

# Are you *sure* you're ready to sell?

You may have decided it's time to sell, but before you begin the M&A process, you need to take a good, hard look at what you plan to put on the block. Just because you're ready doesn't mean buyers will be interested — particularly if this is the first time you've thought about preparing your business for sale. Prospective buyers won't just scrutinize your business, but they'll also compare it to other opportunities in the marketplace.

## Asking tough questions

With the help of your M&A advisors, go over your company with a fine-tooth comb, just as a buyer will during the due diligence stage. Evaluate everything from debt levels to personnel to customer relationships and address any issues that are likely to give potential buyers pause, such as too much business concentration in only a few customers.

As an owner, you probably value your business and its sale prospects highly. But to understand its actual market value, you need to think like a buyer and ask the kinds of questions buyers will. These include:

**Is it financially sound?** Is your balance sheet strong relative to those of your competitors, particularly when it comes to debt? Do you have good growth prospects or has your company's growth plateaued? If buyers sense financial distress or little growth opportunity, they'll undervalue your business or, more likely, move on.

**Is it unique?** Identify what gives you a leg up on the competition. Do you make a niche product essential to the business of other manufacturers? Do you own a valuable patent, trademark or brand?

Do you have an exclusive client or customer list? Such assets can increase your company's value in the eyes of the right buyer.

**Is it an easy fit?** Buyers look for businesses with strong leaders, similar corporate cultures and the prospect of smooth integration. Do you have an experienced management team capable of easing the company through a merger transition? Have you provided incentives for good employees to stay?

## Housecleaning mandatory

Before entering the market, streamline your company's operations so that buyers can focus on your essential offerings and not be distracted by peripheral issues. Begin at the office level, ensuring your facilities are clean, modern and professional looking. Next, make sure key business documents are well organized and easily accessible, including financial statements, which need to be accurate, up-to-date and easy to review. Streamline at the organizational level as well. Try to resolve or minimize potential snags such as:

- Ongoing or pending lawsuits,
- HR issues,
- Major outstanding insurance claims, and
- Ownership of intellectual property.



You may also need to separate your real estate holdings from your business. Some buyers prefer to buy real estate separately from the rest of the business so they have the option of easily selling it when the transaction closes.

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### **Be your own harshest critic**

As you evaluate your own company, be as critical as possible. If sales have slowed, a key executive is halfway out the door or your vendor relationships are shaky, don't try to sweep these problems under the rug. Prospective buyers and their financial advisors will notice.

So if you can't easily remedy a problem, honesty is the best policy. In some cases, what challenges you could be a simple fix for a buyer. If, for example, you've had trouble getting favorable pricing on relatively small supplies orders, a larger company placing bigger orders may be able to get preferential rates that enable it to lower production costs.

### **Brace yourself**

With fewer companies capable of financing an acquisition, those that have the money to buy can afford to be choosy. Before you put out the "for sale" sign, conduct a rigorous self-assessment. If you know your strengths and shortcomings and understand what likely buyers in your industry are seeking, you're in a better position to find a buyer

## Get real about price

With scant credit available — particularly for larger deals — many buyers simply can't afford their desired targets. If you're determined to sell your business and have been unable to find a buyer, you may be overvaluing your company relative to the current market. Now's the time to reconsider your asking price.

Sellers, particularly founding owners, often believe that years of dedication and hard work should translate into a substantial dollar amount. But you must remove sentiment from the equation. Your company's value lies in its numbers — including its customer base, revenues, market share and debt load.

EBITDA (earnings before interest, taxes, depreciation and amortization) is a critical figure in determining sale price. Typically, the higher a company's EBITDA, the higher the selling price it can expect. However, many smaller businesses reduce EBITDA to cut tax exposure and, therefore, need to "normalize" these numbers if they hope to realize a fair price.

Also, consider offering some form of seller financing. If a buyer can't get adequate bank credit and you really want to complete the transaction, you may need to finance part of it yourself. Seller financing also assures other potential lenders that you believe in the buyer and your company.