

HOW TO
SELL
YOUR
PRIVATELY
OWNED
COMPANY

A BASIC GUIDE FOR
INDEPENDENT
BUSINESS OWNERS

BABY BOOMER'S EDITION

Eric R. Voth

How to Sell Your Privately Owned Company

A Basic Guide for Independent Business Owners

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By Eric R. Voth

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O V E R V I E W



This book: What's in it for you?

Did you ever find yourself in conversation with some of your colleagues, your family members, or perhaps, just yourself – when the topic of selling your business was mentioned?

Perhaps the conversation went something like this:

“I really ought to think about selling the business.”

“Oh, really. Why's that?”

“Well, several things come to mind:

- I'd like to think about retiring,
- I'm worried about the economy,
- There's a lot of change going on in my industry right now,
- It's growing too fast for me – all of the details are becoming too complicated for me to handle,
- There's really no one to take over and run the place when I'm gone,
- Personally, I want to move in some other directions,
- I think I could pocket some pretty good money.”

”Hmmm.”

“But I wonder if this is the right time.”

“I dunno.”

CHAPTER ONE



Making the
Decision to Sell
Your Business

Making the Decision to Sell Your Business

A key question to ask yourself when deciding to sell your business is: WHY?

As you read in the opening dialogue, there can be a myriad of reasons for doing so based on your age, your retirement aspirations, your financial goals, or your visions of bigger, better, brighter things.

Ask yourself these questions:

- Am I bored with this business... or just plain worn out?
- Am I concerned about the direction of the economy and how it will affect my business?
- Is my industry changing too fast?
- Do I plan to retire in the near future and have no family member interested in the business?
- Are the key decision makers in my company moving in the same direction?
- Does my business offer a specialty product or service that a larger company wants?
- Do I need to sell this business to make room or raise cash for my other interests?
- Am I faced with a personal challenge, such as an illness or prospective divorce?

Am I bored with this business...or just plain worn out?

Despite the thrill of opening a business, growing and expanding it, at some point some business owners get bored, or they're just plain worn out. They have fought the battles of growing their market share, landing new customers and clients, pleasing the old ones, and buying new equipment (sometimes financed at the bank with personal guarantees and second mortgages on their homes). They've grown weary of adding personnel (and paying for fringe benefits), filing government forms, and outfoxing the IRS. Perhaps they've become totally and completely bored with running the business because now everything is so routine – and sometimes complicated. Maybe they need to do themselves – and the business – a favor. Maybe they need to sell it.

Am I concerned about the direction of the economy and how it will affect my business?

What goes up must come down. Economies, and the companies that operate within them, have always been subject to cycles. Often it is difficult to predict the intensity of a cycle and length of time between recession, recovery, growth, and decline.

In a general sense, factors that shape business cycles are many. Such factors include the volatility of investment spending, consumer confidence, technological innovation, variations in inventories, fluctuations in government spending, political motivation, monetary policies, and fluctuations in imports and exports.

Cycles also occur within specific industries and markets.

Weathering business cycles requires a long-term view that focuses on a firm's key strengths. It involves planning with

Selling a company can be an intricate and time-consuming task. There are legal, accounting, tax, and regulatory issues to deal with. Further, there is the task of finding a qualified buyer, then negotiating and structuring the deal to your best advantage. Also, if you plan the sale as a “do-it-yourself project,” who is going to continue to run your company on a day-to-day basis – keeping it successful – while you work on all of the details required during the sales process? From beginning to end, the project may take as long as a year to complete.

Perspective of a contributing writer...

CASE STUDY

MY FIRST RADIO SHOW

By Scott D. Mashuda, CBI

I submitted an entry to my Company blog attacking a powerful local business radio show host. The piece was titled, “WARNING: Radio Host Ron Morris, ‘The American Entrepreneur,’ is Misinformed and Misguiding His Listeners On How To Sell Their Businesses!”

Ron Morris is not your average radio show host. He is a 10-time entrepreneur over a 35-plus year professional career. He is the founder and director of the Entrepreneurial Studies Program at Duquesne University. He is an advisory board member for the National Foundation for Teaching Entrepreneurship and the founder or co-founder of many prominent Western Pennsylvania businesses, including:

- Pittsburgh Business Radio
- IGATE Capital (formerly Mastech)

Preparing a Plan for Selling Your Business

Perspective of a contributing writer...

CASE STUDY

SELLER WITH A TIMELINE

By George Sierchio

The owner of a successful engineering consulting business sought my advice on valuing and selling his business. This business was almost 20 years old, had 10 consultants working in it with some support staff, and was fairly streamlined. Its revenues were in line with industry benchmarks as well as the profits. On the surface, all looked good for a nice valuation and a great acquisition target. Except for two problems...

This client of mine had two issues that he needed to get beyond in order to sell for top dollar. First, he waited until he was completely ready to get out before coming up with the idea to sell. It was March and he wanted to be retired by December 31.

His mistake was giving himself a very short timeline to make something happen, something that takes time. It takes time not only to find the correct buyer,

Summary information checklist

What follows is a checklist of items that will be needed for the preparation of a comprehensive plan to sell your company. These items may or may not be disclosed to a buyer. They are used to answer specific questions that the buyer may raise, and they are helpful to the intermediary during the negotiation process.

FINANCIAL STATEMENTS

- Annual statements for relevant period immediately prior to valuation date, minimum of three years
- Federal income tax returns for the same years (Form 1120 only)
- Most-current monthly financial statement

OTHER FINANCIAL SCHEDULES

- Aged accounts receivable list
- Aged accounts payable list
- List of loans to and from officers, directors, and stockholders
- Depreciation schedules, including real estate and equipment lists, date of acquisition, cost, depreciation method and life, and net depreciated value
- Inventory list
- Officers' and directors' compensation schedule, including all employee benefits and expenses allowed
- Stockholders list and agreements

MISCELLANEOUS FINANCIAL INFORMATION

- Schedule of key-person life insurance