent, and then work on improving existing relationships. If necessary hire a local lobbyist or person of influence, join a local rotary or other service club where board members belong and make all reasonable efforts to improve your relationships with the decision makers. When presenting the proposed new owner, be ready to show how the sale process sought out a buyer that was excited to be at the airport and ready and able to invest not only in improvements, but also in its workforce, equipment and in training programs.

The buyer should be prepared to demonstrate its financial viability and prepare a well thought out and illustrative presentation for the sponsor.

USE OF CONSULTANTS, ACCOUNTS AND LAWYERS

No money spent for professional assistance is spent unwisely. The sale of your business may be the most important financial action you ever take, and it is bound to face some difficulties. Assume, if something can go wrong, it will go wrong. While you should shoot for the moon by asking a high price, have realistic expectations. Sure, buyers are paying historically high prices, but buyers still have to make money, get Board, and sometimes bank, approval. So, when you hear rumors of fantastic multiples, in some instances it may be true, but in most cases, they are simply rumors and are not based on facts. **A**

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