A big deal

How to prepare to sell your company **Interviewed by Lisa Murton Beets**

Selling your business will be one of the biggest transactions of your life.

"The first thing you need to ask yourself is, 'Is this really what I want to do?'" says Eric Duffee, an associate with Kegler, Brown, Hill & Ritter. "There may be other options, such as selling the business to your employees or keeping the business in the family."

However, if you are going to seek an outside buyer, realize there is a tremendous amount of effort involved. "Selling your business is like having two full-time jobs," Duffee continues. "You have the job of running your business, plus the job of getting it ready to sell — and then dealing with the onslaught of prospective buyers."

Duffee emphasizes that it's important to work with experienced advisers as you prepare to sell the business and move through the process. "They will help you understand what matters and what doesn't. They'll show you where you have negotiating power and where you don't."

Smart Business asked Duffee what owners should do to lay a solid foundation for the sale.

Eric Duffee
Associate
Kegler, Brown, Hill & Ritter

How can the owner determine exactly what it is he or she is selling?

This seems like it would be an easy thing to do, but it's not. Some owners tend to look at their business through rose-colored glasses, overestimating its value. On the other hand, there are owners of service businesses who think that once they leave, there will be nothing left behind; however, that's not always the case. You have to put yourself in the buyer's shoes. What are they getting in terms of value? Maybe it's processes you use or an idea you have. Conversely, maybe you're doing the same thing that many other companies are doing, but you have great contacts. You can sometimes leverage the value of those relationships and sell that value to the buyer.

How should the owner go about getting his or her financial house in order?

Obviously, it's better to sell while your company is showing an upward trend. Generally, a business gets sold using an EBITDA (Earnings Before Interest, Taxes, Depreciation, and Amortization) formula. Any deviance on a balance sheet will cost you on a magnified level. For example, if a deal is priced at five times EBITDA and the buyer finds a $100,000 deviation, $500,000 gets taken off the sale price. So make sure your financial statements are accurate. As for the financial presentation, know that buyers have high expectations. They want to see an apples-to-apples comparison. The buyer wants to know your statements follow Generally Accepted Accounting Principles (GAAP). Do you need an audit? Maybe. But at least have an accountant look at your records from a disinterested, third-party perspective so that the buyer can translate what they're seeing.

How do you go about locking down the value of intangible assets?

Intangible assets include things such as confidentiality agreements, non-competes, invention agreements and registered intellectual property. This is becoming an increasingly important issue, and we see this often in Ohio with the growth in the technology sector. Sometimes you're selling know-how, ideas and concepts. How do you transfer that knowledge to the buyer? Does it make sense to get copyrights and patents? This is a cost, but sometimes you need to have something tangible and protectable to transfer. At the very least you should have confidentiality agreements in place. If you have a few key employees in your business who hold a great deal of knowledge, consider implementing non-competes and confidentiality agreements before the sales process.

What are some potential 'warts' to look out for early on?

There is no such thing as a perfectly clean business. If you know that a situation exists, have an open and honest talk with counsel. Don't hide anything. Buyers will do due diligence and if they find something you haven't disclosed, you'll lose credibility; they may even claim you're trying to defraud them. It's better to be up front going into the deal. As a seller, your greatest leverage is at the outset. You don't want the buyer trying to reduce the selling price deep into the process just because they uncover something that you didn't tell them about.

How can you be sure you're getting the best deal — both price and terms?

Be sure to work with a team of experienced professionals — accountants, lawyers, maybe an investment banker or a broker. To find potential buyers, you have to go through people who know people, and that usually means working with a broker or investment banker. The right broker will help you find qualified buyers and will operate confidentially, so as not to negatively impact relationships with your employees, customers and suppliers. In any case, you want as many potential buyers as possible; a competitive situation will help you get the best deal. <<

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