

Selling your business

How to ease the burden of the process and get the best price

Selling a business in today's weak market may seem counterintuitive; nevertheless, businesses are being sold. More business owners are reaching or working beyond retirement age. Businesses unable to refinance debt as loans are being called are forced to consider selling to avoid default and foreclosure. A life event may require the business owner to sell to raise cash.

In some cases, values are holding up very well, particularly in specific technology sectors. As a result, some businesses are actually "selling high." Whatever the motivation for selling, the sellers who are getting good prices for their businesses are doing so because they are:

- Taking steps to lower the risk to the buyer

- Giving themselves plenty of time to execute the sale

- Getting support from professionals who are experienced at selling a business

Smart Business talked to Michael Blake, director of Valuation Services at Habif, Arogeti & Wynne, LLP, about the factors to be considered when contemplating the sale of a business.

Why is it important to lower the perceived risk in my business from the buyer's perspective and how do I do so?

The market is pricing risk more expensively. This is related to the expression of 'flight to quality' that you might have heard about, which really means 'running away from risk.' Lower purchase prices or valuations compensate buyers for taking on more risk. So, to keep value high, it follows that lowering risk is a useful thing to do.

Accept earn-outs. When you're willing to make part of your sale price contingent upon the business's performance after you depart, you're reducing risk to the buyer. Not only are you making yourself available to answer questions and transition key relationships, but you are also sending a signal to the buyer that you're not just sitting on a dam that's about to burst.

Transfer personal goodwill to professional goodwill. When you make the business less dependent upon you (or any one person) you reduce the risk of the business. When customers think of your business name first and you second, that puts the buyer in a better position to replicate your success.



Michael Blake
Director of Valuation Services
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Keep good financial records. Good financial records, especially audited ones, make it easier for the buyer to understand exactly what he or she is buying. More transparency equals lower risk.

How long should the sales process take?

The more time you have to sell your business, the better position you are in to sell. You have time to negotiate without your back to the wall. You can try to solicit multiple bids and create an auction. You can turn down low-ball offers. All of these benefits of a long lead time give you a better chance at attracting a higher price.

Be realistic about the time to sell. Plan on 12 months to sell your business, including preparation for sale, soliciting bids, negotiating terms, and allowing for completion of buyer due diligence, and preparing and executing closing documents.

Be realistic about your need to sell. The chances are good you can see the freight train coming. The bank has told you it isn't going to renew your loan. You're personally finding it harder to

maintain the energy required to run your business. A long-term illness has created new liquidity needs. Face reality and act.

Make a prompt decision. Selling a business effectively takes dedication and conviction. If you haven't made the final decision in your head and heart, you're going to procrastinate, become easily distracted and act indecisively, which wastes the precious time required to perform the sale.

What outside support is available?

Most people who sell a business do so once in a lifetime. It's hard. There are legal, financial, tax and personal ramifications to the sale. Keeping track of all the moving parts while still managing your business (in case the sale falls through you probably still want to *have* a business) is very difficult.

Consider hiring a consultant. Not only can a consultant close the business-buying knowledge and experience gap between you and potential buyers, he or she can do a great deal of the heavy lifting and make sure that your time spent on the sale is limited to legitimate buyers and areas where your participation is absolutely necessary.

Consider commissioning a valuation study. It's very hard to assess an offer if you don't know what your business is worth and why. Not only will the study help you negotiate a better price from the ultimate buyer, but you can also quickly discard low-ball bids.

Consider engaging an investment banker. An investment banker knows how to package your business for sale and, most importantly, can help you identify potential buyers and bring multiple buyers to the sale process.

A business owner doesn't always have the luxury of choosing the exact time to sell. If that is your case, focusing on lowering the risk to the buyer, giving yourself ample time to conduct an orderly sale, and making sure you have competent advisers supporting you during the sale give you the best chance to get a good price. <<

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