Selling Tips

Is it time to sell? Selling your business is a major decision! You have devoted your time, money, and energy into building, running, and operating your business. It may well represent your life's work. If you have already decided that now (or over the next 3-5 years) is the right time to sell, you should engage the very best professional guidance you can get. This is when working in tandem with a seasoned professional advisory firm like Mor-Liquidity can make the difference between just getting rid of the business, and selling it for the very best price and terms!

Following are some of the most common topics and questions frequently brought up by sellers. If you have any questions that we have not covered, please don't hesitate to contact us.

FOR BUSINESS SELLERS

If you've gone this far, then selling your business has aroused enough curiosity that you are taking the first step. You don't have to make a commitment at this point; you are just getting informed about what is necessary to successfully sell your business. This section should answer a lot of your questions and help you through the maze of the process itself.

Question 1

The first question almost every seller asks is: "What is my business worth?" Quite frankly, if we were selling our business, that is the first thing we would want to know. However, we're going to put this very important issue off for a bit and cover some of the things you need to know before you get to that point. Before you ask that question, you have to be ready to sell for what the market is willing to pay. If money is the only reason you want to sell, then you're not really ready to sell.

**Insider Tip:*
It doesn't make any difference what you think your business is worth, or what you want for it. It also doesn't make any difference what your accountant, banker, attorney, or best friend thinks your business is worth. Only the marketplace can decide what the value of your business is. Beauty is in the eye of the beholder.

Question 2

The second question you have to consider is: "Do you really want to sell this business?" If you're really serious and have a solid reason (or reasons) why you want to sell, it will most likely happen. You can increase your chances of selling if you can answer yes to the second part of this question: "Do you have reasonable expectations?" A yes answer to these two questions means you are serious about selling.

THE FIRST STEPS

Okay, let's assume that you have decided to at least take the first few steps to actually selling your business. Before you even think about placing your business for sale, there are some things you should do first.The first thing you have to do is to gather information about the business.

Here's a checklist of the items you should get together:

- Three years' profit and loss statements
- Federal Income Tax returns for the business
- Pro-forma
- List of fixtures and equipment

- The lease and lease-related documents
- A list of the loans against the business (amounts and payment schedule)
- Copies of any equipment leases
- A copy of the franchise agreement, if applicable
- An approximate amount of the inventory on hand, if applicable
- The names of any outside advisors
- Capitalization table
- Updated minute book
- Corporate Resolutions

Make sure the financial statements of the business are current and as accurate as you can get them. If you're half way through the current year, make sure you have last year's figures and tax returns, and also year-to-date figures. Make all of your financial statements presentable. It will pay in the long run to get outside professional help, if necessary, to put the statements in order. You want to present the business well "on paper." As you will see later, setting a selling price for your business is often heavily weighted on cash flow. This includes the profit of the business, as well as the owner's salary and benefits, the depreciation, and other non-cash items. So don't panic because the bottom line isn't what you think it should be. By the time all of the appropriate figures are added to the bottom line, the adjusted cash flow (EBITDA) may look pretty good.

Prospective suitors eventually will want to review all your financial figures – balance sheet included.

**Insider Tip:*
The big question is not really how much your business will sell for, but how much of it can you keep? The Federal Tax Laws determine how much money you will actually be able to put in the bank. How your business is legally formed can be important in determining your tax status when selling your business. For example: Is your business a corporation, partnership or proprietorship? If you are incorporated, is the business a C corporation or a sub-chapter S corporation? Are you set up to take advantage of your capital gain exemptions? There are also tax rules that impact certain businesses on seller financing. The point of all of this is that before you consider price or even selling your business, it is important that you discuss the tax implications of a sale of your business with a tax advisor. You don't want to be in the middle of a transaction with a solid suitor and discover that the tax implications of the sale are going to net you much less than you had figured.

WHO ARE THE BUYERS?

Buyers buy businesses for many of the same reasons that sellers sell businesses. It is important that the buyer is as serious as the seller when it comes time to purchase a business. If the buyer is not **motivated** and serious, the transaction will never close. Here are just a few of the reasons that buyers buy businesses:

- Strategic purchase
- Part of their 'roll up' strategy
- New markets or market share
- Financial growth and economies of scale
- Intellectual property
- Add-on to to their platform company (Private Equity)
- Minimizing competition
- Income
- Human Capital
- Client base

What Can Mor-Liquidity do for you? We can **eliminate all the costly surprises!** Long before you put your business on the market we review every facet of your business and remedy any and **ALL** problems that could appear during the sale process. No one likes surprises – most of all potential buyers. Whether legal, accounting, environmental, HR, or anything else – solve it now with Mor-Liquidity's coaching and guidance.

We look forward to hearing from you!

Selling FAQ

Why is seller financing so important to the sale of my business?

Surveys have shown that a seller who asks for all cash, receives on average only 70 percent of his or her asking price, while sellers who accept terms receive on average 86 percent of their asking price. That’s a difference of 16 percent! In many cases, businesses on the market for all cash just don’t sell. With reasonable terms, however, the chances of selling increase dramatically and the time period from from going to market up to sale greatly decreases. Most sellers are unaware of how much interest they can receive by financing the sale of their business. In some cases it can greatly increase the amount received. And, again, it tells the buyer that the seller has enough confidence that the business can, indeed, pay for itself.

What happens when there is a buyer for my business?

When a buyer is sufficiently interested in your business, he or she will, or should, submit an offer in writing. This offer or proposal may have one or more contingencies. Usually, the contingencies concern a detailed review of your financial records and may also include a review of your lease arrangements, franchise agreement (if there is one), or other pertinent details of the business. You may accept the terms of the offer or you may make a counter-proposal. You should understand, however, that if you do not accept the buyer's proposal, the buyer can withdraw it at any time. At first review, you may not be pleased with a particular offer; however, it is important to look at it carefully. It may be lacking in some areas, but it might also have some pluses to seriously consider. There is an old adage that says, "The first offer is generally the best one the seller will receive." This does not mean that you should accept the first, or any offer -- just that all offers should be looked at carefully.

Once you and the buyer are in agreement, both of you should work to satisfy and remove the contingencies in the offer. It is important that you cooperate fully in this process. You don't want the buyer to think that you are hiding anything. The buyer may, at this point, bring in outside advisors to help them review the information. When all the conditions have been met, final papers will be drawn and signed. Once the closing has been completed, money will be distributed and the new owner will take possession of the business.

What can I do to help sell my business?

A buyer will want up-to-date financial information. If you use accountants, you can work with them on making current information available. If you are using an attorney, make sure they are familiar with the business closing process and the laws of your particular state. You might also ask if their schedule will allow them to participate in the closing on very short notice. If you and the buyer want to close the sale quickly, usually within a few weeks, unless there is an alcohol or other license involved that might delay things, you don't want to wait until the attorney can make the time to prepare the documents or attend the closing. Time is of the essence in any business sale transaction. The failure to close on schedule permits the buyer to reconsider or make changes in the original proposal.

What can an advisory firm do - and, what can't they do?

M&A advisors are the professionals who will facilitate the successful sale/transition of your business. It is important that you understand just what a professional M&A advisory firm can do -- as well as what they can't. They can help you decide how to price your business and how to structure the sale so it makes sense for everyone -- you and the buyer. They can find the right buyer for your business, work with you and the buyer in negotiating and along every other step of the way until the transaction is successfully closed. They can also help the buyer in all the details of the business buying process.

An M&A advisory firm is NOT a magician who can sell an overpriced business. Most businesses are saleable if priced and structured properly. You should understand that only the marketplace can determine what a business will sell for. The amount of the down payment you are willing to accept, along with the terms of the seller financing, can greatly influence not only the ultimate selling price, but also the success of the sale itself.

How long does it take to sell my business?

It generally takes, on average, between five to eight months to sell most businesses. Keep in mind that an average is just that. Some businesses will take longer to sell, while others will sell in a shorter period of time. The sooner you have all the information needed to begin the marketing process, the shorter the time period should be. It is also important that the business be priced properly right from the start. Some sellers, operating under the premise that they can always come down in price, overprice their business. This theory often "backfires," because buyers often will refuse to look at an overpriced business. It has been shown that the amount of the down payment may be the key ingredient to a quick sale. The lower the down payment, generally 40 percent of the asking price or less, the shorter the time to a successful sale. A reasonable down payment also tells a potential buyer that the seller has confidence in the business's ability to make the payments.