

CHAMBER VOICES

SELL

When planning to sell a business

KNOW THE RIGHT TIME, AND THE RIGHT PRICE.



By Michael A. McEntee

Managing Director,
A. Neumann & Associates, LLC

Three years after COVID-19 first appeared, we are still dealing with its lasting impact on the workplace. As a consequence of the pandemic, a huge portion of the workforce became aware of the lifestyle benefits that accompanied a reduced or eliminated commute to the office. Who could have previously imagined being able to spend so much more time with our families while still successfully doing our jobs and earning a good living? The popular mantra became "If my employer wants our relationship to return to what it was, then maybe I need to find a different employer."

The pandemic triggered a nationwide reevaluation of almost every individual's work-life balance. Even small business owners, who had invested a lifetime developing their product or building their brand, began to question whether all of their goals had been met and whether they still had the energy and desire to continue.

Ultimately, when a business owner decides it is time to make a change, he or she must first decide if the time is right to sell the business. If an owner has done everything to keep the business current and has accomplished everything that he or she set out to do, or no longer has the same energy and wants to spend more quality time with family, then clearly the answer can be yes.

But, unlike an employee, a business owner does not realistically have the luxury of deciding to just leave and



find another job. Of course, it can be done, but at what cost? Making the decision to sell a business is much more complex. A business owner may first need to embrace a two- or three-year plan to get the business humming again and polish up its financial picture. But, if the business is robust and its market value is substantial, then the answer to the "right time" question can certainly be yes.

Interest rates and financing costs have been rising. It is impossible to know what the future will bring, but there are always buyers in the market for a well-run business with good cash flow and solid prospects for growth. It is just a matter of agreeing on a fair price.

At A. Neumann & Associates, we currently have over 200 specific inquiries from buyers for businesses that possess those characteristics. Those buyers are national and international. They include individuals looking for a business to personally manage, existing companies wishing to add to current operations, and assorted private equity funds searching for attractive additions to their portfolios.

Prior to beginning the marketing process, a fair market value of the business must be established and an offering price agreed upon. Up to this point, the business owner's accounting team will have worked to

minimize reported annual income, thereby limiting taxes due. As part of the valuation process, we recast the company's financials, making sure that any depreciated assets such as vehicles and machinery are included at current market value. Also, expenses that current owners have incurred, but a new buyer may not, must be added back so that maximum cash flow is exhibited. We then engage an independent valuation firm to confidentially develop a current fair market value for the company by applying multiple established valuation metrics.

Any transaction valued at over \$1 million will most likely involve some form of secondary financing. The buyer's lender will need to be comfortable with the agreed upon price of the business since it will be the ultimate collateral for the loan. This is where the independent third-party valuation takes on additional importance. Without it, every potential buyer would have to go through a valuation process on his or her own, likely causing substantial delays. In contrast, small business lenders readily accept

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independent valuations, often accelerating the closing process.

As the process of selling the business gains momentum, confidentiality becomes key to a successful transaction. The owner should never want anyone to know that the business is for sale. If employees become concerned for their jobs, they could leave, potentially jeopardizing the ability to sell an ongoing enterprise. If customers, suppliers, and even competitors believe

the business will not be there for the long term, they can each react with potentially negative consequences for the business during the marketing process. To better protect the seller, we financially pre-qualify all interested buyers before any of the seller's specific information is released. We further protect the seller by requiring all interested buyers to sign a very strict non-disclosure agreement.

Any business owner ready to amend their work-life balance by investing in a new business, joining another firm, or selling and just enjoying retirement, should know that there is no better time to become engaged the business transfer process than right now.

The usual time required to complete a business transfer ranges from nine to twelve months. Don't wait to start making your plans. Contact a qualified mergers and acquisitions advisor and consider getting a current valuation for your company so that when the time comes, you have examined all of your options and you are ready to go. [i](#)

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Advocating for business and our region

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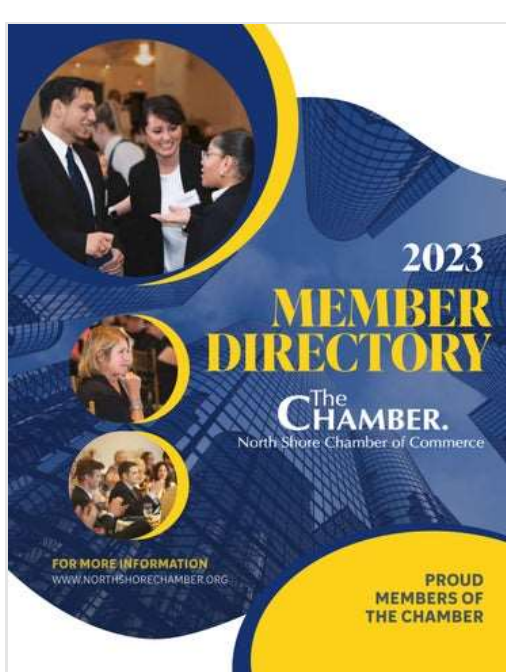
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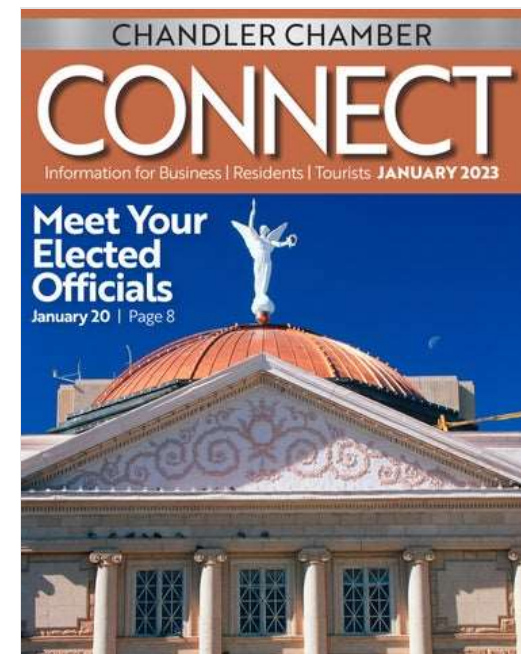
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