
20-STEPS TO SELLING YOUR BUSINESS

HOW TO PREPARE YOURSELF AND YOUR BUSINESS FOR A SUCCESSFUL SALE



A PUBLICATION OF VR BUSINESS -BROKERS

TABLE OF CONTENTS



Introduction

Deciding to Sell, Seizing the Moment

What is My Business Worth?

Presentation and Marketing
of the Business

Financing

What Buyers are Looking For?

The Process: 20 Steps to a
Successful Sale

CHAPTER ONE



Introduction



Selling Your Business

The sale of your business is one of the most important transactions you'll ever undertake. You owe it to yourself, your family and your employees to approach this sale with the same careful planning and dedication that you exercised in building your business.

Every step in a business sale demands an extremely specialized effort, and there are no shortcuts to a successful sale. To an entrepreneur about to sell their business, transition means exploring new options in life and making a decision to change. Owners of businesses view this decision to sell as an opportunity to reap the rewards of years of hard work.

So why is the decision to sell the business so difficult? Because it's made by weighing the advantages of moving on against the time and energy that's been devoted to growing the operation. The decision to sell a business usually goes far beyond economics. It involves defining lifestyle and redirecting personal energies, resources, and values into the next stage of life.





“ ... The decision to sell a business usually goes far beyond economics. It involves defining lifestyle and redirecting personal energies, resources, and values into the next stage of life. ”

CHAPTER TWO



Deciding to Sell, Seizing the Moment



Deciding to Sell, Seizing the Moment

Deciding to Sell

Millions of businesses change ownership each year and though the reasons for selling vary, there is one goal that remains constant... maximizing the proceeds from the sale. Every owner will one day exit his or her business. Every owner should consider:

- When is the right time to sell?
- Should I sell all or part of the business?
- Is the company ready for sale?
- Am I building for a future sale?
- Do I have a logical successor to my business?
- Should I hold onto the real estate or remain a landlord?
- What can be done to maximize the value of the business?
- Where do I find a trusted advisor to help me with this process?



Deciding to Sell, Seizing the Moment

Seize the Moment

Once you have made the decision to sell your business, you will need a business intermediary, like VR Business Brokers, to help guide you through the complex process required. Steps a broker takes include:

- Advising you on pricing and structures for the sale of the business
- Preparing a Business Profile and confidentially launch the marketing campaign
- Screening, qualifying and following up with interested parties that show interest in your business
- Educating buyers on the buying process
- Communicating to you the market reaction for your business and buyer interest
- Facilitating negotiations and structuring the transaction
- Assisting the buyer and seller with financing options

While a business intermediary manages the process of selling your business with the goal of a successful transaction, it is critical that you continue managing your business efficiently while the business is marketed.



CHAPTER THREE



WHAT IS MY BUSINESS WORTH?



What is My Business Worth?

Determining the value

Determining the value of a business is often a complex task and is best done by a business intermediary or a qualified business valuation analyst. Before one can determine the market value of a business, the financial information (profit & loss statement and tax returns) will need to be recast to reflect the true earning power of a privately held business.

The recasting of financial statements provides buyers with a common baseline, Discretionary Earnings (DE), to compare earnings from different businesses and calculate the potential earnings after acquisition.



What is My Business Worth?

What is my business worth?

What are Discretionary Earnings or DE?

Discretionary earnings are a measure of the total financial benefit accruing to the owner of a business.

Simplified DE calculation...

Pre-Tax Net Income

+ Owner's Salary

+ Discretionary Expenses

+ Non-Cash Expenses (e.g. Amortization & Depreciation)

+ Interest Expense

+ Non-operating Expenses

+ Non-recurring Expenses

= Discretionary Earnings

Focus on what your company is really worth. Prospective buyers are interested in companies that represent value.

Therefore, it is important to have a current and accurate valuation done on your business before taking it to market.



Independent Business Valuations

Do I need a Third Party Valuation?

Independent third party valuations are very useful tools in negotiations with buyers as they justify the price and value of a company. The independent valuation can also aid in expediting the loan approval for the buyer's financing. Though useful, they are not necessary for every business.

A general guideline to follow for considering a third party Business Valuation:

- The business has sales over \$1 million.
- Your company is an industry where high earnings multiples (high values or premiums) are common.
- You are involved in a divorce or partnership dispute.



CHAPTER FOUR



PRESENTATION AND MARKETING OF THE BUSINESS



Presentation of Your Business

The Business Profile

You have made the decision to sell. The next step is for your business to be presented and marketed professionally and confidentially. Representation of a company involves creating a compelling and effective business profile.

If your business is presented like everyone else's business, you run the risk that a qualified buyer will not bother to investigate the opportunity.

A well written Business Profile will:

- Set your company apart from other offerings by finding and marketing those strengths specific to your company.
- Illustrate to qualified buyers the opportunity surrounding the future of the company and its growth potential.
- Take into consideration the strengths of management, strong supplier relationships, high standards of service, employee tenure and name recognition.
- Focus on the strengths of your business and emphasize the elements that have led to its success.

A Business Profile is presented to qualified buyers only after they have executed a Non-Disclosure Agreement to protect your confidentiality.



Presentation of Your Business

The Business Profile

What are some of the key elements in a well written Business Profile?

Include the Following in Your Business Profile

Executive Summary – Business Overview

List of products and services your company provides

Comprehensive company history

A statement of management's reasons for the sale

Outline of management and key personnel

Organizational Chart

Recast Financial Statements

Proposed price and terms of the transactions

List of Assets

Market Share and general information regarding competitors



CHAPTER FIVE



FINANCING THE TRANSACTION



Financing the Sale

Seller Financing

When contemplating the sale of a business, an important consideration is how much of the purchase price you would be willing to finance for a qualified buyer. The reason is simple: “all cash” buyers for businesses are rare and, in most cases, it does not make economic sense for a buyer.

While sellers interpret financing as risk, **statistics show that sellers receive a higher purchase price if they decide to offer some form of financing on the sale of their businesses.** With reasonable terms, the chances of selling increases and the time period to sell decreases. Seller financing communicates to the buyer that you are confident in the ability of the business to retire its own debt and in simple terms, “pay for itself”.



Financing the Sale

Seller Financing

Seller financing offers many advantages that, when carefully considered, may outweigh the perceived satisfaction of waiting for an all cash transaction. **The overwhelming majority of small business sales include a portion of seller financing of their business.**

- Seller financing increases the chances that a business will sell
- Seller financing command a higher selling price
- Interest on the seller financed portion of the transaction can significantly add to the total proceeds received for the sale
- Interest rates on seller notes are higher than money market or CD bank rates.
- Positive tax consequences compared to an all cash sale (check with your tax professional)

Whether you are financing the majority of the debt or just a portion of the down payment needed for the buyer to qualify for bank financing, there are many ways to structure a Seller Financed transaction. Business intermediaries are skilled in transaction financing and provide representation throughout the entire sale of your business.



Financing The Sale

Bank or Institutional Financing

Bank or Institutional Financing offer buyers attractive financing terms and interest rates which enable the buyer to facilitate the business acquisition. This can mean a lower down payment and lower debt service costs for the buyer. Both of these factors make your business attractive to buyers.

Bank or Institutional Financing Benefits:

- Often reduces the amount needed for a seller note
- Lowers down payment which increases the number of prospective buyers
- Lower debt service creates higher net income for buyer
- Typical loan term is 5-15 years

Bank or Institutional Financing can be very desirable to a buyer, but for a variety of reasons, not all businesses will qualify for a loan. A good business intermediary maintains strong relationships with top lenders and will work closely with you to present your business in a manner acceptable for consideration.



CHAPTER SIX



WHAT BUYERS ARE LOOKING FOR...



What Buyers are Looking For...

What Buyers are Looking for...

- Provable books and records
- Reasonable price and terms
- Financial opportunity
- Discretionary Earnings (DE)
- Furniture, Fixtures and Equipment (FF&E)
- Transferable lease
- Training after the acquisition
- Good appearance of the business
- Covenant not to compete
- Understandable reason for sale
- Dealing in a timely manner



What Buyers are Looking For...

NO SURPRISES!

Unexpected surprises cause buyers to evaluate whether or not to move forward with the acquisition of your business. If the facts are disclosed in advance, almost any problem or concern can be dealt with and solved during negotiations.

Be prepared to disclose:

- Any changes in earnings or revenue
- Tax payments that are in arrears
- Problems with the landlord or lease
- Loans and registered liens against the business
- Equipment leases
- Compliance with zoning and health regulations
- Pending litigation
- Loss of major customers
- Change in availability of suppliers



CHAPTER SEVEN



THE PROCESS: 20 STEPS TO A SUCCESSFUL SALE



The 20 Step Process

The sale of a business is a complicated task that requires some discipline, effort and experience. The process is NOT like selling a home, and it requires more time and patience. As an experienced business intermediary, VR Business Brokers will guide you through the detailed process outlined below. Following these steps, in this order, will increase the odds the deal WILL get completed.

- 1. COMMITMENT.** Your commitment to us as your business intermediary is to sell your business at a price and with terms consistent with the marketplace.
- 2. DOCUMENTATION.** You provide us with all the necessary documents and data required to sell your business.
- 3. VALUATION & PRICING.** We analyze your business and suggest a realistic price and terms, or for a larger business, we recommend a third party valuation.
- 4. ADVERTISING.** We advertise your business and others like it to get the highest possible response and the greatest numbers of prospects.
- 5. SCREENING.** We interview buyers to eliminate those who are unable or not ready to purchase a business at this time.
- 6. INTRODUCTION.** We present your business to qualified potential purchasers. They discuss the various components and benefits of the business with the potential buyer.
- 7. MEETING.** A possible meeting with you, the potential purchaser and the Intermediary is set up, to prove the buyer's interest and give an opportunity to learn more about the buyer.



The 20 Step Process

8. ASSIST WITH FINANCING. VR Business Brokers has many financial resources, including lenders who specialize in SBA loans or business loans. VR assists you and the buyer in determining which method of financing will work for all parties and will lead to a successful closing.

9. OFFER TO PURCHASE. We encourage buyers to write a fair offer accompanied with an earnest money deposit check.

10. PRESENT OFFER. We will present the offer for purchase to you. At the same time, we provide you with background information on the buyer and explain the buyers reasoning behind the offer.

11. ACCEPT THE OFFER. You may accept the offer as presented or you may use our knowledge and experience to structure a counter offer.

12. EXPLANATION. VR Business Brokers explain the terms and conditions of the offer to you.

13. MUTUAL ACCEPTENCE. At this critical time, VR Business Brokers use their training, negotiating skills and expertise to create a mutually acceptable agreement resulting in a contingent purchase and sale agreement.

14. INSPECTIONS. Nearly all offers are contingent upon the buyer's inspection and approval of all aspects of the business operation -- including financial records. The handling of due diligence is the most important step in the process of a successful sale. You will need to satisfy the buyer that you have all the necessary licenses and permits necessary to operate the business.



The 20 Step Process

15. CONTINGENCY REMOVAL. The buyer needs to remove all the contingencies for the agreement to become a binding offer for purchase and sale.

16. LEASE ASSIGNMENT. We work to present the buyer's experience and financial qualifications to the landlord in order to obtain a lease assignment or new lease.

17. NOTE ASSUMPTION. If there are existing equipment lease or loans that the buyer is to assume, we can work with the lender, closing attorney or escrow company to transfer those obligations.

18. CLOSING PREPARATION. The closing documents are based on hundreds of prior transactions. They are tailored to meet the individual needs of you and your buyer at the time of the sale. They are coordinated by either an attorney or an escrow company.

19. INVENTORY. When applicable, VR Business Brokers assists you in finding professionals to assist you with the inventory process.

20. A SUCCESSFUL SALE. We assist with the many details required for a smooth transfer of possession. All parties then sign the final agreement, the business is transferred and funds are distributed.



Interested in Learning More?



Neal Isaacs

919-628-0571

Neal@VRbizTriangle.com

VR Business Brokers, located in Raleigh, provides evaluations and intermediary services for buyers and sellers in the Triangle metro area.

We sell other people's businesses, and we care because we've been there.

All conversations are confidential.

Contact Neal Isaacs @ 919 628-0571 or
Neal@VRbizTriangle.com