# Five Things Business Owners Should Know Before Selling Their Company

BY **MICHAEL FEITE** - JUNE 1, 2014

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As a business owner, you only get one chance to sell your firm the right way, maximizing financial return. Unfortunately, most approach the process with the harmful assumption that they know what their business is worth, or worse, that its worth is not very important. The first step is also the most important — know what the company is worth as an ongoing concern and understand how it will be perceived by the buying community.

Building from there, here are the five most important things every business owner should know before attempting a sale.

**1. Industry 'rules of thumb' regarding valuation are not accurate**
Value approximations performed by business owners (or even by their CPAs) do not necessarily carry much weight in the eyes of potential buyers. While possibly comforting to the seller, they may lack basis in analytical fact-finding and are unlikely to be used to make a purchasing decision.

Independent third-party, accredited fair-market appraisals are the key to maximum financial return and smooth transactions. Most often, the buyer will request one anyway; if not, lenders most certainly will as a prerequisite to funding the transaction. Having this analysis in place prior to entering the market will help the seller obtain full value and achieve a quicker closing.

**2. Local competitors are not the most likely buyers**
This common misconception is largely unfounded. In fact, some evidence shows that less than ten-percent of business sellers actually know the buyer beforehand. Entering the market with a preconceived, as well as tenuous, notion of the potential buyer will only limit the resulting opportunities.

**3. Cash flow is king**

Tangible assets are nice, but seller's discretionary cash flow is the driving force for market valuation. This is the total profit, compensation and benefits paid to the owner. Ideally, a company will have a solid asset base that generates high profit margins, which yield significant cash flow. This is where the independent valuation process again shows its importance — when positioning a company for sale, it is crucial to show every possible dollar and ensure accuracy and supportability.

**4. A letter of intent is not the strongest route for the seller**

A letter of intent only binds the seller and virtually takes the business off the market while the buyer contemplates his or her next move. This is not acceptable for most serious sellers. On the other hand, a formal **offer to purchase (OTP)** — signed by both parties — provides a strong deal framework and is usually accompanied by earnest funds deposited into the attorney's escrow account. Most importantly, an OTP details specific date deadlines for financing, definitive agreement, due diligence and the closing. This document's strength ultimately reduces legal fees and shortens the timeframe for a successful closing.

**5. Selling a business is not a one-person job**

Perhaps it is the nature of small business owners to want to do everything, but your primary focus should be on your company's performance, especially considering how closely recent performance will be analyzed by a potential buyer. Having a professional team in place to properly value and market the sale allows you to do what you do best.

An efficient business transaction includes proper valuation, marketing package, market reach, marketing strategy, buyer qualification, confidentiality, deal structure, tax implications, deal negotiation, financing, due diligence and legal support. The task at hand can be challenging for the pros, and is almost impossible without them. A trusted M&A advisor, CPA and legal counsel are the professionals you want on your team.

Knowing exactly what goes into the process, and being properly managed and coached along the way, makes for an efficient and profitable transaction.

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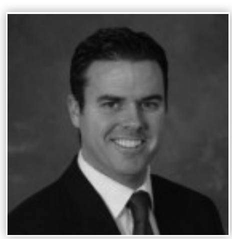

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Michael brings over 15 years of business ownership and operations expertise by having specialized in mid- market companies within the hospitality industry, with focus on strategic marketing and construction management. Michael's business ownership incudes the acquisition of two country clubs in southeastern Pennsylvania. He has first- hand deal making knowledge in negotiations, obtaining financing, business valuations and due diligence.

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