9 Steps To Sell Your Business **For Maximum Value**

BUSINESS EXITS

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You have a business that you've put a lot of time, effort and sweat equity into growing and now you're looking to sell. Your objective is to get maximum value, and you're assessing steps to prepare for the sale. There are a multitude of variables to consider, and we will cover them all to maximize the price you receive when exiting.

— JOCK PURTLE

What is your business worth?

When a business owner first contacts us at Business Exits, the first question always asked is 'what is my business worth?' and our immediate response is that it's relative to your individual business.

The job as a broker is to determine what the "market" (potential buyers of your business) will pay. Some of the factors that get considered when valuing a business include:

- What are the sales?
- What is the profit?
- What are the growth trends?
- What is driving new sales and is that sustainable?
- What channels do new customers come from and what is the breakdown of each channel?
- What is your market position?
- How reliant is the business on the owner?
- What systems and processes are in place to run the business?

Part of the valuation process is looking at historical sales of businesses and comparing your business to those.

HOW TO CALCULATE YOUR PROFIT?

At Business Exits we use a Sellers Discretionary earnings valuation method to value your business of the trailing 12 months earnings. This valuation method does not include the owner's wage. **Profit is the total summed profit (Gross Sales – COGS – Expenses = Profit) of the last 12 months.** A multiple is then applied to that number to give the valuation.

What is the valuation process?

Part of the valuation process is looking at historical sales of businesses and comparing your business to those. The accepted valuation methodology by buyers is the multiple of earnings method. That calculates what the net profit of a company was for the last 12 months and then multiples that by a number between 1-4. Smaller companies sell in the 1-2 X multiple range, Medium in the 2-3X multiple range and large in the 3-4X multiple range. For example, you have a transport company in Dallas Texas, it makes $500,000 profit per year for the owner. This business would sell in the 2-3X multiple range, so between $1million and $1.5 million dollars.

What do comparable sales say?

2.59 AVERAGE MULTIPLE

$595,906
AVERAGE SALES PRICE

$301,200
MEDIAN (middle)

$331,300
MODE (most frequent)

$8,477,951,345
TOTAL TRANSACTION VALUE

– TOTAL ANALSIS ACROSS ALL INDUSTRIES

Here are the types of businesses we're going to analyze.

Lifestyle

- Convenience Stores
- Furniture Stores
- Pet Stores
- Grocery Stores / Supermarkets
- Hair Salon / Barber
- Day Spa
- Dry Cleaning / Laundromat
- Gym / Health Club
- Jewelry Store
- Bridal Boutique
- Shoe Store
- Bicycle Shop
- Sporting Goods Store
- Family Entertainment / Amusement / Arcade
- Boat Dealers / Marine Supplies
- Hospitality, Food & Beverage
- Hotel, Motel, Bed & Breakfast
- Bar & Pub
- Restaurant
- Frozen Yogurt Shop
- Bakery
- Pizzeria
- Coffee Shop
- Deli
- Cafe
- Diner
- Bistro

Medical

- Pharmacy
- Medical Practice / Clinic
- Dental Practice
- Medical Billing
- Medical Transportation

Manufacturing

- Clothing Manufacturer
- Chemical Manufacturer
- Electronics Manufacturer
- Fabrication & Machining
- Food Manufacturer
- Furniture Manufacturer
- Cabinet & Wood Work
- Sign Manufacturing
- Machine Shop

Automotive

- Gas Stations
- Car Wash
- Auto Repair & Service Company
- Car Parts / Salvage Yard
- Automotive Dealers

Domestic

- Day care / Child Care
- Doggie Day Care
- Assisted Living Facility
- Home Healthcare
- Preschool
- Petcare / Grooming

Logistics

- Trucking & Logistics
- FedEx Route
- Self-Storage Facility
- Equipment Rental Company
- Towing Company
- Moving / Shipping Company
- Supply Chain

Goods

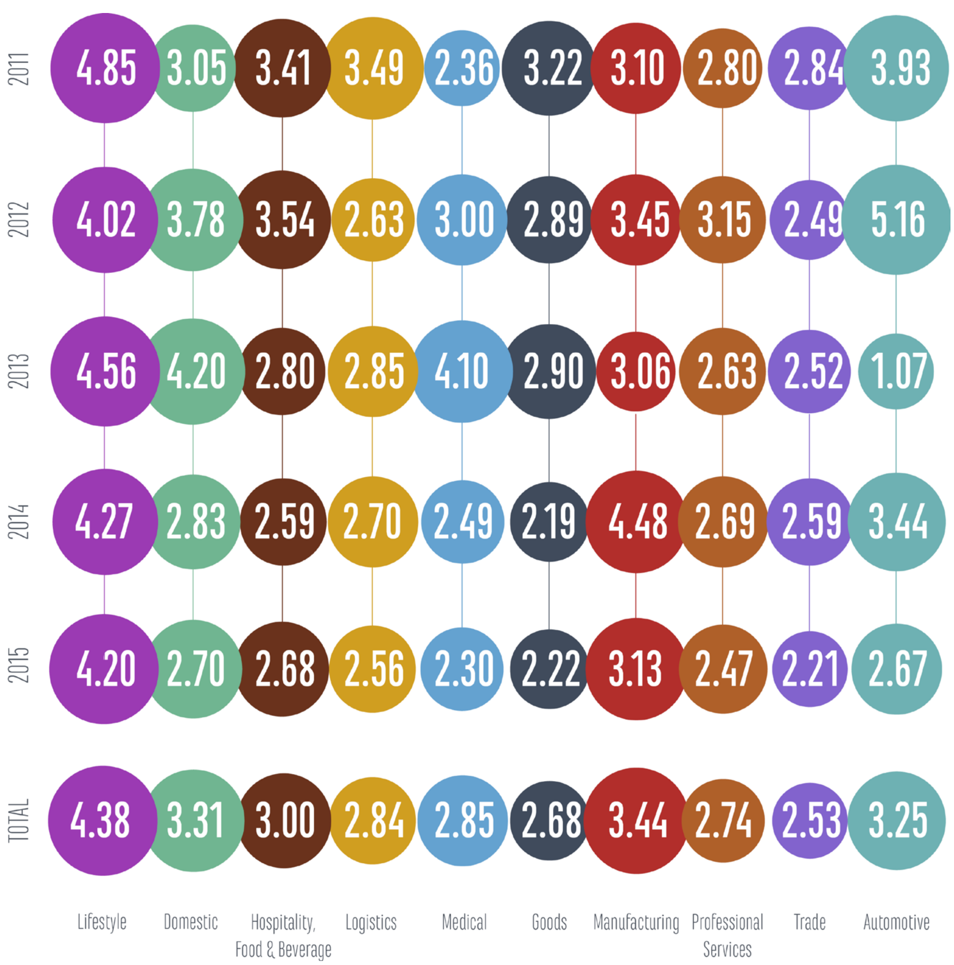
- Clothing Stores
- Liquor Stores
- Smoke Shop
- Cellular / Wireless Communication Store
- Hardware Store
- Party Supply

Professional Services

- Vending Company
- Insurance Agency
- Property Management Company
- Engineering Firm
- Travel Agency
- Commercial Printing Company
- Charter Business

Trades

- Florists
- Contractor
- HVAC
- Plumbing
- Roofing
- Construction
- Cleaning / Janitorial Business
- Landscaping
- Painting
- Concreting



WHAT MAKES MY BUSINESS WORTH MORE?

The amount a buyer is willing to pay for your business will all come down to one thing, return on investment and relative risk. The lower the risk, the higher the price and vice versa. With that being said, what really makes your business worth more is mitigating the risk of the business failing in the future by having the following characteristics associated with your business.

- Predictable key drivers of new sales
- Established suppliers of inventory with backup suppliers in place
- Traffic stats (Google Analytics or other) with a long history
- High percentage of repeat sales
- High percentage of repeat visitors
- Clean legal history
- Brand with no trademark, copyright or legal concerns
- Documented systems and processes
- Growth potential

When is the best time to sell your business?

There is never the 'perfect time' to sell your business. Sometimes you are forced to sell because of external circumstances; sometimes you get presented an offer that is too good to be true. However, for the scope of this article, the best time to sell your business is when there has been sustainable growth. Growth is tracked in yearly increments. Let's take the following example:

Year 1 - $380,000
Year 2 - $465,000
Year 3 - $780,000
Year 4 - $690,000

In the above example, the best time to sell was late in year 3. Don't make the mistake of selling when you have lost interest, and the business is starting to decline. You will receive a drastically lower price for this.

How Does The Selling Process Work?

This is the Business Exits process that we go through with our clients helping them sell their business:

— PROCESS

Step 1 – Get a valuation

We walk our clients through the valuation process after analyzing the following:

- Historical and current profit and loss statements
- Historical and current balance sheet
- Traffic stats of the business
- After spending considerable time getting to understand the business, the industry, the competitors and the general market conditions

Step 2 - Getting all your documentation together

Once you understand what your business is worth it is time to get together all the documents and proof that you will need to show a buyer when selling your business. Sellers are going to want to see numbers and facts when considering the purchase of your business. You'll need to have as much data, stats, and proof as possible. If any of the data comes back suspicious or incorrect, buyers can use this to lower their asking price or pull out from the deal altogether.

— KEY THINGS THAT WE PREPARE FOR A BUYER:

General Information - Includes quick data points that answer frequently asked questions buyers want to know up front. Including:

- Summary of facts - the most important information you want the buyer to know about your business including sales, profit, traffic, staff and a general FAQ.
- Summary of operations – AN overview of how the business works. How many employees do you have? Salaries paid, processes setup for automation, hours of week needed to run the business and any other information that you feel is important.

- Summary of customer sources – Who are the clients and how do you acquire them?
- Summary of products and processes - What do you sell? How do you sell it? How many products do you have? What are their stats and margins? How are the suppliers and what is your relationship with them?
- Summary of security - How do you protect your Business property? Patents, copyrights, trademarks? What security processes do you use to keep bad people from stealing or destroying your Business business?

Marketing Information – This summarizes how you get new customers:

- Summary of marketing - How do you get new customers? Do you have media mentions, awards, or publicity? Any information that can help new buyers understand your business reputation.
- Traffic stats of the business - What are your keywords driving traffic and where do you rank on search engines for those keywords? What other traffic sources are driving both visitors and sales to your business?
- Marketing strategies - Specifically, what processes do you have in place to reach new customers and how do you implement them? Is it automated? Do you have employees with this specific job (in-house or virtual assistants), any joint-ventures setup with media outlets or other businesses that help drive traffic?
- Customer demographics - Do you have a customer profile setup that includes age, gender, location, income level, needs, etc? Do you have visitor statistics that reflect those demographics?
- Competitor landscape - Who are your competitors? What are they doing different? Do you have a barrier to entry that prevents competitors from taking market share? What makes your site unique compared to them?
- Sales history - How many products have you sold over a period of time and what are their margins and conversion rates?

Formal & Legal Information - You'll need to provide proof that you own the site, have rights to do business, and proof of the revenue that the business is making. With regards to revenue documentation makes sure you include:

- A break down on your ROI
- Any appraisals you have received from other parties
- And any contact information regarding the sale of your business
- Bank statements
- Merchant facility statements
- Historical and current profit and loss statements
- Historical and current balance sheet

Step 3 – Develop a prospectus or “the book”

A prospectus or information memorandum is a detailed 10-30 page documents that outlines:

- What the business does
- How the business makes money
- Where the web traffic comes from
- How the business operates
- General frequently asked questions about the business
- Market Trends
- Growth Opportunities

This document is then used to present to prospective buyers to highlight the business opportunity.

Step 4 - Finding a buyer

You can use the following channels to look for a buyer.

- Personal network – Your existing network of business owners, friends and family.
- Brokers network – A broker usually has an existing buyer network of pre-qualified investors looking to acquire an online business. Business Exits has over 1,000 + people on their buyer database. Of those 55% elected that they were interested in acquiring a business.
- Competitors or vendors –A competitor is going to look to control market share and a vendor to vertically integrate and control retail through acquiring your business.
- Classifieds, auction sites, and forums – This is a place where buyers are hanging out and are good sources to find potential buyers. Sites like bizquest.com and businessforsale.com.

Step 5 - Getting an Offer

The process of receiving an offer from a buyer is generally split up into two steps:

General FAQ

Once a buyer receives the prospectus there will generally be some back and forth between the buyer and seller about the business. This will be clarification on the business; it’s operation and questions about information in the prospectus. Generally there will be email back and forth, a few calls between buyer and seller before an offer is made.

The Letter Of Intent

A letter of intent (LOI) is a formal offer that a business owner will make to acquire your business. This LOI will include an offer price and terms. Once you accept this LOI you allow the buyer to move forward, exclusively, into a deeper due diligence period where they will address all the claims you made about the business and verify that what you claim is correct. A LOI is a non-binding sales agreement. This is not a contract for sale.

— BEFORE ACCEPTING AN LOI:

- The buyer – have you done your background research on them? Criminal record check? Bankruptcy check? Do you like them? Do they seem legitimate? Your broker will help you with some of these steps however remember that you will likely be dealing with this person a lot in the future.
- Deal terms – What sellers forget to realize is that it is the deal terms that are more important than the actual offer made. Things to take into account are the percentage of upfront cash, the financing or performance terms and if there are any conditions attached to the deal.
- Owner financing terms – things to consider are the length, repayment terms and if there is any interest attached to the deal.
- Non-compete terms – what are the restrictions on the non-compete and what is the time length of those restrictions (2-3 years is generally considered)
- Exclusivity – in the LOI there will be a time frame for how long the exclusivity period is that they want to engage in due diligence. Generally on smaller less complex deal 1-3 weeks is acceptable, more for a larger deal. Consider how long your business will be locked up in due diligence while the buyer verifies everything and isn't allowing you to talk with other buyers.
- Time-frame of closing – sometimes the highest offer is not always the best offer. If you are waiting 3 months for a loan to be approved versus cash deal tomorrow. Consider the time it will take to get the cash into your bank account.
- After sale support – an inexperienced buyer is going to take a lot more hand holding after the sale than a seasoned investor. Consider the amount of time and investment you will have in the deal after the sale when assessing the LOI.

Step 6 – Due Diligence

After a letter of intent has been agreed upon and signed, the due diligence phase of a deal commences. Due diligence is the exclusive period (where you can't offer the deal to any other buyers) that a buyer gets to verify that all the claims that you made about the business are correct. For example if you said you made $1.2 million dollars in sales in the last 12 months a buyer is going to want to see that you did in fact make $1.2m in sales by checking merchant account statements and bank statements.

NOTE: At any time during due diligence the value or original offer that a buyer makes can be reduced if the buyer notices any problems with the business. For example a buyer might find that there is a potential problem with a key supplier or that some of the inventory was slow moving and that would get devalued. A buyer must factor in a lower price to adjust for that risk if they find any problems.

Here is a list of some things that a buyer might request during due diligence:

- Bank statements
- Merchant statements
- Credit card processing statements
- Customer list
- Suppliers names and information
- A staff list
- Interview with staff
- Interview with sub contractors
- Contracts for suppliers
- Contracts for staff
- Current and historical Tax returns
- Current and historical Balance sheet
- Interview with customers
- Support desk overview
- Business systems and processes

There are some key differences between the due diligence of a brick and mortar company compared to an online business:

- Financials – A lot of verification of financials performed with an online business is a reconciliation of bank statements. It is expected in brick and mortar deals that tax returns or audited books will be required. This will include things like bank statements, invoices, credit card statements etc. A lot of deals there is a live screen-share/walk-through of the bank of a business to assist with verification

- Traffic – whilst a traditional business has customers walk in the door an Internet business has eyeballs to a website. Having Google analytics installed (the accepted tool) to report on traffic statistics will go a long way to getting your deal closed.

Step 7 – Final Offer & Legal

After due diligence is completed a buyer will either make their final formal offer or pass on the deal because it didn't pass due diligence. If it did pass we as the broker prepare a standard contract for sale which will outline the deal terms, the assets being sold, the non compete and training and support terms.

Note: in most deals you will be selling the assets of your company not the company itself. What this means is that say Internet LLC owns www.internet.com. In the deal Buyer LLC pays Internet LLC for the assets of the business (the domain, the website, the customer list, the merchant accounts, email list etc.) they do not buy the shares in the company. This is called an asset sale versus a share sale.

As a disclaimer we are not lawyers and you should always have your legal counsel independently review the contract before signing.

Step 8 – Transfer & Escrow

After all parties have agreed and signed the asset sale contract the transfer process commences. This process is broken up into a few stages:

1. Sales contract signed
2. Broker sets up the escrow transaction using a lawyer
    - Escrow transaction terms agreed by Buyer and Seller
    - The buyer sends the escrow the agreed funds (funds are secured but not released)
    - The escrow service confirms receipt of the funds and requests the seller to start transferring all the assets to the buyer
3. The buyer confirms that they have received all the assets according to the terms of the agreement and initiates the inspection period
4. Inspection period is used to confirm all assets have been received and are in working order
5. Buyer confirms satisfaction with assets receive and notifies Escrow service
6. The escrow service releases the funds to the seller
7. Training beings for the buyer

At no point during the process are the buyers funds released to the seller without the buyers consent. This allows for an at arms length transaction.

Step 9 – After Sale Training & Support

Generally there is a typical 4-16 week period of support for the buyer after the deal has closed. This is put in place to assist the buyer in learning the day to day running and operations of the business. The length of time and training that a seller provides is purely contingent on what was negotiated in the terms of the deal.

HOW LONG WILL IT TAKE TO SELL MY BUSINESS?

The length it takes to sell a business depends on individual business and terms of the deal. Generally, though, larger deals (over $1 million) will take longer to sell than smaller deals (under $200k) because of the complexity of the business and also the risk that a buyer is taking.

Typically we see over 50% of deals close within 90 days (3 months) and over 70% close within four months.

Where Can I Sell My Business?

- Marketplace – best for smaller businesses (under $100k) – Are generally best sold through forums or classified websites.
- Broker – best for medium businesses ($100k - $5m) - Are best sold with brokers.
- Banker – best for large businesses ($5m +) – are best sold through investment banks or merger and acquisition companies.

Who Will Buy My Business?

Who will buy my business? We are seeing all kinds of buyers enter the market as times change. Who are they?

- Corporate guy – this is someone looking to buy his or her first business. They usually are a high paid employee or C-level executive with disposable cash, IRA, savings or access to an SBA loan.
- Baby boomers - As the "baby boomer" generation retires, we have seen a spike in new tech-savvy individuals looking for new investment opportunities as new projects or ways to fund their retirement.
- Established internet entrepreneurs - Individuals who have been in the industry for a while and have a good understanding as to what it takes to run a Business business. They are either fresh off the sale of their last business or looking to add a business to their portfolio.
- Established brick and mortar entrepreneurs – generally brick and mortar entrepreneurs who have exited or still own their own company and are looking for a move into the Business space.
- Private equity companies – companies that look to keep the existing management in place and grow the business through varying sized stakes in the business. Usually, they purchase larger businesses.
- Media companies – similar to private equity companies but they have more of a specialization in Business companies and media.

Why Do Buyers Say “No”?

Sometimes a sale falls through, or a buyer says “No.” Some common reasons include:

- They don’t like the business
- They don’t like the niche
- Something wrong with that stats or data
- A buyer finds something that makes them reconsider their offer
- Seller wants more money than buyers are willing to pay
- Trends with particular business or market
- Issues with transferability
- Financial, branding or product condition of the business
- Or maybe the funding for the buyer just falls through

Tips On Getting The Best Deal And What To Avoid

- Deal terms matter much more than the total price. For example, you could sell your business for $500,000 to one buyer and finance the whole sale and risk not having the repayments being made, OR you could sell your business for $400,000 and receive it all in cash upfront. I would personally choose the cash in most cases.
- Sell when growing because you are going to get a higher valuation and sales price.
- Competition helps. Having more than one offer not only increases your change of closing a sale but also helps increase the offer of other parties looking to secure the deal over their competition.
- Seller financing offers typical receives a higher overall selling price.
- Use anchoring in your negotiations. Start at a higher asking price and negotiate down. Make sure everyone feels they win the negotiation, you will have to work with this person for a period after you sell the business.
- Avoid selling when you have too (also commonly know as a distressed sale) buyers will punish you on your valuation.
- Be patient, especially in negotiation. I love the saying "he who cares less wins" is very true in negotiations. Pushy selling and sales tactics don't work when selling a business.
- Document everything in the purchase agreement. Everything that you have negotiated needs to go down on paper. You will have no legs to stand on down the road when trouble starts to happen in the deal, and you have a verbal agreement on something.
- The value of your business can go down in due diligence if the buyer notices warts/problems in the business. Just be aware that the offer might change after the due diligence period.

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