By Simon Nadler and Don Rogers

STRATEGIES FOR SUCCESS

# Ready to Sell Your Business?

Here's how to get the best deal possible.

Running a successful business is hard work. Now that you're ready to sell, it should get easier, right? Wrong. Selling your business and maximizing your payout is hard work and requires preparation. In fact, most people agree that you should begin preparing at least two years in advance of when you want to sell.

Here are five things to do when you're ready to sell your business.

**1. Maximize and document net income.** Buyers will review your operating history and, hopefully, see consistent growth in your customer base, revenues and profitability. They will often go back three to five years during their investigation into your business (often referred to as "due diligence").

As part of this process, you will want to maximize the net income you can show buyers. One way to do this is to "reconstruct" your net income by adding back perks and benefits that are paid to you (and your family) that the buyer will not have to pay.

Expenses that you run through your business—such as your car, travel and entertainment, cell phone, health insurance and retirement—are presumably legitimate expenses that reduce your earnings. But when the buyer operates the business, most or all of these expenses will disappear, allowing you to present a more compelling earnings picture to buyers.

But you also need to be able to document all of the net income you want buyers to pay for. Understandably, buyers will pay for profits they can see. So don't expect a buyer to take your word for it. Your accounting records should be accurate and clean.

**2. Finalize financial statements.** Have good, reliable and accurate financial statements. An easy way to scare off a potential buyer is to present him with


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financial statements and then present revised financials a few weeks later and then again a few weeks after that. Buyers must be confident in the financial position of your company when they are conducting their due diligence.

**3. Reduce taxes.** The tax laws change frequently, and it is almost impossible to predict what will happen next for income taxes. But you should still meet with your legal and financial advisors to understand the tax consequences of the ways a business sale can be structured. Then, with their help, you can identify steps to take now to hopefully reduce your tax bill, and you can learn the best way to structure the sale from a tax perspective.

**4. Protect your key assets.** Focus on where the real value is in your business: your people and your intangible assets. Have your management team and key salespeople signed noncompete or similar agreements so that your customer list and confidential information are protected? Or could your key salespeople leave the day after closing and try to steal the customers for whom you want the buyer to pay? Are you sure that you own any software programs, other proprietary databases or lists that were created for you by consultants? (If you don't have this in writing, you may not own it.) Have you filed for trademark protection for the name of your business or the products and services you market?

**5. Make the deal.** Now that you've prepared your business for sale and maximized the value, it's important to get the deal done. Make sure you:

- *Hired a good deal team.* Your accountants and lawyers should be familiar with the sales process and should be able to offer good advice based on that experience.
- *Set realistic expectations.* Talk to your deal team about valuation methodologies and the current market so that you can get an objective view of the potential value of your business. You may have spent your whole life building your business and you may be emotionally connected to its value, but buyers will be objective in setting their prices.
- *Are flexible.* If you will only agree to a deal that is paid 100 percent in cash at closing and does not require you to work for the buyer after closing, your options may be limited. This is particularly true in a service business, where buyers often want the seller to stay around for a while after closing to help transition the business to the buyer.

Selling your business can be physically and mentally exhausting. But if you plan ahead and prepare for the sale—starting today—the rewards can be tremendous. □

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