The Five Things Every Business Owner Should Know Before Selling Their Company

By Michael Feite Jr., Managing Director at A. Neumann & Associates, LLC

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 5 most important things that every business owner should know and realize before attempting a sale:

1. Industry 'Rules of Thumb' Regarding Valuation are Essentially Meaningless

These type of value approximations might be comforting to the business owner, but have little basis in analytical fact finding and should certainly not be used to make 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 3rd party accredited fair-market appraisal is the key component and sets the stage for maximum financial return and an efficient transaction. "Without this in place", says Achim Neumann, President of A Neumann & Associates, New Jersey "the buyer will almost always request their own valuation which is a seller's nightmare as this is done prior to the seller having an offer in front of him. If they don't, then the SBA most certainly will request one as a prerequisite to obtaining funding for the transaction." It is to the business seller's great advantage to have this vital analysis in place prior to entering the market – full value is obtained and a quicker closing is achieved.

2. A Local Competitor is NOT the Most Likely Buyer

Another common misconception is that a major competitor will be the ultimate buyer. "Over the past 10 years, the sellers have actually previously known the buyer in less than 10% of all our closed transactions over 450 offices nationwide" adds Neumann. 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. If total tangible assets outweigh the ongoing concern value of the business, then a liquidation sale will yield a higher value. "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," says Michael Feite, Managing Director, with A Neumann & Associates.

Once again, the independent valuation process will properly determine and itemize the components of SDCF and ensure that the business is presented at its maximum value. When positioning a company for sale, it is very important to show every possible dollar and make sure of accuracy and supportability. There are NO ignorant buyers and any deception will surely be brought to light in the due diligence phase.

4. A Letter of Intent is a One-Way Street

"At A Neumann & Associates, we only deal with firm Offers to Purchase" stresses Neumann. "The reason is simple, really. A weak Letter of Intent only binds the seller and literally takes the business off the market while the buyer contemplates more. This is simply unacceptable for any serious seller."

A formal Offer to Purchase (OTP) provides a strong deal framework and is usually accompanied by earnest funds deposited into the 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. Because this document is so strong it ultimately reduces legal fees and shortens the timeframe to a successful 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 sale, the business owner is left with performing both tasks. The usual result is both efforts suffer.

Proper valuation, 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. A professional M&A advisor along with a trusted CPA and legal council is the proper team to handle this mission. A well-positioned intermediary working on behalf of the seller allows that business owner do fully concentrate efforts on the performance of the company. The task is challenging even with that team – almost impossible without.

"Time is the enemy of every deal" says Feite. "These issues and suggestions are all designed to help the business owner know exactly what goes into the process and the importance of correctly managing the landmines along the way." If done properly, an efficient transaction is possible – one that quickly maximizes profit in a confidential manner and meets the ultimate goals of the business owner. **W4**

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