

“How to Sell Your Company (or prepare it for sale in challenging times)”

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Today's Topics

- Determining the Value of Your Business
- Why Do Buyers Buy?
- Planning the Sale
- The Prospecting Process
- Summary



Today's Economic Environment

- Recession
- What reduced business means to value:
 - 10% off top line might be 20% to value
 - Some industries worse off than others:
 - Restaurants
 - Housing
 - Autos
 - OR RELATED INDUSTRIES
- Bank financing unavailable



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Today's Economic Environment (continued)

- Some industries better off than others:
 - Education
 - Elderly Care
 - Repair (autos, appliances, shoes)
 - OR RELATED INDUSTRIES
- Seller carry as an option to maximize price
 - Earn-outs
 - Real property collateral



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Main Factors Affecting Values

- External factors
 - Economic factors affecting business sectors
- Internal factors - transferability
- Synergy – does the business “fit” with the acquirer
- Seller Financing



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Internal Factors

- Management – key personnel
- Services or products
- Systemization (internal systems)
- Union vs. non-union
- Inventory-control systems
- Owner control
- Contracts



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Synergy

... is the interaction of different things, so that their combined effect is greater than the sum of individual effects.

- How synergistic is the service or product to industry?
- How does the company culture fit with other industry companies?
- Niche companies – good or bad? *Generally good*
- Strategic fits



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Determining the Value of Your Company

How much is your business worth?

- Recasting the balance sheet
- Cleaning up the balance sheet
- Recasting the profit and loss statement
- Recasting the past
- Forecasting the future
- Placing a value on the future
- Your company vs. the industry



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The "Porter" model: Five forces tie it all together



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Some "bad" assumptions about value

- My location is great!
- I have patents/recipes/other intellectual property.
- This would be a gold mine if it was properly marketed!

The truth is:

Your "stuff" is only worth the profit it generates!
If it could be better marketed, why aren't you doing it?

Buyers:

Pay for the past, buy for the future.



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How Much Is a Company Worth?

Generally
90% of the
past and 10%
of the future

Net present value of future cash flow

and

Adjusted SDE and EBITDA of past years
(Multiple of earnings approach is most common with business brokers)

plus or minus

Terms, organization, market conditions, fit
with buyers



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What does the future have to do with value?

- Buggy whips
- One hour photo shops
- Offset printing

Despite good historical cash flow, none of these businesses would be worth much today. There are just no buyers.



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Recasting Profit and Loss Statements

- Recasting will likely increase profitability
- Converts profit to "cash flow" – levels the field
- Addbacks:
 - Non cash (depreciation and amortization)
 - Debt service
 - Owners perks
 - Some taxes
 - Elective contributions



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Recasting the Past

Recasting the P&L statement will show the true profitability of the business



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Forecasting the Future: What's Needed?

- Proforma financial statements
 - P&L statements
 - Balance sheets
 - Cash-flow statements
- Assets acquired by growth
- Employees and related expenses
- Inventory considerations (net growth or loss)



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The Future: You vs. Industry

Valuation is in essence a prophecy as to future value, based on facts available and economic conditions. No formula can be devised that will be generally applicable to the multitude of different valuation issues.

IRS Ruling 59-60



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Planning the Sale of Your Company

During the process:

- Be committed to the sale of your business
- Keep it absolutely confidential
- Manage the business as if keeping it another 20 years
- Full disclosure: Every aspect of the business must be disclosed for the sale
- If you are concerned about disclosing certain information, don't be
- Initiate growth plans, as if the business will never sell!



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Continue Company Growth

- Revise pricing policies and credit terms
- Add personnel and/or equipment to relieve production constraints
- License technology to other firms
- Increase/expand sales and marketing efforts
 - Advertising
 - Sales people
 - Distributors/ reps/ jobbers
- Expand geographically
- Add new products
- Penetrate new markets
- Open new facilities or office branches
- Concentrate on high-growth areas of business
- Capitalize on market/industry trends



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Prepare to Share with the Buyer

Provide due diligence ONLY after buyer has signed a confidentiality agreement

- Historical financial statements
- Tax returns
- Employee lists
- Accounts receivable aging
- Facility and equipment leases
- Environmental reports
- Pension, profit-sharing, and all other benefits
- Union contracts or organization activity
- Pending or threatened litigation
- Customer lists (redacted)
- Other important agreements



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Buyer Qualification

- What are your expectations? (earnings)
- How much money do you have?
- How much money do you really have?
- How are you going to pay for this
- What do you do now? Do you have a job?



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Advertising

- Bizbuysell.com
- Bizquest.com
- Bizben.com
- Local papers



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Advertising: The effects of the internet

•Over 20 websites are now devoted only to business sales.

•Reach is global, 24/7 and free for buyers.

• Buyers can comparison shop among HUNDREDS of businesses for sale around the world.



DON'T OVERPRICE! The impression you give to a browsing audience will determine whether the phone will ring!



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Useful Websites

- Nevadabizbroker.com
- Entrepreneur.com (franchise zone)
- Bizvalpro.com

Free is a good price!



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Selling Documents

- Blind profile
- Confidentiality agreement
- Confidential business review
- Contract to buy/Letter of Intent
- Definitive purchase agreement
- Other agreements
- Closing documents



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The Risks in Selling

To employees:

- Confidentiality is lost
- High risk of not getting paid
- Special considerations will be requested
- Limited business experience
- Limited or no understanding of business
- Other prospects could be frightened away

To competitors, customers, suppliers:

- Confidentiality is a competitive advantage
- Proprietary and other secret information must be provided
- They may have a different concept of value
- Difficult to determine purpose – do they really want to buy, or spy?



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How Long from Start to Finish?

Valuation process	Approx. 15 days
Develop prospectus (CBR)	Approx. 30 days
Buyer-search databases	Approx. 30 days
Blind profile mailing	Approx. 10 to 30 days
Preliminary response	Approx. 60 days
Business profile/CBR distribution	Approx. 30 to 60 days
Negotiations & sale	Approx. 6 to 9 months

Approximate total labor = 450 to 550 hours



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During the Process

You must:

- Be committed to the sale of your business
- Keep it absolutely confidential
- Manage your business with renewed enthusiasm
- Disclose every aspect of your business (*if you are worried about disclosing something, it simply means you must clean things up*)
- Initiate growth as if you are the new buyer



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Three types of buyers

1. Financial – Most common and willing to pay
2. Industrial – competitors will generally undervalue
3. Strategic – Synergy for companies large enough

Note: The highest and best offers usually come from strategic or synergistic buyers. Industry buyers are generally some of the worst.



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Buyers to be wary of.

"Beware and take care" prospects:

- Local competitors
- Company's customers
- Company's suppliers
- Employees – *be careful*
 - Experience can be a wonderful asset
 - Fear and flight risk may be a hazard



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Why Do Buyers Buy?

A buyer will **buy** your business not for what it has been, but for what it can be, and to

- Buy a job
- Acquire new products/technology
- Acquire new markets
- Achieve growth more rapidly
- Acquire established presence in a market (area)
- Avoid risks of start-ups or expansion
- Strengthen position in particular markets
- Acquire undervalued facilities/cash flow



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How to Get Paid Upon Sale

Six most common ways to get paid:

- A cash purchase – *seldom*
- A time purchase (notes) – *often*
- Earn-outs with cash and notes – *frequently*
- Buy-out of stock – *10%*
- Buy-out of assets only – *90%*

Selling is a taxable event – know what will happen!



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Seminar Summary

- Your company is one of your largest assets
- Take all the care you can
- Hire professionals who deal in business sales (in Nevada they must have special license)
- Prepare your company for sale
- Know your value
- Prepare yourself for the sale
- Enjoy the process

BEST OF LUCK!



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