WHEN IS THE RIGHT TIME TO THINK ABOUT SELLING YOUR BUSINESS?

Hint: The answer is: ALWAYS!!

Whether you are running a start-up, struggling through a phase of stagnation or high growth, or enjoying the fruits of your labor as you approach retirement, there is never a bad time to think about selling your business. Let's face it, not everyone is planning to sell their business. At least not right now. Maybe in 2 years, 5 years, 10 years? Maybe never. So if you are not planning to sell your business in the near future why should you spend precious hours thinking about it? Well, I could quote several people much smarter than myself, such as Benjamin Franklin: "Failing to prepare, is preparing to fail"; or Lewis Carroll (paraphrased) "If you don't know where you are going, any road will get you there". While these sentiments ring true, there are a couple of much more compelling reasons, with a more "practical" message that should resonate.

Firstly, over the last 10 years, there have been an average of approximately 8,500 privately-held businesses sold in the US each year[1].

[1] www.capitalIQ.com

Bo Burlingham, author of Finish Big, wrote:

> *According to a study by the U.S. Chamber of Commerce, just 20 percent of companies put up for sale are ultimately sold, meaning that four out of five prospective sellers walk away empty-handed. A much greater number of would-be sellers – by one estimate, 65 to 75 percent of owners who would like to sell – never even make it into the market. They learn early on that they have little or no chance of finding a buyer.*

Applying the above statistics means that each year there are approximately 150,000 to 175,000 privately-held businesses who wish to sell, 40,000 of which make it to market, and 8,500 that are ultimately sold. It stands to reason that if you want to be part of the 8,500 you need to be better prepared than your peers.

The second compelling reason to be prepared is that there is always the possibility of an "unplanned sale". What if something were to happen to you as a business owner that prevents you from continuing in the business? What happens to the business? Does it pass to your co-owner? Your estate? Your significant other(s)? What would happen if you received an unsolicited bid to buy your company tomorrow? How would you respond? Are you ready? Have you thought about all the possible implications? To you, your family, your colleagues and their families, your customers, your vendors? These are all very BIG questions.

What steps can you take today to be better prepared for a sale? The first, and perhaps most critical step, is to understand the concept of "valuation" and how it might apply to your particular business circumstances. According to a survey of 271 business owners conducted by B2B CFO®[2], when asked about their concerns in respect to selling their business, 62% cited concerns regarding valuation or sales price. Will I be getting the correct value for my business and will the expected net proceeds meet my goals?

When it comes to "value" there are many different valuation approaches that might be employed, including the EBITDA method, the Discounted Cash Flow Method, Comparable Company or Comparable Transaction methods, to name a few. Sometimes there might be a combination of methods used. By far the most commonly used method involves the use of EBITDA. This is a term with which you should become most familiar.

---

[2] 2013 Inc. 500|5000 Conference and Awards Ceremony

It stands for (E)arnings (B)efore (I)interest (T)axes (D)epreciation and (A)mortization.Think of EBITDA as a way to measure your cash generated annually before paying interest and taxes (which another company might not have to pay) and before deducting depreciation and amortization which reflect accounting conventions and are not cash-based. The value of your company will often be based on a multiple of EBITDA, meaning that $1 of EBITDA could translate to $4, $5, $6 dollars in sales value, depending on the type of buyer that you are targeting. Being in a position to demonstrate a strong and growing EBITDA across the valuation period (which could again vary) will position you well in the eyes of a buyer. Which brings us to the question of "who will buy your company?"

Buyers come in many forms and sizes, and each carry their own objectives and interestingly each will likely value your company somewhat differently. There are basically three types of buyers: insiders, outsiders and the public. Insiders include an ESOP (effectively a sale to employees), family transfer, a management buy-out. Outsiders would include strategic and financial buyers, Private Equity firms etc… Each type of buyer will value your company in a different way, aligned with the objectives they are trying to achieve. A financial buyer will be looking purely at a "Return on Investment" (ROI) approach. They want to acquire your company and then sell it a few years on for a lot more than they paid for it. Strategic buyers may want to buy your company to increase their market share, or to gain access to new technology or customer segments. In general, strategic buyers will be willing to pay the highest EBITDA multiple for your business. Financial buyers may also be willing to pay a higher multiple but the level of due diligence in a sale to a financial buyer will be extremely onerous.

In short, the thought of selling your business can bedaunting. However, the risk of an unsuccessful outcome can be mitigated by educating yourself on the valuation process, the types of potential buyers that exist and some of the "obstacles" that may need to be overcome on your way to a successful sale.

There is a wonderful book on this topic, written in plain English, and full of examples of how you can "Run your business as if you were selling it tomorrow". You can download it as an e-book here for under $10:**https://www.b2bcfo.com/store.html**. It is called "**The Exit Strategy Handbook**". In addition, the following 3-minute video will help to consolidate some of the above thoughts: **https://player.vimeo.com/video/239728259**

If, after reading the book or watching the video, you have questions or would like more information, please feel free to give me a call at (978) 621-2648, or email me at **ralphhunter@b2bcfo.com**.

Article provided by: **Ronald J. Adams, CPA, CVA, ABV, CBA, BCA, CFF, CGMA – Foxboro Consulting Group, Inc.**, **adams.r@foxboro-consulting.com**; **(508) 878-8390** (mobile); and **(774) 719-2236** (office).