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7 Steps to Prepare a Business for Sale

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Preparing a business for sale involves planning in order to maximize value. Here are some steps to prepare for the sale of your business:

1. Financial Preparation:

Normalize Financial Statements

Owners of privately owned companies tend to treat their companies as extensions of themselves and tend to incur expenses that would not otherwise be incurred. This is normally done to minimize taxes, both personally and corporately.

Recast the financial statements for the past 3 years to reflect the business operations and cash flow as if it were a publicly traded company. This step is crucial because when showing the books to a prospective buyer, you need to do so with all of the proper adjustments made, such as:

- All Owner's compensation
- Depreciation-tax calculation versus economic calculation
- Amortization
- Accounting principles to reflect GAAP (Generally Accepted Accounting Principles)
- Inventory – accurately counted with all slow-moving/obsolete inventory written off
- Accounts Receivable – provide allowance for bad debt
- Unusual expenses – itemized and detailed
- Redundant assets
- Purchases expensed that should be capitalized
- An independent appraisal of any real estate
- Assess market value of major equipment

It is virtually impossible to determine the financial value of a privately held company without recasting and analyzing the financial statements to determine the true earning power. Financial statements seldom portray the true picture of a business's profit-making ability, it is essential to recast them.

Market Research

Market research provides credibility that allows you to build pro forma financials for the next 3 years. Detailing industry-specific trends and growth opportunities along with credible third-party projections will enable you to show any prospective Buyer what the near-term future should hold.

2. Operational Preparation:

Be prepared to provide such things as:

- Complete financial statements
- Equipment lists with serial numbers, age and condition
- List of employees; including start dates, wages, bonuses, date of last raise, outline of duties, and qualifications
- Document and streamline your business processes to demonstrate efficiency and scalability
- Minimize reliance on specific individuals, especially if the business depends on your involvement
- Showcase potential for growth and scalability by having clear plans and strategies for expansion

3. Legal and Compliance:

Ensure Your Business is Using "Good Business Practices"

- Is the business operating in a manner that is consistent with GAAP?

- Make sure all cash sales are recorded.
- Have inventory levels been accurately stated for the past three years and is turning properly?
- Are receivables properly aged? Have you reviewed customers' credit rating on an annual basis?
- Are any leases, shareholder agreements, minutes of annual meetings, compliance with government regulations, and licensing with various authorities in order?
- Good record-keeping is a must.
- Quality assurance and control systems should be up-to-date and properly documented.

Resolve any outstanding issues that could impact the sale prior to going to market. If you have problems that can't be quickly resolved, be open about them. Trying to hide any issue will impact your credibility and affect your ability to negotiate a higher closing price.

4. Team and Management:

- A skilled and stable workforce is a valuable asset. Highlight your employees, along with their qualifications and roles within the company.
- Have a clear and efficient management structure in place, demonstrating effective leadership and delegation.
- Develop a plan to transition employees and ensure knowledge transfer to the new owners.

5. Professional Assistance:

Assemble a Team of Competent Advisors

Ensure that your accountant is tax-knowledgeable and able to structure the transaction to ensure you retain the most money.

Engage an experienced transaction lawyer.

Establish any special skills/expertise that may be required to complete the transaction. Specialists, such as an environmental engineer; a real estate appraiser; an equipment appraiser; etc.; along with a seasoned business intermediary, will help facilitate a smooth and successful transaction.

6. Confidentiality:

The first step is to have any prospective buyer sign a confidentiality agreement. Confidentiality Agreements/Non-disclosure Agreements (CAs/NDAs) should mandate the company but also extend its reach to encompass the company's employees and advisors. When there are personal consequences for individuals, rather than merely at the company-wide level, people tend to exercise greater caution to prevent breaches of confidentiality. The CA should encompass several critical aspects, such as:

- Prohibiting communication with employees of the target company.
- Restricting discussions about any aspects of the transaction or the target company to individuals who have signed the CA/NDA.
- Preventing engagement in conversations with customers or suppliers regarding the matter.

7. Have a Good Reason for Selling:

Most Buyers will ask why you want to sell. If the reason given does not seem realistic, it will create doubt in the Buyer's mind that you may be hiding some negative things which could harm future operations.

Best Reasons to Sell:	Worst Reasons to Sell:
Retirement	Business Starting To Fail
Lack of Capital	Illness
Unable to manage growth	Divorce or partnership dispute

By addressing these points, you can significantly increase the attractiveness and value of your business. Consulting professionals experienced in business sales is invaluable throughout this process.