{ Finance }

BE PREPARED

The five things every business owner should know before selling | *by Gary W. Herviou*

Most business owners think they know what their firm is worth—or worse, don't think it is very important. Unfortunately, both approaches are equally disastrous. You only get one chance to sell your firm and it must be done correctly in order to maximize the financial return. The first and most important step is to know exactly what the organization is worth as an ongoing concern, and how it will be perceived by the buying community.

Starting with this key issue, here are the five most important things that every business owner should know and realize before attempting a sale of their firm:

1 INDUSTRY 'RULES OF THUMB' REGARDING VALUATION ARE ESSENTIALLY MEANINGLESS

These type of "cocktail party" value approximations might be comforting to the business owner, but have little basis in analytical fact finding and should certainly not be used as the basis for a sales decision. Even if an owner (or their very qualified CPA) thinks they can determine the valuation correctly, their opinion does not carry much weight in the eyes of the people who ultimately matter—namely the buyers. An independent third-party appraisal is the key component and sets the stage for maximum financial return and an efficient transaction.

2 A LOCAL COMPETITOR IS NOT THE MOST LIKELY BUYER

Another common misconception is that a major competitor will be the ultimate buyer. In light of the recent recession, there are many displaced individuals who are sitting on large sums of cash. They are looking to put that money to work and to forge a second career as an entrepreneur. This is a very powerful segment of the buying community and should not be overlooked—they are motivated and often move much quicker than larger organizations. For a seller to enter into the market with a preconceived notion as to who the buyer will be only limits the market and the resulting opportunities.

3 CASH FLOW (AND NOT TANGIBLE ASSETS) IS KING

Assets are nice, but cash flow is king. Sellers Discretionary Cash Flow (SDCF)—in short, the total profit, compensation, and benefits paid to the owner—is the driving force for market valuation. The most desirable situation is for a company to have a solid asset base and have that base generate high profit margins which translate into significant cash flow to ownership.

When positioning a company for sale, it is very important for the marketing documents to show every possible dollar making sure of accuracy and supportability. There are no ignorant buyers and any deception will surely be brought to light in the due diligence phase prior to closing.

4 A LETTER OF INTENT IS A ONE-WAY STREET

A formal Offer to Purchase (OTP) provides a strong deal framework and is usually accompanied by earnest funds deposited into the seller attorney's escrow account. Most importantly, the OTP (signed by both parties) details specific date deadlines for financing, definitive agreement, due diligence and the closing.

5 SELLING A BUSINESS IS NOT A ONE-PERSON JOB

As a business owner, it goes without saying that your primary focus should always be on the performance of the company. This is never more vital than when trying to sell the company as the most recent performance will be scrutinized most heavily by any potential investor. Without a professional team in place to properly value and market the sales transaction, the business owner is left with performing both tasks. The usual result is both efforts suffer greatly and nothing gets done.

Proper valuation, a comprehensive marketing package, market reach, marketing strategy, buyer qualification, confidentiality, deal structure, tax implications, deal negotiation, financing, due diligence, legal support—these are among the many ingredients to an efficient business transfer. MJB

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