How to Sell Your Business

You only sell your business once. Sell it right!

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A business owner's planning guide that may help you realize <u>tens of thousands of dollars</u> in a higher selling price.

Quick Tips:

- Familiarize yourself on the process
- Speak with a Certified Business Intermediary to learn what is involved
- Get a professional valuation of your business, do not guess or estimate
- Keep business financials up to date, clear, and accurate
- Understand the reasons why you want to sell

As a business owner, you have many questions about selling your business. You may be wondering: "Can it be sold? How much is it worth? Who would buy it? What can I do to prepare? How do I keep it confidential?" These questions and others are addressed in this article. Additionally you will find information to help you in determining whether this is the right time to sell and how to go about selling your business for the highest price. Finally, there is information on the selling process itself. We think you will find it informative and will, no doubt will stimulate further investigation on your part.

Of course this is not a complete guide. If you would like further information, please feel free to call our offices. All conversations are confidential and do not obligate you in any way.

Can Your Business Be Sold?

Many small business owners think their business is so unique that they feel it can't be sold. Some feel they that the business will not survive their leaving. Most times they are wrong. However there are some elements that make some businesses more attractive to prospective buyers. For example, does it have a solid history of profitability, a large and loyal base of customers, a competitive advantage, opportunities for growth, a desirable location and a skilled work force? If in doubt, speak with a Certified Business Intermediary on how your business would be viewed by prospective business buyers.

Are You Ready to Sell?

Make sure you are ready, both financially and emotionally. Think about what life will be like after the sale. What will you do? Not just with the money but also with your time? Some business owners suffer some remorse handing over their business to a new owner. Make sure you are ready to sell.

However it may be time to sell rather than to loose significant equity by allowing the business to slip or deteriorate for any reason.

Here are a few indicators that it may be time to move on:

- It's not fun anymore. Burnout is a very real issue for business owners, and an entirely legitimate reason to sell.
- You're not inclined to invest in growth. You may be comfortable with the current size and profitability of your business and have no desire to make the capital expenditures necessary to take it to the next level.
- You feel your management skills are overmatched. It is not uncommon for business owners to build their business to a certain point and then realize they lack the skill set required to go further.
- Diversification – It's estimated that many business owners have as much as 90% of their net worth tied up in their business. Selling and reinvesting may help diversify your personal net worth.
- Health or Age - There may be personal limitations due to health or advancing age that may limit what you can do to continue to run and or build equity in your business.
- Desire to retire – you've built your business and now you want to enjoy the fruits of your years of work.
- Family obligations – caring for aged or other loved ones who need more of your time may be taking you away from being able to effectively manage your business.

What's Your Business Worth?

Many owners have no idea. Some feel it is worth one times annual revenues. Others feel it is worth the value of their assets plus their annual salary. Others place a value based on what they need to retire and move to a warm climate! None of these are correct. Selling a business is both art and science, and in no other area is this more evident than the valuation. While every seller wants to achieve maximum value, setting an asking price that is too high signals to buyers that you may not be serious about selling.

On the other end of the spectrum some have been surprised at how much equity they have built up over the years in their business. We were invited to perform a Value Analysis on an Auto Repair business where the sellers thought the value of their business was based on their Capital Equipment and Real Estate. They were very pleasantly surprised to learn that the business appraised at $500,000 (exclusive of Real Estate). We sold it for full price within 4 months of listing it for sale in the middle of a national recession!

While there are a number of methods used to value a business, the most common formula for small business sales (typically businesses with annual sales under $5 Million) is a multiple of seller's discretionary earnings (SDE). This type of market-based valuation involves recasting profit-and-loss statements — adding back owner's salary, perks and nonrecurring income and expenses and possibly as many as 8 to 12 different expense categories (depending on the business) in order to find the SDE of the business. Then, a search is made of businesses that are similar and have sold to determine the "SDE multiple" at which they sold. This will help you arrive at an appropriate multiple of SDE for your business. This is called the Direct Market Data Method and the Institute of Business Appraisers (IBA) states that "it is the preferable method of valuing closely held business of midsize and smaller".

What can you do to prepare for a sale?

1. Review the financial statements to make sure they reflect the actual sales and expenses of the business. Go over it with your book keeper and or accountant. Usually buyers are interested in the most recent 1-3 years of financial history and Year to Date.
2. Keep all equipment in good working order.
3. The physical appearance of the business is important. A new owner wants to be able to envision themselves working there. What can be done? Fresh paint, clean floors and bathrooms, organized work areas will help a prospective buyer see themselves taking over the business.
4. Cross-train employees so that they are able to cover in the event that someone is out or leaves the business until a replacement is hired. No one should be indispensible!
5. Even though you, the owner are actively involved in the day to day operation of the business, train employees to handle many or all of the tasks that you the owner perform.
6. Suppliers – have more than one vendor for key products. Do not be dependent on a single or even a few suppliers if possible.

7. Customer concentration – build the business so that your revenues come from a broad customer base. Having a single customer generate 20% of your business or more can be problematic for a buyer.
8. Sell off assets that are not essential to the business operation. This will improve your balance sheet and will not adversely affect the selling price.
9. Inventories – keep them lean and current. However do not jeopardize sales in an effort to keep your inventory low. You can't sell what you don't have in stock.
10. Keep it confidential. Avoid discussing a possible sale with employees and outsiders. You will obviously discuss it with your spouse and perhaps your accountant but avoid getting the word out prematurely.

How can the selling process be kept confidential?

A Certified Business Intermediary knows how to do this. It involves having buyers sign Non-Disclosure agreements and not advertising the name of the business. Selling a business is the only thing sold without telling others it is for sale.

Make Sure Potential Buyers Are Qualified

There's no bigger waste of time than working with a buyer who will not be able to complete a transaction. You will want all interested buyers to sign a confidentiality agreement before sending out anything other than the "blind profile" for your business. In addition, you should require buyers to submit some basic information including how much they have available to invest in a business and what is the source of their capital to invest. Some buyers are hesitant to provide financial information. Real buyers will readily explain their source of capital in an effort to prove they are qualified.

Negotiating the Deal

After you've found a qualified buyer, provided a selling memorandum and had an initial meeting, it will be time to stop the flow of information and ask that an offer be presented. This can take the form of a nonbinding letter of intent or a term sheet. It should spell out the primary terms of a deal so that all parties can move forward in good faith.

Some buyers seem to continue to request information. A professional Business Intermediary will help a buyer see the benefit of making an offer so as to avoid wasting too much time for the both the seller and the buyer's sake.

Negotiating a deal is more than agreeing to a price. It includes outlining terms being offered by the seller if any, conditions to be met prior to closing, due diligence items to be reviewed by the buyer, timeframe to close the deal, post-closing conditions such as training or consulting to be done by the seller, non-compete agreements, and other matters as well.

All sellers hope to get a full-price cash offer for their business. But in the real world this rarely happens. More often buyers will make a down payment and then pay some or all of the remainder in installments to either you or a lender. Don't be dismayed by an offer that doesn't meet your original expectations. A willingness to be creative with the terms of a transaction can go a long way toward a successful sale. Be sure to enlist an accountant and a lawyer to help you assess the tax consequences of the terms you suggest or accept.

Manage the Due Diligence process

Once a buyer makes an offer that is accepted by the seller, the "due diligence" period begins. This is the time when the buyer will want to verify the representations made by the Seller about (1) the financial condition of the company, (2) contracts with key suppliers; (3) review makeup of the customer database (not a time to introduce to customers), (4) inspect the equipment, and other assets to be included in the sale, and (5) any other matters that may be specific to your business.

Contracts

Some of the contracts that are typically part of a business sale include a Purchase and Sales Agreement, a Bill of Sale, Lease Assignment and Release, Non-compete Agreement, and in most cases a Promissory Note and Security Agreement. An attorney with experience in Transactions is best used to draft or review the agreements. This is where an experienced Certified Business Intermediary will be helpful to keep both sides of the deal focused on a timely closing. Remember, "Time is an enemy to a deal".

Costs

What are the costs involved? It depends on the size and complexity of your business. There are a number of factors that can determine "complexity" and we would be able to discuss these with you. Here are some typical expenses that are associated with the sale of a business.

CPA – Thought not a requirement, business owners may want to engage the services of their CPA to help prepare financial statements or advise them on the potential tax liability that they may incur when they sell their business. Costs are typically billed hourly and it may take as little as an hour to several hours at their CPA's time.

Legal – Business owners would do well to engage the services of an attorney that specializes in doing transactions to help review (or in some cases draft), the Purchase Agreement and other closing documents. This is done after an offer is made by a specific buyer and accepted by you the business owner. Hiring an attorney is done far along in the sales process. Costs may range from around $2000 and up for a smaller transaction to about $10,000 and up for a multi-million dollar transaction.

Intermediary – Intermediary fees will depend on the size of the business. They will range from about 10% on a smaller transaction but will scale down to around 4% for a multi-million dollar transaction. An experienced Intermediary will earn these fees over and over again by (1) working to keep the sale confidential; (2) by using their skills and knowledge to get the highest price and best terms for the business owner; (3) structuring the transaction to get the highest net cash proceeds you receive; (4) help avoid post-closing problems; (5) and most importantly closing the sale. (Statistically, only about 10% of businesses that are "for sale by owner", FSBO, will close.)

It's Worth It!

Selling a business is largely about setting realistic expectations, avoiding surprises and just plain hanging in there. It can be an arduous journey, but one with a very tangible (and rewarding) light at the end of the tunnel. Once you've successfully sold your business, savor an accomplishment that not every entrepreneur gets to enjoy. Whether you're lying on the beach, retiring by the lake or starting your next venture, you did it!

Alliance Business Brokers, LLC headquartered in Nashua, NH is a leading provider of Business Valuation Services, also known as Business Appraisals, and Business Brokerage Services throughout New Hampshire and northern Massachusetts. They can be reached at 603-880-8200 or by email at info@AllBizBrokers.com.