101 Things You Should Know About Selling Your Business

Planning and Preparation

1. Don't wake up someday and decide to sell.

Wakeup and decide to plan for the exit. Meet a broker/advisor at least a year ahead so you know the process and perhaps can even increase the purchase price through planning.

If you heeded number one, and you have a year or two to plan your exit, here are the top 10 things you can do to increase your value:

2. High Earnings = High Selling Price

Pretend nothing else matters, because, well, nothing does. At least not enough that if you had one thing to focus on to increase the value of your business, this is it.

3. Depreciate this!

Earnings (both discretionary earnings for small companies and EBITDA for larger ones) don't include depreciation expense. For tax reasons business owners tend to expense rather than capitalize and depreciate, but in the year or two before a sale? Depreciate.

4. Reduce Working Capital Needs

A mid-size company is sold with enough working capital ("current assets minus current liabilities") to continue to operate the business. Think of it as having to sell your car with gas in the tank. Reduce this amount (lower AR, lower inventory, increase payables, etc.) and you can take more cash home in the deal.

5. Nix the C-Corp

If you think it will be a number of years before you close a deal, see if you can take an S-Corp election. Most buyers will want to do an asset sale (more on this later) and the double tax created by a C-Corp can be extremely painful.

6. Concentration is a bad word.

Businesses with high customer concentration or supplier concentration (or knowledge concentration, etc.) attract fewer buyers and this lowers the price. What's too high? Having a customer with 25% or more of your business, or having a supplier with 40% of your business is too high. Diversify if at all possible.

7. Make yourself un-important.

What business would you rather buy? The one where the owner takes frequent trips and takes every Friday off, or one where the owner has to come in even when he is sick because the place will fall apart without him. A company that relies on the owner gets far less cash up front and more in down-the-road payments.

8. Pay some taxes.

Yes, everyone plays the tax avoidance game, but only to a degree. A broker/advisor can only adjust earnings only so much, so it is far better to just pay your taxes for a few years before a sale than the complications that can arise otherwise. Trust us on this.

9. Understand what “adjusted earnings” means

Now, well before a sale, is the time to understand what adjusted seller’s discretionary earnings and/or EBITDA means. For example, some expenses will be valid adjustments, so there would be no need to work on reducing that expense, while other areas may need some real focus.

10. A Risky Business is a cheap business

A legal issue dragging on? Environmental problem lurking? Buyers hate risks and risks tangibly lower the price. Identify and attack these areas before a sale.

11. Pick that low hanging fruit

We hear many business owners say things like, “Pay me X, because you can simply grow this company by doing Y, but I didn’t want to do that because of Z”. For example, “All you have to do is hire a sales manager but I didn’t because I don’t manage people well”. If you have an easy way to boost sales, do it, because you are not going to get X otherwise.

Here are some other things to do a year or two before a sale to prepare yourself and your company:

12. Get a planner

A financial planner, if you don’t have one, can tell you what you will need to net from a deal to reach your financial goals.

13. There’s more than money

You’ve heard that no one on their death bed said, “I should have spent more time at the office”. Think about your financial goals alongside other things you want to do in life. Holding off on selling to get an extra million may mean never getting to do some things that mean a lot to you.

14. Organize

Dig through your files and organize. You will be asked to produce all of the paper work that verifies your company’s standing, your contractual relationships, permits, licenses, etc. Get that all ready early so you can do it on your schedule.

15. Get a legal check up

If you have an attorney, ask them to make sure all of your legal work is current.

16. Get an accounting check up

Meet with your accountant and make sure the books are in order.

17. Get greedy

A year or two before a sale is the time to be greedy, for it is then you can really impact value by focusing on controlling costs and boosting earnings.

18. Get Ready for a six to twelve month sales process

The length of time to sell doesn’t seem to depend much on company size. It takes six months to sell if everything goes right. It rarely does, so nine to 12 months is a more realistic number to plan for.

Getting Ready to Go To Market

19. Don’t get greedy

Unreasonable expectations have killed many a deal. Get good advice up front about value, then don’t do the “value creep”. The most frustrating thing as a broker is to get a good offer based on what an owner said they wanted, only to find out they have since changed their mind and they now want more.

20. Clean up

A clean site, clean building, clean bathrooms…it all shows better than the opposite. It’s a lot like a house from this stand point.

21. Identify your dream team

You need an intermediary (probably), a transaction attorney, a good CPA and hopefully you’ll need a financial advisor to help you invest your now diversified portfolio.

22. Use a Business Broker

For companies with earnings less than $300K to $500K use a main street business broker. A broker will allow you to run the business while they work with buyers.

23. Don’t use a Business Broker

For companies with earnings larger than$300K to $500K, use a high-end broker or M&A advisor. For earnings over $5 million, use an investment bank.

24. Don’t use anyone

Don’t use an intermediary if you are selling to a key employee, family member or have a distressed situation with a small business. Do use an attorney.

25. Get All-Stars referred to you

Your intermediary is often a good source of referrals for deal attorneys. An ongoing relationship between attorneys and intermediaries means the attorney has some incentive to keep fees down so they can get future referrals.

26. Get All-Stars referred to you

If you already have a good deal attorney ask them about good intermediaries.

27. Call references

Ask prospective intermediaries for references. Then call them. I don’t know why, but we give people references and they don’t call. You really should.

28. Answer the postcard, letter or phone call that says, “We have a buyer for your business”.

We are kidding, because they don’t have buyers. But you knew that.

29. Fire Your Attorney

If your attorney doesn't have experience with business sales transactions, get one that does. A generalist attorney can spin his wheels pretty hard trying to get up to speed on deal issues and language.

30. Its Ready, Set, Go. Not Go, Ready, Set.

Delays kill deals, so get your financials, contracts, leases and the confidential business review ("the book") ready before launch. You don't want to have to prepare items after a buyer has requested them.

Going to Market

31. Hit the Web

Active business buyers soon learn that almost all small and mid-size companies are marketed on the web. The top sites are Bizbuysell and Bizquest (interestingly, now owned by Bizbuysell). Businessesforsale has a good international reach, Bizben is good for California and Mergernetwork is good for larger companies.

32. Don't blanket the web

Does anyone really think that a quality, active buyer is going to search the dozens of low profile business for sale websites (they are easy to put up and charge a fee for) and completely miss the top ones? It is much better to realize that there are more marketing channels to work on.

33. Go to the larger market

The world of business buyers is larger than the business-for-sale websites. To get full value, you need to reach out and contact strategic buyers that are not actively searching for businesses to acquire.

34. Don't ignore private equity

Private equity (professional investors) is growing and is even diverting capital from the public markets. Smaller funds are now focused on smaller and mid-sized companies with earnings around $500,000 and up.

35. Don't count on finding a stupid buyer

Stupid buyers actually do exist and will even occasionally make inflated offers to buy a business. Unfortunately, somewhere along the way an attorney, bank or advisor will show them why that offer doesn't make sense. I've stopped getting excited about crazy offers. They never work. It is far better to have realistic expectations to start with.

36. It's not the 90's – Unfortunately.

Most of us remember the hysterical deals that happened in the late 90's. Forget it. The market was broken back then and with very few exceptions people don't pay big dollars for unproven ideas and technologies any more.

37. Send buyers to your intermediary

Buyers will often contact you directly often because they don't know you have a representative. Your intermediary can save you a lot of time qualifying these buyers and bringing them into the process.

38. Send buyers to your intermediary

If you get an unsolicited offer (this happens a lot) and don't have an intermediary, stop, get an intermediary and send the buyer to them. You don't want to negotiate one on one, see below.

39. Get more buyers

It's a rare buyer who will pay top dollar if they have no competition. Your intermediary should be working to get multiple buyers so you can create competition and get your best price.

40. Spit it out

Disclose negative information early on. It is far better and less disruptive than disclosing it later or during due diligence. Don't worry, there is no perfect business – they all have negative information.

41. Keep secrets

You don't need to disclose everything right now. "The Family jewels" type of secrets such as formulas, key customers, marketing secrets, etc. can be left until due diligence.

42. Make them keep secrets

Get confidentiality agreements from all buyers. The buyer shouldn't even know your name without a CA.

43. But don't be paranoid

Everyone has a few "bad guys" that you don't want to negotiate with. However, we have had a few sellers that refuse to talk to anyone in their industry and we were left trying to find buyers in unrelated fields.

44. Ask questions of buyers

Most likely, you are going to have to carry a note, take an earnout, etc. so it DOES matter who you sell to. Ask questions and look for a fit instead of meekly answering questions.

45. Keep the company running

There is nothing like a drop in sales or earnings to put a deal on hold – possibly forever. It is easy to get distracted during a deal, use a broker/advisor to minimize the impact on your business. Use them to run the process while you keep the company going.

46. Google the buyer

Multiple times we've had a funny feeling about a buyer, and found them in the worst places on the Web. For example on ripoffreport.com or in details on court cases. Once the buyer was fresh out of prison for tax fraud when he was running a public company. That doesn't necessarily mean he can't be a good buyer, but certainly good information to know.

47. Don't waste your time

We've seen sellers get approached by a buyer and spend an inordinate amount of time and meetings (even attorney time) before ever even knowing what they buyer might pay. Don't do that.

48. Be aware of scams

There have been acquisition scams. The worst is where businesses have been purchased and stripped clean in a week, before the “late” cash payment for the business was made. There are three things to look for: The buyer doesn’t ask enough questions, they don’t negotiate hard and thus agree on a high price, and they want to close really fast. All things a seller loves.

49. Don’t tell your employees

Most buyer don’t want to cause undue concern over something that may take many months and may not happen. However, I hate to see an outright lie that may damage trust. If questioned, some fuzzy statement that you are looking for strategic partners or exploring options for growth can sometimes do the trick.

50. Tell your employees

Key employees can help with the sale. For example, the key sales person may meet with buyers and help them understand the opportunities. Often your CFO is helpful in completing the deal.

51. Remember your employees

It is likely that some dedicated employees got you to the point where you could sell your company, a deal closing bonus will likely make the post close period go a lot smoother. You don’t want employees feeling like they’ve been sold down the river.

52. In other words, don’t get greedy

Oh wait, we did this one already. So this list is only 99 things to know, and one thing to know that is doubly important.

53. Follow the money

Keep in mind who is making money off the deal. Is the broker getting a referral fee on financing? Is it a deal with management fees, finder fees, etc? Where exactly is this money going? All good information to know, because all things being equal you can usually count on people wanting to make money. Just ask, point blank.

54. Be consistent

Buyers, being naturally nervous about spending that much money, will ask the same questions over and over again and will look for signs of inconsistencies. “So, tell me again, why are you selling the business?”

55. Put your money where your mouth is

If you are expecting big growth and want to be paid for it, be willing to share risk with the buyer. “Trust me, it’s going to grow” doesn’t work when you tell the buyer that you don’t trust them by saying you won’t share the risk and take some form of contingent or performance based payment.

56. Don’t get on the emotional roller coaster

OK, we lied. You WILL get on the emotional roller coaster. It happens to everyone to some degree. Just know it is coming.

57. Don’t get personal

An intermediary is just that, and although it is wonderful to be able to connect with the buyer on some issues, let the intermediary deal with the most contentious issues.

Strategic Buyers

58. Get into their head

A strategic buyer by definition can boost revenue and/or reduce costs by buying your company (thereby increasing earnings). Research and dig until you have a deep understanding how.

59. Show them the money

Show them you understand where the synergies are, and help show them what revenue/expenses/earnings could be.

60. Don't be ridiculous

A strategic buyer may a premium because of the above, but they will not arbitrarily pay a crazy price just because they "want you badly".

61. Sometimes strategic buyers aren't

We've had "the perfect buyer" come in with a very low offer because they actually know too much about the industry.

Individual Buyers

62. Show me the money

Some buyers act offended and angry that they should have to show their finances and ability to purchase before being allowed to see confidential information about a company. Tough.

63. Who are they?

Do some research on the buyer. Do they have a resume? References? Criminal record?

64. How to buy a business with no money down

We see a lot of "buyers" that have all sorts of schemes to buy using reverse mergers and usually crazy debt financing schemes. Some of these buyers turn out to be one guy without any money at all. Really, you don't need these guys to overload your company with debt, you could probably manage that on your own.

65. Not so fast

Many individual buyers want to meet and see the company. There is no need until they have processed all available information and have at least produced a range of values that they would pay.

66. Confidentiality first

Individual buyers sometimes need to be reminded that they signed a confidentiality agreement. We hate to admit it, but the wife of a prospective buyer once snuck into a retail location to take photos and was caught by the manager. Luckily that is extremely rare.

67. To SBA or not to SBA

Most individual buyers will need an SBA loan to finance the purchase. Understand what contingencies are placed on that financing and what it means to you (for example, recent SBA rules require you to carry a note).

68. Who's on first?

You may have to carry a note, but if the SBA or another lender is ahead of you then you will likely have no security on the note. Consider lending the entire amount, and then having the stock, assets and personal guarantee of the buyer as security.

69. Have some empathy

Most of these buyers are putting practically everything they have in the world on the line to buy your company. It's a good thing to remember when the buyer is getting all worked up about something.

Private Equity Groups (PEGs)

70. Go to their website

It isn't fullproof, but a quick check of their website should show what portfolio companies they have and who is on their team. A webpage that says, "Coming soon" means the PEG should soon be answering a lot more questions before you spend much time with them.

71. Show me the money

Many groups focused on the lower middle market are called, "search funds" and don't actually have any money. They find businesses, sign LOIs, and then go to investors for the capital. Ask if they can actually write a check, or if they have to go find money.

72. Understand the debt structure

PEGs will use creative financing structures and it can be important to ask them what financing contingencies will be placed on the deal.

73. Call references

You hope that the group has a portfolio of companies they have purchased, or some sort of relevant history working with companies. Check them out.

74. Understand the letter of intent

Some private equity groups obfuscate the terms on the LOI so it can be hard to figure out just how much cash (and often equity) that the seller will end up with. Make sure you understand the basics, and ask for clarification if you are confused.

75. Ask again

PEGs and intermediaries sometimes speak their own language and may not realize that you didn't understand the explanation you just got. Press them to explain in plain words, it's extremely important and good buyers and good intermediaries understand that it is better to take your time on the LOI.

76. Second bite of the apple

Rollover equity or buyback of shares in the "newco" can be a wonderful way to get the proverbial second bite of the apple. As we write this, a company we sold 18 months ago has had EBITDA rise by 40% this year. The CEO/ex-owner owns 30% of the new company and is on his way to matching what he got out of the first deal. Very cool.

Negotiations

77. Competition is key

The absolute best way to get the best price is to allow market forces to push the price up

78. You name the price, I'll name the terms

Most transactions have a lot of moving parts and it can be difficult to keep them all in perspective. It can be well worth the time to understand all the terms that will define your deal.

79. Don't fixate on cash

Yes, cash is king. However, often the best deal isn't the one that offers the most cash up front.

80. Refuse earnouts

Sometimes there is an over-reliance on earnouts. If you have a proven, stable company and you have realistic expectations on price, then there is no need to "prove" yourself in the future.

81. Consider earnouts

If an earnout makes sense (eg. growing company) then you will likely receive substantially less for your company by refusing to consider an earnout.

82. Be Realistic

I once had sellers who wanted $1 million cash for their business, and they did not want to take a note. They received an offer for $1.1 million total with $100K seller note and they refused the offer.

83. Take your time

Keeping things moving is important, but there is no need to rush. For example, is it important to pay attention to offer deadlines? Do you think a serious buyer is going to kill an offer for a multi-million dollar business because of a deadline? I've never seen it.

The Letter of Intent

84. Speak up!

Have a concern? Speak up, address the issue and often the result can be placed in the LOI so all parties will have agreed on how to handle it

85. Bound or unbound?

Most terms of an LOI are non-binding, so arguing too much about why someone may be able to back out is a little silly. However there are some binding terms such as no-shop/stand-still and confidentiality. Look for them and know what binds you.

86. Non-Compete Agreement

You WILL have to sign one, and indeed the buyer has a right to run the business for some time without worrying about you messing with it after you are gone. However, if you are thinking about competing in a related field, wait until due diligence and have your attorney bring it up. Doing it now just scares the buyer.

87. Work on Working Capital

A buyer is going to require working capital (roughly cash and accounts receivables, less payables) to run the business. In general, for larger deals valued using EBITDA, you will need to deliver the company with enough working capital to run the business. For small companies it is negotiable, and often the seller even keeps and collects "his" accounts receivable. Ask questions and know where you are on this issue.

88. Stock or Asset Sale

This can be a ho-hum issue or it could be the difference between doing the deal and walking away. The issue is basically all about taxes and ongoing liability, so talk to your advisor/CPA/attorney and understand what is going on.

89. Buyers prefer Asset Sales

Buyers prefer (OK, sometimes demand) asset sales because it lowers taxes and thus enhances cash flow, and it places past “unknown liabilities” squarely on your shoulders.

90. Lengthy LOI’s are OK

The more you can get worked out at the LOI stage, the smoother the due diligence and definitive document stage will go. It’s better to get more details agreed upon when the option of moving on to another buyer is not an easy option.

Due Diligence

91. Use an electronic dealroom

The costs have come down substantially for the real dataroom sites that have watermarks, audit trails, etc., like Firmex, Vrooms and Deal Interactive. If you are creative you can even use the freebie file sharing sites like dropbox or box.net to share DD files.

92. Keep your costs down

Start with the risky, ugly issues first that might kill the deal. If they don’t, then go ahead and spend more money with the attorney and CPA to finish due diligence.

93. Your attorney works for you

Some attorneys will “run off with the deal” and run up large fees, especially if you don’t proactively give them guidance. So give them guidance and be direct about what you want.

94. Don’t hold back

It all comes out eventually. If you have a dark secret, it’s a lot cheaper to disclose and lose the deal than to get sued afterward. It happens. After close, you could spend all that you made on the deal defending yourself in court and no longer have the company.

95. Use your intermediary

It isn’t over until it’s over. Use your intermediary to resolve issues that come up and keep the momentum going.

96. Assign a person to manage the due diligence

Ideally you will have an employee (often a controller or office manager) that has been brought in on the fact that you are selling the company that can manage the paper work. This person can manage the day to day processing of the seemingly endless requests for documentation.

97. Keep your eye on the ball

While you are going through the due diligence process the buyer will be watching your performance. Make sure that the business is still humming. If you slip, everything will slow down and you start running big risks of losing the deal

The Close

98. What to do at the Close?

Sign.

99. What to Do After the Close?

Based on some of our clients: More golf, travel with family, travel without family (well, he didn't explicitly say that but we are pretty sure that is what he meant), write a book, start another business, build a home shop to die for, more time with the horses, more time on the boat, more time in the plane, learn to fly and then more time in a new plane.

100. Revisit your financial planner

OK, we know the truth. You never got one before the deal. But now it is really time to act. New wealth has a lot of traps built in and your planner's job is to keep you out of trouble.

101. Fulfill your obligations

If you committed to a transition period, work hard for the new owner. Make them successful. It's the right thing to do.