Frequently Asked Questions About Selling a Business

1. When is the right time to sell my business?
Timing is very important. Your business should be performing well and the likelihood that your customers will remain with the new business owner(s) should be good. The less uncertainty a buyer has to evaluate the better. Buyers will reduce their bid if an important contract may be expiring soon. In addition, buyers will want to be able to accurately predict the business's material costs.

Advance planning is also important part of making sure your business is performing well. Many times business owners manage their business expenses to reduce their taxes. Although this is certainly a legitimate business strategy, many times buyers rely on income as reported in the tax return to serve as the basis for valuing the business. Some experts thus recommend a more arm's length approach to tax accounting in the years immediately prior to the sale of a business. It is also important to allow enough time for the transaction. If the seller has time pressures, he or she may have to accept a lower price.

Another factor in finding the right time to sell your business is for you personally to be prepared for a significant change. As the owner and primary decision maker, you must be willing to separate yourself from your business. You cannot assume that there will be a role for you in the new organization.

Other factors over which you have less control are the level of mergers and acquisitions activity in your industry and general economic trends.

2. Should I attempt to sell my business on my own?
In most cases, you will need to consult one or more advisors. The type of advisors and the extent to which you will need them depends on your experience, your company's size, and the complexity of the transaction. Even small businesses can be confronted with complicated governmental regulations. An accountant can advise you on the financial and tax aspects of the sale. An attorney can advise you on the legal aspects, ensure compliance with relevant state and federal requirements, and review the pertinent contracts. Intermediaries/investment bankers are experienced in the intricacies of the sale itself. They can (i) provide a realistic value range for the business; (ii) help package the offering into the selling memorandum; (iii) locate buyers; and (iv) negotiate the details of the sale.

3. How long should I expect it to take to sell my business?
Surveys have found that the national average is approximately 9 to 12 months from your decision to sell to the actual closing. The amount of time it will take to sell your business may vary significantly from this average depending upon a number of factors. These factors include deal structure, the time of year, the true value of the business versus the asking price,

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the size of the business and the local market. The most important factors are usually price and the ability to effectively locate qualified buyers.

4. Why is confidentiality important?
If it becomes known that a business is for sale it can be destructive to the relationships the business has in place among its employees, creditors, competitors, and customers. Weakened relationships can deteriorate the company's position and thereby make it less valuable.

5. How will the sale be kept confidential?
Most buyers will be required to sign a non-disclosure agreement. Only a limited amount of information should be disclosed prior to determining if the potential buyer is either legitimate or capable of completing the transaction.

6. What type of information do I need to disclose to a buyer?
Only very basic information about your business should be disclosed to a buyer prior to their signing a non-disclosure agreement ("NDA"). An NDA can help protect the confidentiality of any information given to a buyer. Once an NDA is signed, the buyer can be given additional financial and operational information about the company in order to make an informed offer for the business. After an offer is accepted, a significant amount of detailed information will be required during the due diligence process ranging from a review of incorporation papers and other legal documents to a thorough review of accounting work papers and meetings with key employees.

7. How much is my business worth?
When selling a business, you must evaluate and demonstrate its value. This usually involves assembling and analyzing the appropriate materials. For example, the buyer will want to understand your business' operations and past financial performance. Your financial statements and tax returns will play a significant role in establishing your business' viability.

Valuing a business is one of the most difficult aspects of any transaction. It is usually best to seek the help of a qualified business valuation specialist. Valuation methods vary and the best method depends on the situation.

8. What should the terms of sale specify?
You should think about the terms you are willing to accept in addition to the price. Factors that will influence this decision include your personal financial situation and the financial health of your business. You should also be thinking about whether to specify an all cash deal or to offer seller financing, and what, if any, level of involvement you want with the business after the sale. You need to be flexible and willing to negotiate to increase the chance of selling your business on mutually agreeable terms.

9. Will I have to finance the sale?
Some buyers may want to see a willingness on the seller's part to finance all or part of the sale in order to show that the seller has confidence in the ongoing prospects for the business. In other cases, the buyer is unable to get financing from any other sources. If your business

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is appropriately priced and packaged, the buyer should be able to get third party financing, and it should only be necessary for you to provide a limited amount of financing to show good faith. Frequently, seller financing helps the seller to get a higher overall price from the buyer.

10. What does it mean to "recast" my financial statements?
When selling or valuing a business, it's generally a good idea to recast your financial statements. This involves examining your financial statements to eliminate the effects of (i) having run your business to reduce taxes as much as possible; (ii) engaging in transactions with related companies on a non-arm's length basis; or (iii) otherwise shifting some expenses to the business which could also be classified as personal, if any of these actions differ from how the business would have been run if it were not closely held. The adjustments can increase or decrease the balance sheet, income statement, or other metrics upon which the business is valued.

11. What information will buyers want to review?
The flowing is a partial list of things a buyer will ask for:

- Three to five years income tax returns
- Copies of one to three years quarterly payroll reports
- Three to five years CPA prepared financial statements
- Current year to date financial statements
- Depreciation schedule
- Corporate Minutes Book
- Accounts receivable trial balance
- Accounts payable trial balance
- Management organization chart
- Background information on each key manager
- Copy of the Summary of Insurance Coverage
- Information about Employee Benefits provided by the company
- Information about Employee Retirement Plans
- Copies of labor contracts
- Copies of other contracts (i.e. leases) to which the company is a party
- Copies of licenses, registration for patents, copyrights, trademarks, etc,

12. What is the difference between seller financing and an earnout?
In an earnout situation, the ongoing payments are similar to seller financing, but instead of receiving payments on a business loan the seller receives payments based on continuing business earnings. It can be tied to some standard indicator of performance such as revenue, gross profit, units sold, profit margins, EBITDA, or a combination of these. Typically a seller might receive this benefit for one or more years provided it does not exceed a set amount.

With earn-outs, a seller often accepts continued operating responsibilities to ensure business results are undisturbed after it is sold. An important caveat to sellers considering this option

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is that if business results decline, earn-out income may also decline. Likewise, they will generally be appropriately rewarded if results improve.

13. What if the sale involves real estate?

Sales sometime involve both the business and the real estate it occupies. Many buyers are not able to buy both. Other buyers are not willing to buy both. Because the business itself is the core earnings driver it can make sense to sell it separately from the real estate. In this way, a buyer's equity is used only to acquire the business.

A property split can be a valuable exit strategy because the business typically produces greater returns than the corresponding real estate. When sold together the real estate can bring down the business' overall financial results, thereby reducing the business' value. This effect can be diminished when the business is separated from its real estate. When judged on its own merits, the business' higher return can provide a higher value for the business when sold separately. To execute this strategy, the seller retains ownership of the real estate and leases it to the buyer. The real estate can then be held for the long term as an income producing investment or sold to another person.

14. What are the major steps involved in selling a business?

1. The Decision
2. Evaluating The Business
3. Determining The Value Of The Business
4. Preparing To Sell
5. Developing A Sales And Marketing Strategy
6. Marketing The Business And Qualifying Buyers
7. Presenting The Business To Buyers And Buyer Review
8. Letter Of Intent And / Or Offer
9. Due Diligence
10. The Purchase Agreement/ Contract
11. Closing
12. Transitioning The Business

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