Business Succession & Aquisition

Guide to Selling Your Business

NLOWE

NEWFOUNDLAND & LABRADOR ORGANIZATION OF WOMEN ENTREPRENEURS

Guide to Selling Your Business

Your business is more than a name and a stack of financial statements: it is a customized blend of moving parts both physical and virtual, with income and assets fuelled by your sweat equity and that of your employees and suppliers, with market trends and customer support guiding its path. Preparing your business for sale can be efficient and effective by understanding and acknowledging all that is your business, and how it will best serve its buyer.

Consider your business sale in three general parts:

- Resources
- Company Value
- Potential Buyers

Resources

These are elements, planning and expertise that can best position your company for sale when you are ready to list. These are elements that can be launched or put in place at any time, even before you have a clear timeline for the sale.

Time

Adequate time for preparation can increase company value, attract the best buyer and support a smooth transition. Prospective buyers can sense the need to sell, and will bid lower. Allowing time for the sale to align with your readiness and market conditions will attract the best offers, and in turn give you time to consider each bid thoroughly.

Succession Plan

Establish this in conjunction with your business and strategic plans.

The succession plan will outline your desire for ownership, management, and operations. This plan is especially useful if you are planning to sell to family members or employees to clarify your vision and realistic ways to move forward. A succession plan can help navigate the grey areas between business acumen and sentimentality that can cause confusion or poor decisions in the sale and transition of a company.

Business broker

Engaging third-party services for valuation and sale can be helpful in ensuring all financial, legal and regulatory issues are acknowledged and fulfilled. Depending on the size of your company and complexity of the sale, you will want to involve your company's accounting, legal and human resource experts as well.

Sales Pitch

Prepare a confidential information memorandum (CIM) with a summary of your business, including points that would be of interest to prospective buyers.

For internal use of you and your sales team, create a list of questions that prospective buyers may ask, with speaking points for the answers. This ensures you have pertinent information at the ready, and can help identify any areas requiring attention or research.

Company Value

Review and strengthen your company's finances

Think like a buyer, and perform due diligence on your own company.

This means:

- Ensuring all financial reporting and income tax filings are up to date
- All financial reporting is accurate
- Paying outstanding bills and collecting outstanding accounts receivable
- Renegotiating outstanding contracts or leases, ending those no longer essential and dealing with any other outstanding issues of bookkeeping or accounting.

Also, consider ways to boost your revenue and reduce any outstanding inventory.

Include organizing your files and records as part of your due diligence.

Prospective buyers will want to see your records in a timely fashion; ensure they are available in print or electronically, whatever is required. These documents could include financial statements, minutes from shareholder, management or employee meetings, customer and supplier contracts, employment contracts, and detailed lists of assets and liabilities.

Determine the value of your company.

(See also Info-Solution: Valuation Methods for Buying and Selling a Company)

A valuation will review both the company financials and the market conditions affecting company operations and investments. The valuation will also assign a level of risk and growth potential to your existing situation.

With healthy finances and favourable market conditions, a small business could be worth three to six times its annual cash flow.

Potential Buyers

To repeat Warren Buffet's famous quote: "Price is what you pay. Value is what you get."

The best buyer for your company is one who respects the value of your offering.

In other words, choose the buyer, not the price.

Each potential buyer comes with advantages and challenges.

Sale to a Family Member

Selling to a family member, especially one who has been involved in the business, can help ease the transition and honour your legacy. Be careful to understand and plan for the tax implications of selling to family. A temptation may be to charge a token amount for the sale price, but this could result in a large capital gains tax. Capital gain is calculated on the difference between the company's initial share cost and the value upon sale. There is a capital gains exemption for qualified companies, and other options to minimize the large tax bill that can arise from the sale of a business to a family member.

You will also want to clarify in writing and in person all terms and conditions of succession and sale. It can be easy to assume all details are understood when dealing with family, but for the sake of your professional and personal relationships, ensure everyone involved is clear and in agreement.

Sale to Employees

This could be to a designated group of employees or your management team in the form of a management buyout (MBO).

The advantage is in selling your company to a buyer who knows your operations, clients and markets, allowing for a seamless transition and continued legacy of your creation. This type of sale can also be negotiated as a partial sale, in which you retain a portion of ownership, if you choose.

The challenge is in access to capital. Your employees may not have the funds or leverage to raise the money needed for purchase. There is also the need for you to let go and allow company decisions to go with the new owners whom you may have trained and mentored, but may want to take the company in a new direction.

Negotiating purchase price and terms that are agreeable to all sides, and implementing a clear succession plan, can assist with these challenges.

Sale to an Industry Buyer

This could be a competitor, a supplier, or other interest either working in or with an inside knowledge of your industry. This could be a company looking to grow through acquisition of similar smaller operations. The advantage is selling to a company that knows your markets and clientele, with the access to capital to support a healthy purchase price.

The challenge is meeting their standards, with so much money and market share at stake. If you are successful in passing their rigorous due diligence, you must prepare for the fact that they will add your company into their own organization, which means your branding, employees and physical location may be downsized or terminated.

Sale to an investor

This is a buyer from outside of your company and industry earning profit in the purchase and resale of companies. The advantage is the access to capital and resources, including human resources, to both purchase the company and boost its valuation through enhancements and growth. The challenge is that the resale cycle is about 3-7 years, which means many short-term changes and a potential loss of your company identity. Some investors may also want you as company owner to stay on as overseer of the growth, which may not fit with your succession plan.

Partial Recapitalization

This allows you to sell a non-controlling interest in your company, or to withdraw capital from your company in the form of dividends, shares or repayment of debt. This was once available only to large companies, but is growing as an option for strong-performing small and medium businesses as well. The advantage is this allows you as company owner to maintain control while leveraging new capital for your business and reducing risk. This can support growth of your company while you await better market conditions or a more suitable offer for sale. The challenge is the level of financial success required to deliver on this method may not be contained in your company. In other words, you may be successful, but not successful enough for this method.

Once you decide on the type of buyer, or have selected a short-list of offers,

consider pre-qualifying your potential buyer. A majority of failed business deals occur because of buyers unable to secure financing.

Finally, when making your selection, give weight to the ability of a new owner to understand your company culture, even if the intent is to acquire or resell in the future. A company may be willing to pay a premium for your business because it's a good fit culturally as well as financially. Understanding a company beyond the balance sheet can lead to a more open and efficient interaction between you and the buyer.

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