

Preparing Your Business for Sale

by

Daniel R. Siburg, CPA, CVA

The Siburg Company

6347 E. Windstone Trail

Cave Creek, AZ 85331

(480) 502-2800

Dan.Siburg@thesiburgcompany.com

www.thesiburgcompany.com

Learning Objectives

- Reasons why owner decides to sell
- Time frame for preparing a business for sale
- Legal issues to consider before selling
- Increasing value by maintaining equity
- What information buyers will want to see
- Preparing a team committed to seeing the sale of the business all the way through

A business that is for sale –
Is a business that is in transition

Why a Business Owner Decides to Sell

Commonly referred to as the “D List”

- Death
- Disease
- Divorce
- Dissolution
- Disenchantment
- Disenfranchisement
- Disagreement

Do You Know the Exact Date?

- If you know the exact date to any of the reasons on the “D List”, then you will know in advance when to start preparing your business for sale
- Otherwise, you need to start preparing your business for sale today!

Run the business as if it was for sale every day,
because it is!

Selling a Business is a Process

- Selling a business
 - Costs money
 - Takes time
 - Requires extra effort by the owners to:
 - Run daily business operations
 - Prepare the business for sale

Time Frame for Preparing a Business for Sale

- Depends on the business's infrastructure
- Seller may need to consider a period of 90 days to 2 years to prepare the business for sale
- Businesses generally take 6 to 18 months to sell under normal market conditions

Legal Issues and Obstacles

- Litigation outstanding
- Tax problems
- Business needs to be in good standing with the state and publicly record information is up to date and correct
- Business documents current:
 - Articles of incorporation and bylaws
 - Shareholder and operating agreements
 - Corporate minutes and resolutions

Governmental Issues

- Labor issues – trade unions
- Environmental requirements
- Industry is governmentally regulated

Business Agreements

- Does the business actually own the rights:
 - Trademarks
 - Patents
 - Copyrights
- Are the business's agreements transferable:
 - Customer agreements
 - Vendor agreements
 - Licensing agreements
 - Financing – debt agreements

Business Agreements - Continued

- Ownership agreements and rights for both current and former owners
- Related party agreements - common ownership between companies
- Verbal or email promises
- Employment agreements

Understand the Transaction Process

- Transaction type
 - Asset purchase
 - Stock purchase
- Transaction structures
 - All cash
 - Earn outs
 - Owner financing
- Qualify buyer
 - Due diligence on potential buyers

A majority of privately-held
businesses are acquired using an
asset purchase agreement

Maintain Equity in the Business

- Avoid the trap of normalizing entries to increase the value of the business:
 - Buyers compute their value on the actual financial information (tax returns, internal financials)
- Buyers understand high salaries and owner's draws when a business is profitable and has strong cash flows

Remove Personal Expenses

- Stop paying owner's bills through the business and start paying them personally
- Remove non-working family members from corporate payroll

Paying taxes on the business's profits
will increase the business's value

Buyers Will Want to See

- 5 years of historical financial information
- The business's tax returns
- Employee tax filings
- Additional information requests by interested buyers should be made in writing

The Offering Memorandum

- An Offering Memorandum (OM) serves to provide information about the business to interested buyers
- Avoid disclosing too much information about the business in the OM
- The OM and other information provided to interested buyers needs to be tracked
- If an interested buyer declines to offer make sure to get the OM and other information provided returned

A business may have very limited value when it is too closely tied to the owner!

Introduction and History

- Description of top products or business lines
- Company founder and history
- Current direction of company
- Prior sales transactions of company stock, or asset sales

Business Operations

- Business focus
- Operational business plans
- Organization chart and management bios
- Positive and negative reviews related to the company's products or operations

Sales Information

- Sales by year, by product, or business lines
- List of top-selling products or business lines
- Sales by their various channels
- Pricing policies and programs
- Description of any customer concentration

Marketing Information

- Conferences and trade shows history
- Advertising and marketing plan
- Brochures and marketing literature
- Competitor research

Financial Information

- Financial statements, audited preferred
- Financial forecasts for company
- Corporate income tax returns
- Fixed asset and depreciation schedules
- Inventory analysis and inventory locations

Payroll Information

- Payroll tax returns
- Pension plan information
- Employee compensation agreements
- Employee benefit plans
- Other employee benefit obligations

General Business Items

- Describe any scope limitations related to information that the seller is unable to provide to the buyer
- Long-term leases, purchasing commitments, and customer contracts
- Facility/building lease
- Licensing or distribution agreements

Preparing the Team

- Selling a business requires the development of both an internal and external team of people
 - The internal team should include only the people in the company who absolutely need to know the business is for sale
 - The external team should comprise people who will support the sale of the business with technical expertise

Internal Team

- Owners and shareholders
- CEO/President
- Chief financial/accounting officer
- Chief operating officer
- Head of sales and marketing

Key Employees

- Key employees need to know, because they will be involved with the sale of the business
- Employment agreements
 - Confidentially
 - Non-disclosure of restricted information
 - Non-compete agreements

Employee Retention and Incentives

- Stay bonuses
- Severance plans
- Equity participation – Phantom stock

External Team

- Advisory services firm
- Law firm experienced in business transactions and tax advice
- An estate planner, for a closely-held business
- CPA firm that has audited the business
- Tax accountant who was responsible for preparing the business's tax return

Understand the Process of Selling

- When selling a business
 - Be prepared in advance
 - Have the right team in place
 - Have financials in top shape
 - Have operations running smoothly
 - Have realistic expectation of the value

F MINUS

WWW.FMIN.US

©2010 CARRILLO, DIST. BY UFS, INC.



WE'RE NOT SELLING
LEMONADE. WE'RE SELLING
THE BUSINESS.

11-12

Questions and Answers

Contact Information

Daniel R. Siburg, CPA, CVA

The Siburg Company

6347 E. Windstone Trail

Cave Creek, AZ 85331

(480) 502-2800

Dan.Siburg@thesiburgcompany.com

www.thesiburgcompany.com