PROTEGRITY Advisors™

The Ten Commandments: Preparing to Sell Your Business

By James R. Brennan

Buyers with strong balance sheets are viewing the recent economic instability as a buying opportunity of the century – while smaller sellers, with weaker balance sheets and less cash on hand to weather the storm, are looking for options, including in most cases, a liquidity event in the form of a sale of their business. As we meet with business owners, we urge them to consider the 10 items below as a rough guide in preparing their business for sale.

I. Thou shalt … start early, assemble the team and commit to the process. Last-minute preparation will result in buyers' perception of a fire sale, which rarely results in acceptable offers.

II. Thou shalt … stay focused on the business and keep your eye on the ball. The last thing you want to show while trying to sell your business is a down sales quarter. Allow your advisors to sell the company while you remain sharply focused on items such as sales, customer service and expense control.

III. Thou shalt … manage cash, manage cash and manage cash. Sorry for the triple play, but owners who are hyper-focused on their daily cash sheet can command better multiples when selling their company.

IV. Thou shalt … consider the concept of continuous pruning and continuous hiring. There are always good people to hire and usually some underperformers to trim. Many successful businesses constantly display a help wanted sign.

V. Thou shalt … make valuation-driven decisions. Adopt a philosophy that many decisions can be made based on the potential impact on future corporate valuation. For example, when deciding between two new offerings, choose the one that provides the potential of longer-term contracts, recurring revenue sources, service contracts, etc… As a rule of thumb, service businesses sell for less than 1X of revenue while contracted-recurring-revenue businesses can sell for 2X times revenue or more.

VI. Thou shalt … guarantee that one owns the intellectual property (IP) that they are selling. Ensure that all of your employees and contractors have assigned the IP and you possess clear documentation that supports your ownership of all inventions, ideas and innovations. This is typically one of the first items on a buyer's due diligence checklist.

VII. Thou shalt … clean up all shareholder issues and avoid waiting for the due diligence process to settle any 20-year-old family feuds. Although this sounds obvious, it is commonly an issue that causes concern for most buyers and tends to quickly ramp up the legal bills as the lawyers scramble to repair the mistakes and disputes of the past.

VIII. Thou shalt … perform a basic valuation early in the process to set expectations. Don't wait for the buyer's Letter of Intent (LOI) to begin the discussion with the other shareholders. Valuation processes can range from a quick review of on-line deal databases to a more formal Report.

IX. Thou shalt … perform a legal corporate tune-up. Do you know where your corporate book is? Have the shares been issued and catalogued? Have the major decisions been documented and minutes added to the corporate book? Is there a clear equity ownership trail defined in the corporate book? Call your lawyer today and schedule this proactive tune up.

X. Thou shalt … assemble all paperwork. In two simple words, get organized! Corporate documents, contracts, reviewed financials, tax returns, employee folders, product information, etc… – all are part of every buyer's favorite due diligence checklist. Be prepared and start making PDF copies early.

Jim Brennan is founder of the Mergers & Acquisitions practice at Protegrity Advisors, LLC, - Long Island's leading M&A Advisory firm specializing in sell-side and buy-side transactions for businesses with revenue from $5 million to $100 million across a wide range of industry sectors. Our professionals have completed hundreds of business divestitures, acquisitions and finance transactions as CEOs, Presidents, General Counsel, senior business executives, and investment bankers. For more information, please contact Bill Borges at 631-285-3175 or Bill.Borges@ProtegrityAdvisors.com.