

How To
MANAGE, GROW
AND
SELL
YOUR BUSINESS



SKYLINE EQUITY ADVISERS LTD.

www.skylineequity.com

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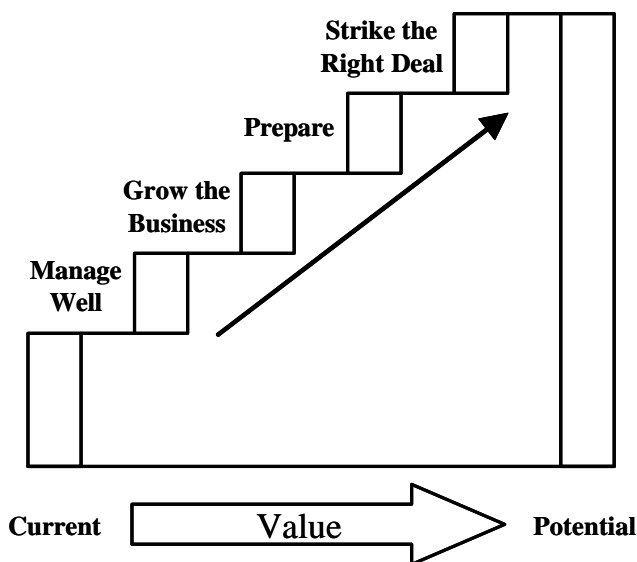
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Introduction

There are over 20,000,000 small and medium-sized businesses in the United States. An estimated 10% of those are expected to attempt to change hands each year. That's a lot of potential transactions. However, selling a business requires preparation, an understanding of its value and transferability and a good deal of hard work, so many of these transactions never take place.

At Skyline Equity Advisers, we understand the companies looking to be sold and the buyers seeking to acquire them. As depicted in Figure I.1, we believe that a company's value to an acquirer can be greatly enhanced through better management as well as a proper approach to the sale process.

Figure I.1
The Value Imperative



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The relatively smaller businesses (*i.e.*, those with sales under \$1,000,000) present the greater challenge as they are often heavily dependent on the involvement of the owner or are not established well enough to have significant value to an acquirer. Without such an established presence in a market or industry, potential acquirers - such as entrepreneurs and established companies - may be able to penetrate a market for less than the price of acquiring an existing business.

Larger businesses often have similar issues. But, the difference is that with some effort these businesses can be easily transferred. Often, businesses with several million dollars in revenue have trouble selling – there is little reason for this. Business owners must strive to establish a tangible and intangible value to their businesses which cannot be replicated easily by a new entrant.

Furthermore, selling a business, small or large, requires planning and preparation. The more an owner manages a business with the thought of a potential exit in mind, the more attractive it will be to a potential acquirer. Will you be prepared when that time comes?

Through this book, we hope you will gain some insight on how to bolster the attractiveness of your business and how to approach the process of selling in the way that maximizes the value of the business you have worked hard to build.

Chapter

1

Managing Your Business Well

Large companies do a lot of things wrong. They can be inflexible, bureaucratic. They can be perceived as slow getting to market, slow to make decisions. Working for them may not be everybody's dream in life.

So entrepreneurs and small business owners have a tendency to do things their own way. Because of their size and simpler organizations, small business owners do have an advantage. They can react quickly, make decisions and make changes. They say they don't want to get "bogged down" like a large company. They're right – they shouldn't. But the truth is that small business can learn a lot from and benefit from the practices, processes and discipline developed and employed in large organizations.

First and foremost, companies must "manage for value". What does this mean exactly? Well, if you were a public company, it might mean making sure your stock price stays high. Why do CEOs and other corporate executives spend so much time worrying about this? Aside from personal gain, stock price should represent the ultimate measure of the value of their company. Over time, stock price is well correlated with the real economic value a firm creates. Additionally, stock is often the "currency" with which a company can fund growth through acquisition or raise additional capital; the higher the stock price, the greater the ability to grow. And, of course, if a company were bought out, the higher the stock price, the wealthier the shareholders become.

What drives the price of stock? Theoretically, it's equal to the expected value of the future cash flows of the company discounted by a risk-adjusted rate of return. Therefore, executives must prove to the

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market that there will be healthy cash flows in the future. Plans for growth, product introductions, operational improvements and the like convince the market of good prospects for the future.

In the short term, we all know that stock prices may fluctuate a bit less rationally. This, too, must be a concern for executives. CEOs must constantly manage the perception of their companies and their companies' future in order to avoid short-term hits to the stock price or to cause a short-term bounce.

The question is, "Are you doing this as well?" You, too, may want to raise money for your business. Or you may decide it's time to retire and sell your business. Will your business be perceived as having value? Will you be able to borrow money? Will your business command a premium on the open market? If the answer to these questions is "no", you may want to introduce some discipline into the organization.

The next few tips will help you do that. While this is not meant in any way to be exhaustive, here are a few tips for small and medium-sized businesses about some practices that you see in large corporations which might help your organization. Don't think of these as a hindrance; they may help your company prosper and become more valuable.

1. Plan!

Every business should have a plan. Some large companies plan to death. That's not good, but planning itself is. For start-ups and small businesses, this usually means a business plan. A business plan is essential for a multitude of reasons. First and foremost, it is the vehicle by which your company charts its course. It will help you define, formalize, and detail your goals and work to be done.

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Secondly, you will most likely need one if you ever want to raise money or sell your business. You're much better off having one before you go to the bank for a loan.

A good business plan will have similar elements and analysis to those of large corporations. Some of the critical elements of a plan are:

- I. *Description of the Business* – the company's history, product and/or service lines, markets and geographies served, goals, strategies, future plans
- II. *Industry Overview* – current trends and opportunities, regulatory issues
- III. *Competitive Analysis* – strengths and weaknesses, key competitor analysis
- IV. *Marketing Plan* – demographics of target market, advertising strategy, promotions, impact and associated costs
- V. *Operating Plan* – location, facilities, processes, key relationships (supply, distribution, product development)
- VI. *Organizational Plan* – structure, key personnel, staffing requirements, payroll
- VII. *Financial Projections* – near term cash flows, long-term projections (linked to the plan)

Make sure that the plan makes sense, the elements are linked, it is realistic and it is useful to you as a tool to manage your business. The plan should be a "living document" which outlines your goals and your strategy for achieving them. From this plan, you can develop more detailed work plans to help you manage toward these goals on a regular basis.

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2. Measure Your Performance

Counting up the receipts at the end of the day or month and netting out the expenses may not be enough. Most leading-edge corporations have moved toward the concept of a performance measurement “dashboard”. This is essentially a set of financial and non-financial measures which tell managers whether or not they are on course to meet their financial and strategic goals. What is most important is that it creates an “early warning” system to tell you if you are straying off course. Additionally, it is a way to translate the overall goals of the organization down throughout the employee ranks to align individuals with those overall goals.

Because owners of smaller businesses tend to be so close to what’s going on, they tend to neglect more formal monitoring of performance. If you really want to drive your company and your employees toward your objectives and toward creating value, you’ll implement some better measures and a process for managing with them.

3. Create Incentives for Employees

So, you may not want to issue stock options. That doesn’t mean your employees can’t share in your success. Keeping your employees happy and motivated and, therefore, just keeping your employees is critical to any organization’s success – large or small. Unlike publicly traded companies, a small equity interest in a closely held private company may not be very valuable. Unless you plan to take your company public, look for another way to compensate your employees.

Working for a small company presents a certain amount of risk for everyone involved. A good incentive compensation scheme typically provides for bonuses based on a mix of company goals and individual objectives. Use the measures you’ve defined for the company to help

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set those goals. If your employees share some of the risk with you, let them share in the reward, too. That way, everybody wins.

4. Create Sustainability

What happens if you're no longer there? Most large companies have enough history, infrastructure and discipline to survive the departure of a founder or CEO. Many small businesses, however, are not transferable, because they are too heavily dependent on the owner's involvement. The more discipline, formal processes and structure you have in the organization, the better the chance it will be perceived as having a life without you. This will make the business much more attractive to potential buyers, if you ever decide to sell. It will also lower the risk perceived by lenders and investors, making it easier for you to attract growth capital.

A good business owner should always be looking for ways to enhance value. Those lessons can come from other companies, other industries or other markets. Simply, it is important to identify and understand good business practices. No matter how big or small your company, you should try to employ them. It requires a bit of effort, but the payoff can be substantial.

Chapter

2

Taking Your Business to the Next Level

At any point in the business life-cycle, generating top-line revenue is the biggest challenge. When a business is in start-up phase, the critical hurdle is to penetrate the market – to get the first few customers and make the first few sales. As the business begins to grow, owners must figure out how to sustain the top line by attracting new customers and retaining the ones they have. If a company is successful at growing the revenue base, and the business has viable fundamental economics, a good manager should then be able to figure out how to make that business profitable.

Once the business is stable and successful, the most commonly asked question by most small and medium-sized business owners is “How can I take my business to the next level?” Often, business owners don’t really understand their own question. Sure, everyone wants to be rich, everyone would like to be the next Bill Gates, but what does the “next level” mean? The fact is that it is different for every business. All successful businesses, especially smaller ones, at some point reach their natural limit in terms of size, given the current capabilities of the organization. The reason can be any or all of a number of often related constraints:

- *Physical plant* – In a manufacturing environment, for example, space or machine limitations may limit production to a certain volume.
- *Employees* – In most cases, especially in a labor intensive environment or one where there is heavy owner involvement, expansion will require hiring of additional employees.

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- *Span of control* – Many business owners manage by overseeing all activities. Expansion will require delegation, control processes and the ability to let go.
- *Number of locations* – Many retailers, service businesses, restaurants and the like can only grow by increasing the number of locations – a costly and risky proposition for business owners.
- *Capital availability* – Almost all investment requires additional capital, which the owner may not have. Some businesses that carry a lot of inventory may need greater working capital. Any expansion will generally require an increase in working capital as well. Other types of investment require capital for property or fixed assets.
- *Desire for risk* – Not every owner wants to put their business or their lifestyle at risk. Growth requires some degree of risk but should bring the desired reward.
- *Local market demand* – Geographic expansion may be required for some businesses to grow, because the local demand has been satisfied. The implication for the business may be more locations, more marketing or wider distribution.

Overcoming these constraints usually requires a very significant effort or investment on the part of the owner – an often scary proposition for someone who has become accustomed to a particular lifestyle.

The key to developing a growth strategy is understanding what the next level is for your business, what is standing in the way of getting there, what you need to do to overcome those obstacles and what risk does that bring for you as the owner. We hope that this book will provide some tips for business owners on how to understand their particular situation and grow their businesses into more valuable concerns.

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1. Be Prepared to Take a Risk

Just like starting a new business, growth requires a certain degree of risk. If you are unwilling to take that risk, you will never be able to grow. The primary risk is, of course, financial. Growing the business will no doubt require investment. If you can finance the growth with past profits or personal capital, it means putting your hard-earned personal wealth at risk. Taking on debt or attracting equity investors brings another layer of risk - the financial covenants likely required may put the entire business at risk if they are not met.

Lastly, the “new” business whether it is new locations, services or product lines may operate at a loss while the business gains a market presence. In the short-run, company profits may decrease and your personal income may decline.

The second major area of risk is lifestyle. Just like when you started the business, be prepared to work hard – very hard. If you are in cruise control mode, comfortable with your lifestyle and don’t want to change, it will be hard to get to the “next level”.

2. Be Prepared to “Let Go”

Most small business owners are heavily involved with their businesses on a day-to-day basis. While this will no-doubt continue, the level at which one can be involved must change. Expansion will require taking on and investing in key employees to help you manage and run the business. These employees need to be entrusted with and accountable for decisions and day-to-day operations. Your job as the owner will evolve into managing the overall direction, performance, major strategic relationships and the performance of key employees.

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It's not easy to let go and it's not easy to find quality employees. As your business grows, the employee attraction and retention process becomes a more important part of the business, because you need to find people whom you trust personally and professionally. Good employees may be a bit more expensive, but the extra investment is probably worth it.

3. Don't be Afraid to Raise Money

Many small business owners are afraid to borrow money and are proud that they've gotten so far without having done so. Large companies, by contrast, are often leveraged to the hilt. The fact is that there's nothing wrong with borrowing money – as long as you can pay it back. Do you think you're a good risk? If you need additional capital to grow, leveraging your business may be a good thing, especially if interest rates are low. Of course, debt financing is not always easy to get. If you are able to obtain financing, it may fund an expansion which will produce a high return for you.

Equity investment is a little more complicated. It means less risk for you, but tends to be expensive if it pays off. And, of course, you will have more owners involved in your business. Each business owner must assess the type and mix of financing which is possible and right for them.

4. Implement Formal Processes

Now that you won't be able to manage the business in such a hands-on fashion, you have to inject some discipline into the organization to prepare it for growth. Because many small businesses are so heavily dependent on the owner's involvement, they lack the discipline which is commonly seen in larger organizations.

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The more discipline, formal processes and structure you have in the organization, the better the chance it will have of being successful through the expansion. Formal operating procedures, control processes and information systems become increasingly important. This discipline will also lower the risk perceived by lenders and investors making it easier for you to attract growth capital.

Continuing to grow your successful business is exciting and potentially rewarding. Taking the business to the “next level” brings many of the same risks you took when the business first began. However, your track record of success should give you the confidence to invest in yourself and should give others the confidence to invest in you.

Chapter

3

Getting Ready to Sell Your Business

Most small and medium-sized business owners don't think about exiting their business. They enjoy their work and their lifestyle. Many of them don't even realize that their business may be an attractive acquisition target. Moreover, they don't manage the business in a way to make it an attractive acquisition target. While large corporations are always mindful of their potential for acquisition, smaller businesses usually aren't.

However, successful business owners very often find themselves in the position of wanting to "get out" and sell their business. At some point, most owners want to retire, become "burned out", wish to re-locate, see another business opportunity which requires cash or simply want to take advantage of market conditions to capitalize on their investment.

Here are some other tips which should help you get your house in order if you ever decide it's time to sell your business.

1. Make Operational Improvements

The more a seller does to improve existing operations, the more valuable the business will be to a potential buyer. Owners should always be looking to improve both the top and the bottom lines. These operational improvements will help the ongoing business and may significantly boost its market value. Before beginning the process of selling, owners should identify potential areas for improvement and evaluate the possibilities for implementation and initial results prior to a transaction. Sometimes, small improvements to the operation can

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make the business more presentable and, therefore, more attractive to potential buyers.

2. Prepare Your Documentation

The purchase of a business represents a significant transaction for most buyers. In order for that transaction to move forward with confidence, the business opportunity, analysis and financials must be well presented in a professional offering document. Many smaller company transactions never happen due to a lack of preparation. These companies need the same level of professionalism provided to large enterprises in order to complete the transaction at a good price.

In order to prepare a professional package which will be appreciated by entrepreneurs and *required* by both financial and strategic investors, it is important that the company's financial and operating information be in order. Ideally, the seller should be prepared to present:

- Tax Returns and Internal Financial Statements (Latest 3 Years)
- Interim Financial Statements for the Current Year
- Product and Customer Analyses
- Other Key Financial Information (*e.g.*, Fixed Assets, Accounts Receivable)
- Business Plan and/or Description
- Process Flows or Descriptions
- Copies of Leases and Other Key Agreements

It is always better to be prepared. When it comes time to retire, move or change your situation, you have a much better chance of making all your hard work pay off if you stay focused on the real and perceived value of your business. Some extra effort along the way and a proper approach to selling the business can make a big difference in the price paid for your business.

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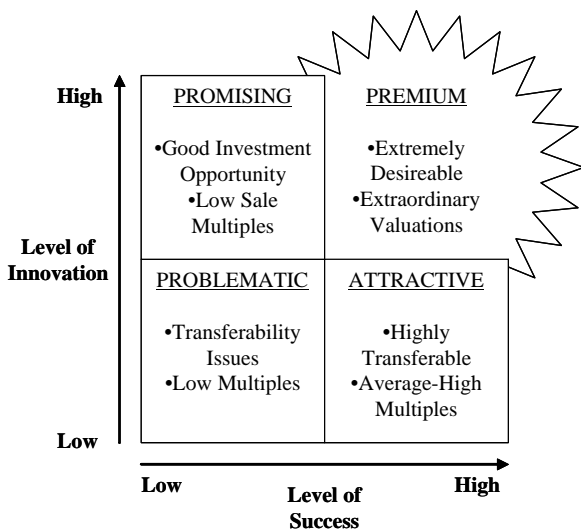
3. Set Your Expectations

Before entering the process of selling a business, an owner should understand the value of their enterprise (tangible and intangible) to develop rational expectations about what is achievable. Although, we will discuss financial valuation in detail in the next chapter, it is important that sellers take stock of their company's uniqueness and attractiveness, so that one better understands the results of the financial valuation and knows whether the process will meet one's expectations.

At Skyline, we have developed a way of thinking about our clients' businesses along two simple dimensions:

- *Level of Innovation* – How unique is the company in terms of products, services, technology, processes, brand or market?
- *Level of Success* – What is the size, growth rate, market share and profitability of the company?

Figure 3.1
The Value Matrix



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It is our experience that many business owners wrongly believe their company should command a “premium” relative to other similar businesses (probably, the biggest reason why many companies do not sell) and often waste valuable time engaged in a fruitless effort to sell their business, or worse yet, pass on valid offers in the false hope that a better one will come along. The simple fact is that relatively few businesses actually command a premium above the average range of multiples paid for similar businesses. Such companies tend to have substantial revenues (at least a few million), high growth rates and, most importantly, unique (*i.e.*, proprietary, patented, trademarked, etc.) products and services. This category is reserved for the highly successful entrepreneurial companies which tend to represent the leading edge in their respective industries.

Most successful small and mid-sized companies fall into another category which we consider “attractive”, but not extraordinary. The objective here should be to find a suitable acquirer and to maximize the value within a normal valuation range. This is where the bulk of business sales occur.

Businesses where there is a high level of innovation, but little track record of success are better suited for investment rather than a sale. Very often, owners have unique products or offer unique services, but have failed to invest in infrastructure, marketing or distribution. Too often we hear, “I don’t have the money, but if someone else could just get it into Wal-Mart, they would make millions.” While these businesses may be “promising”, it is naïve to think that such a company is very valuable in its current state, as acquirers will tend to pay only for the success to date which, in this case, will be little.

Lastly, businesses which are lacking on both dimensions, unless improved, will command little value and may not even be transferable.

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In sum, some introspection ahead of time will make for a much more efficient and effective process resulting in a desired and expected outcome.

4. Seek Professional Assistance

We believe that you, as the owner of a successful business, looking to realize the most value from its sale, should hire a professional Mergers & Acquisitions (M&A) advisor, intermediary, or business broker, but *only* if that advisor is a real professional who will provide you with real service and real value.

A passive approach adds very little value to the process of selling your business. A professional intermediary will take the time to learn your business, research, identify and approach the potential buyers, analyze your financial records, and prepare a professional valuation and offering document to effectively and credibly present your business. Therefore, while there are many well-known questions to ask a prospective advisor or broker (such as his background, education, experience, skills, terms of engagement, etc.), for us, the truly important questions are:

- What are you going to do to earn your fee?
- What work will you do for me?
- What services will you provide?
- What value will you add to this transaction?

A serious professional will be able to answer these questions to your satisfaction and will be a valuable addition to the process of selling your business.

Chapter

4

Valuing Your Business

Determining the value (and the corresponding asking price) is an essential initial step in the process of selling a business. While prospective buyers will certainly perform their own analysis, it is critically important for the sellers to secure their own valuation. A professional business valuation will determine how much a business is worth, set the asking price for the business and, then, justify that asking price to prospective buyers.

As we discuss in detail below, a sophisticated, professional valuation should:

- Be performed specifically with the sale of the business in mind and, ideally, by your business broker or intermediary with a clear understanding of the current market conditions (as opposed to the “third-party” valuations performed for a purpose other than the sale of the business, such as estate planning, divorce, tax assessment, ESOP, etc.);
- Combine multiple approaches and methods; and
- Take into account the strategic value of the business and the deal structure.

1. Who performs the valuation?

When a business valuation is needed for the purpose of selling a business (as opposed to other situations, as discussed below), that valuation should be performed, ideally, by your business broker or

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M&A advisor. There are two main reasons for this are (1) knowledge of market conditions and (2) cost.

Your professional business broker or advisor should be intimately familiar with the current market conditions generally in your geographic region and also specifically for businesses of your particular type. Knowledge of the prevailing multiples (*i.e.*, selling prices) is critical, naturally, to arriving at an accurate and reliable business valuation – one which is grounded in the realities of the business marketplace. By contrast, there are many “third party” business appraisers and valuation providers who produce valuations for a variety of legal, tax, and regulatory situations (such as divorce, estate planning, tax assessment, ESOP, etc.). These valuations, while perfectly appropriate (and necessary) in these other circumstances are often too “theoretical” to be useful for a business sale. In other words, without being focused on what business buyers are currently willing to pay for businesses of a particular type, it is not possible to determine what your business can be sold for at any given time.

Typically, your professional business broker or M&A advisor (such as Skyline Equity Advisers) will perform a valuation of your business— as formal or informal as may be appropriate under the circumstances— at the outset of his engagement. Most importantly, the cost of that valuation will be typically *included in their overall transaction fee*. By contrast, “third party” valuations are typically performed by accountants or other professionals for a fixed fee. Naturally, this creates an additional cost to you, because now, the broker’s commission will be *in addition* to the valuation fee.

Lastly, a claim is often made that these “third party” valuations are “impartial” because they are performed for a fixed fee rather than a commission on the sale of the business. However, this so-called “impartiality” is really a weakness rather than a strength, because someone who is simply paid a fee for their opinion may often lose

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sight of the fundamental purpose of their valuation in a sale scenario – to determine the asking (and probable selling) price of your business at that particular time.

2. How is a professional valuation performed?

A professional valuation performed for the purpose of a business sale should combine several valuation methods, with reference to prevailing market multiples (*i.e.*, comparable industry transactions), to determine the value (and, therefore, the asking price) for the business. There are several methods typically used to value companies:

- Cash Flow & Revenue Multiple Analysis;
- Asset (Book & Fair Market/Replacement) Value Analysis; and
- Discounted Cash flow Analysis.

In addition, an in-depth analysis of the company's strategic industry position, transferability and attractiveness as an acquisition target will indicate which methodologies are more appropriate (and therefore, should be weighted more heavily) than others. These qualitative factors will have a direct impact on the financial analysis by, for example, helping to select the appropriate multiples to be used in Cash Flow & Revenue Multiple analysis (as described later).

Strategic Analysis

Typically, a valuation begins by understanding the qualitative factors through a process known as Strategic Analysis. Strategic Analysis is typically comprised of the following three components:

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- Industry Analysis
 - What is the industry?
 - Who are the competitors?
 - How does the company fit within this competitive environment?

- Market Analysis
 - What does the company sell – products / services?
 - Who are its customers?
 - What is the price structure?
 - What are its major distribution and marketing channels?

- Company Analysis
 - Strengths - what are the company's differentiating characteristics?
 - Weaknesses – does it have competitive disadvantages?
 - Opportunities – what are the right directions for future growth?
 - Threats – what are the issues it faces or will soon face?

As we said before, the Strategic Analysis should influence the financial valuation. One common method used by many intermediaries is called the Capitalization Rate Method. In this case, a cash flow multiplier (typically in the absence of prevailing market multiples) is simply “built up” according to the company’s score on a number of qualitative dimensions.

At Skyline, we have a similar approach which we call the *Skyline Attractiveness Index* whereby companies are rated along 10 qualitative dimensions. In practice, the appropriate multiples for a company are best determined by the market rather than an arbitrary “build-up”. Since there is always quite a broad range in market multiples, the Attractiveness Index is used to determine where in the spectrum a

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particular business falls. Figure 4.1 outlines the general criteria by which we analyze companies.

Figure 4.1
The Skyline Attractiveness Index

1. *Company History* – How long has the company been in business?
2. *Company Growth* – Have revenues been growing or declining?
3. *Industry Attractiveness* – Is the industry growing and profitable?
4. *Level of Competition* – Does the company have a lot of competition?
5. *Revenue Risk* – How stable will revenues be under new management?
6. *Management Retention* – Will the company's key employees remain under new management?
7. *Expansion Opportunities* – What are the opportunities for growth?
8. *Barriers to Entry* – Can a new entrant to come into the market easily?
9. *Customer Concentration* – Is the customer base diversified and stable?
10. *Capital Investment Needs* – Does the company require significant investment in the near-term?

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Companies which rate highly will be assigned cash flow and revenue multiples at the high-end of the prevailing range; correspondingly, those which score poorly will be assigned multiples at the low-end of the range.

Cash Flow and Revenue Multiple Analysis

Cash flow and revenue multiple analysis is a method for estimating the value of a business based on a statistical analysis of actual prior business sales. It is the method most commonly used by business brokers and M&A professionals (including Skyline Equity Advisers), because it is grounded in the realities of the business marketplace and, therefore, is probably the best predictor of the likely selling price of a business.

For most businesses, their historical financial performance—their record of revenues and cash flows—will be the single most important determinant of their value in the marketplace. For this reason, by taking a record of actual business sales, and comparing the basic financial information about those businesses (*i.e.*, revenues and cash flows) to their selling prices, one can develop certain statistics (known as “multiples”) which can be used to estimate the likely selling price of any given business. The two most commonly used (and useful) multiples are the cash flow multiple (*i.e.*, selling price / cash flow = cash flow multiple) and the revenue multiple (*i.e.*, selling price / revenue = revenue multiple).

Cash Flow Multiple Analysis

Certain fine points of methodology aside, the cash flow multiple is simply the ratio of the selling price of a business to its annual cash flow. Therefore, using this method we can estimate the likely selling price of a business by taking its annual cash flow and applying the

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appropriate cash flow multiple (*i.e.*, the one applicable to this type of business). So, where do we obtain these two values?

Cash flow multiples are commonly available by subscription from several providers (such as MergerStat, BIZCOMPS, and Pratt's Stats) which collect, standardize, and analyze business sales data on an annual basis. For instance, BIZCOMPS cash flow multiples are based on transaction data on over 6,000 small business sales transactions from a wide variety of industries, arranged by their SIC codes. Your business broker (or other valuation professional) should have access to these data as well as asking price information for businesses currently on the market, which can be a valuable indication of the latest relevant multiples for a particular type of business.

How is "cash flow" defined?

The relevant "cash flow" number which a buyer will use to analyze the business is typically either an EBITDA (Earnings Before Interest, Taxes, Depreciation & Amortization), sometimes referred to as "Operating Income", or the SDCF ("Seller's Discretionary Cash Flow").

Generally, for any business with at least a few million dollars in sales, the relevant figure will be the EBITDA, but for anything smaller, the term "cash flow" refers to the SDCF. Of course, the definition of "cash flow" doesn't change the intrinsic value of the company; it just means that a different set of multiples must be applied.

As its name implies, the term "Seller's Discretionary Cash Flow" recognizes the reality that most small businesses are run by owner/managers who may pay themselves an unusually large (or small) salary and may otherwise enjoy a number of benefits that would not be available to a hired manager. With this in mind, SDCF is

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typically defined as the company's EBITDA *before* primary working owner's compensation (including benefits) and any other discretionary, non-operating or non-recurring expenses or income. In other words:

	Company's earnings before income tax
+	Interest expense
+	Depreciation expense
+	Amortization expense
+	Owner's salary
+	Owner's benefits (<i>e.g.</i> , auto, health, T&E)
+	Extraordinary, discretionary, non-recurring expenses
-	Extraordinary / unrelated income
<hr/>	
	Seller's Discretionary Cash Flow

Also, please note that, where there are two (or more) primary owners working (full-time) in the business, SDCF should be reduced by the cost of replacing one owner with an employee (at market rate salary). In other words, while "total" SDCF may be \$400,000 (for both owners), that number must be adjusted to reflect the fact that, if the business had one owner working full-time, his (or her) SDCF would be \$400,000 - \$100,000 (the cost of replacing the second owner with a full-time high-level employee / manager).

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Example

The following example will illustrate the methodology of a valuation estimate based on the cash flow multiple analysis. Please assume that:

1. The business is a plastics products manufacturer.
2. According to the latest available BIZCOMPS data, the Seller's Discretionary Cash Flow multiples for this type of manufacturing business fall in the range of 1.93 to 3.09 (excluding the purchase of current assets). Based on our Strategic Analysis, this is an above-average business, so we select an SDCF multiple of 2.7.
3. For the latest fiscal year, this business has an SDCF of \$700,000.
4. The business's other assets and liabilities are as indicated.

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Seller's Discretionary Cash Flow	\$ 700,000
<u>Cash Flow Multiple</u>	
2.0	\$ 1,400,000
2.1	\$ 1,470,000
2.2	\$ 1,540,000
2.3	\$ 1,610,000
2.4	\$ 1,680,000
2.5	\$ 1,750,000
2.6	\$ 1,820,000
2.7	\$ 1,890,000
2.8	\$ 1,960,000
2.9	\$ 2,030,000
3.0	\$ 2,100,000
3.1	\$ 2,170,000
Selected Value	\$ 1,890,000
Additional Current & Tangible Assets	
Cash	\$ 10,000
Accounts Receivable	\$ 60,000
Inventory	\$ 500,000
Other tangible Assets	\$ 30,000
Indicated Enterprise Value	\$ 2,490,000
Total Liabilities	\$ (445,000)
Equity Valuation	\$ 2,045,000

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Revenue Multiple Analysis

Conceptually, the revenue multiple is very similar to the cash flow multiple. The revenue multiple is simply the ratio of the selling price of a business to its annual revenue (*i.e.*, net sales). Using this method, we can estimate the likely selling price of a business by taking its annual revenue and applying the appropriate revenue multiple (*i.e.*, the one applicable to this type of business). The current revenue multiples, by industry and type of business, are available from the same providers as the cash flow multiples. Indeed, the methodology of revenue multiple analysis is the same as the methodology of the cash flow multiple analysis.

A revenue multiple is typically used to produce a basic "rule of thumb" valuation of a business. This method may also be used in conjunction with a cash flow multiple method or instead of it. For instance, a break-even business (which, by definition, has little or no cash flow) may still have very significant revenues and, therefore, a good deal of value. In such a case, a purchaser may be prepared to pay a given multiple of sales, irrespective of the level of profits. Of course, it is more common for companies with more profitable sales to attract a higher price to sales ratio than lower margin businesses.

Asset Value Analysis

Asset value analysis, as its name suggests, uses the value of a company's assets to value the business. A distinction is often made between the value of a company's assets on its balance sheet (known as the Book Value) and the actual, estimated resale value of those assets (known as the Fair Market Value). However, as a practical matter, for many asset types, the book value of those assets can be a good approximation of their fair market value as well. Therefore, commonly, book value of a business's assets (taken from the latest available balance sheet) is used for purposes of asset value analysis.

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Example

Most Recent Balance Sheet Available	
<u>Assets (included in a sale)</u>	
Plant, Property and Equipment (net)	\$ 1,575,000
Accounts Receivable	\$ 220,000
Inventory	\$ 325,000
Other	\$ -
Total Assets	\$ 2,120,000
<u>Liabilities (assumed by buyer)</u>	
Accounts Payable/Other Current Liabilities	\$ 195,000
Bank Debt	\$ 250,000
Other Long-Term Liabilities	\$ -
Total Liabilities	\$ 445,000
Net Book Value	\$ 1,675,000

In addition, there are certain aspects of Book Value and Fair Market Value (“FMV”) analysis that are worth noting.

Book Value Analysis

As already mentioned, this method values a business based on the book value of its assets (*i.e.*, the company's total assets minus total liabilities). Its major shortcoming is that it ignores the future return these assets can produce, and therefore does not reflect how much the

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business is worth as a going concern. For example, the vast majority of publicly traded companies have a market capitalization many times their book value. So, this method of valuation is typically used only to provide an indication of the lowest price the business could expect to achieve in a sale and is particularly useful for companies with low earnings and/or a large asset portfolio.

Fair Market Value/Replacement Cost Analysis

The assets of a company are very often worth more than their accounting net book value. Therefore, in assessing the value of the company, the asset values may be adjusted to reflect their Fair Market Value – the price they might be worth if sold. In addition, FMV may also be different from the replacement cost of the assets. Sometimes, the replacement value of the property, plant and equipment (PP&E) is even higher than the value of the operating business (*i.e.*, when a business does not generate a positive cash flow from those assets).

Of course, this value is particularly significant to certain business buyers (known as “strategic acquirers”) who already have a presence in a given industry. Such a buyer, who wants to invest in a particular industry, can choose between: (a) expanding facilities already owned, (b) investing in entirely new facilities, or (c) purchasing all or part of a new company operating in the industry. The decision as to which choice to make depends, in part, on the relative cost of each. Therefore, a prospective strategic buyer may choose to purchase the non-performing assets of a business for much more than their book value, when these assets can be used by him to expand his operations in a certain industry or to gain a presence in a similar or related industry.

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Discounted Cash Flow Analysis

So far, we have concentrated on the significance of the past (and current) cash flows of a business in determining its value. However, in traditional financial analysis, the most significant determinant in a company's value is its anticipated (or future) cash flow. The valuation method which is based on a business' projected cash flows is called discounted cash flow analysis ("DCF"). This method calculates the Net Present Value of future cash flows based on the perceived risk of achieving such cash flow (the discount rate).

The DCF analysis is a commonly used and well respected valuation method. It is, for example, the primary method used by financial analysts in such settings as the stock market and the venture capital market. The reason for this is that in these settings, the *projected* cash flows of a business are of primary significance – either because there is a high level of stability and predictability to the cash flows (as in the case of large, public companies) or there is little or no track record of positive cash flows (as in the case of start-ups looking for venture capital funding). On the other hand, when it comes to small businesses, their cash flows are not typically very stable or predictable, and, therefore, the projections of future cash flows are highly unreliable.

Moreover, small business buyers are typically not willing to pay a premium for the "great potential" of a business which does not have a proven track record of significant cash flows. The buyer's logic is that it takes a great deal of work, capital (and some luck) to make a small start-up (even based on a great idea) into a successful business, so the rewards of that effort and investment properly belong to the buyer rather than the seller (who can keep the business and reap the rewards by growing it himself). For all these reasons, DCF analysis is not generally used to determine the likely selling (and asking) prices of small businesses. As we have described, your professional M&A

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advisor, business broker or other valuation professional most likely will (and probably should) use a combination of cash flow and revenue multiple and asset value methods to determine the value of your business for purposes of a sale.

3. What is the Impact of Strategic Considerations and Deal Structure?

In our discussion of valuation issues, we have focused primary on the value of a business to a typical or generalized buyer and without regard to the terms of the purchase. However, not all buyers are the same, nor are all deals the same. Therefore, no discussion of business valuation is complete without addressing the impact of different buyers' strategic considerations as well as that of deal structure on the "value" of a business.

Strategic Considerations

When determining the value of a business, we must remember that the company may have a *different* value to different sets of buyers depending on those buyers' strategic considerations. For most buyers, these considerations will translate into higher (or sometimes lower) cash flows for the business under their ownership, which in turn, translate into higher (and sometimes lower) business value. Some of the strategic considerations are:

- *The level of new owner involvement*
 - The current owner may be working in the business full-time. If the new owner plans to run the business on an absentee basis (*i.e.*, by hiring a full-time general manager), the residual cash flows to the new owner will be correspondingly lower.

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- *The tax consequences to the new owner*
 - For a variety of reasons, the new owner may be in a more favorable tax situation than the current owner. In this case, the new owner's cash flows will be higher on an after-tax basis.
- *The financial potential of the company under new operating conditions*
 - The new owner may be in a position to derive greater cash flows from the business because of his more favorable operating conditions – better cost structure, ability to eliminate redundant facilities, equipment or staff, greater economies of scale, more buying power, etc.

Deal Structure

Deal structure (*i.e.*, the terms of the sale) will also have a significant impact on the ultimate value of your business in a sale scenario. Some aspects of transaction structuring will be discussed in greater detail later, but some of the common ways in which deal structure impacts the overall value of the business are:

- *Cash vs. Note*
 - Seller financing (taking a promissory note from the buyer) is the most common “deal structure” element in business sales. Naturally, \$1 of cash at closing is not the same as \$1 of a buyer's note because of the inherent risk of default. So, it is worth remembering that \$1M paid in ready funds at closing is a different “value” than \$500K in cash and \$500K in seller financing.

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- *Earn-outs and other contingent payments*
 - As we discuss in more detail later, the so-called “earn-outs” (where part of the purchase price is paid out of the future earnings of the business) allow the sellers to participate in the future success of their business. In this way, earn-outs allow the sellers to increase the overall value of the deal (and therefore, of their business).

Chapter

5

Finding a Buyer

Without a buyer, there can be no sale. So, it goes without saying that this is a critically important step. Moreover, just finding any buyer isn't sufficient. The objective is to find the right buyer, *i.e.*, the buyer for whom the business is the best fit and, therefore, who will see the most value in the business. Then, by working effectively with that buyer, you will get the best price and deal.

1. Present the Business Effectively

Too many sellers underestimate the importance of presenting their business effectively. In truth, presenting your business to the potential buyers is probably as important as finding those buyers in the first place. There are two critical steps in this process—first, you have to present your business as an attractive opportunity in order to get that potential buyer interested; second, you have to provide answers and information to the interested buyer in order to get him to make a purchase offer.

The first step is obvious. Naturally, in order to gain the interest of any potential buyer you have to present your business as an attractive opportunity: whether it's a purely financial investment, a strategic acquisition, or a new line of work, it must be appealing. In order to achieve this objective, a professionally prepared offering presentation is necessary. Without it, you cannot hope to be able to tell the story of your business to every buyer in the best possible way every time. A good offering presentation—just as a good resume—does that job for you. It allows you to present your business in the best possible light, consistently, to every potential buyer.

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The second step—presenting your business to an interested buyer—is perhaps the most overlooked aspect of this process. In reality, there is a long and difficult road to get from “ok, I’m interested” to “here’s the money”. In order to get to that closing stage with an interested buyer, you must be prepared, organized, and willing to provide information and answers to the many questions every serious buyer will ask about your business. Here, again, a professional business broker can help to get your key business documents and materials (financial statements, tax returns, business plan, asset inventory, organizational chart, lease, key contracts, etc.) organized and/or prepared to be provided to any interested buyer. Remember, full disclosure (meaning, revealing the negative things about your business as well as the positive) is always the best policy to get to the closing. If you try to hide serious problems or mislead your buyer, you are likely to end up wasting everyone’s time, because the truth will come out in the end, and your formerly interested buyer will walk away.

2. Target Potential Buyers

Finding the right buyer requires knowing the real source of value of your business, identifying the potential buyers who appreciate that value, and presenting the business effectively to those buyers. Here—as in most things in life—a passive approach is unlikely to produce good results. Not all prospective buyers will view your business in the same way. Some may recognize its value and potential, others may not. A passive approach—listing your business on the internet or running a few newspaper ads—is insufficient because it may not produce the “right” buyer, *i.e.*, one who will appreciate the value of your business. This passive approach amounts to simply playing the odds, hoping “maybe a buyer will appear who will really appreciate my business and pay my price.”

In order to change those odds in your favor, you must take a proactive

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approach: go out and find that “right” buyer who will appreciate and help you realize the full value in your business. To do this, you must market your business intelligently, creatively, and aggressively through all available channels and, most importantly, you must take your business directly to the “right” buyers.

This is where a good, professional advisor comes in. To sell a successful business, it is necessary to reach out not only to the individual buyers, but also to the financial and corporate communities. One must target all potential “right” buyers for the business. For most businesses, these range from individual entrepreneurs looking for a productive occupation, to financial investors seeking a good return on their money, to large corporations interested in growth through strategic acquisitions. Once these potential buyers are identified, then you must contact them or their representatives directly and present your business to them as an opportunity—professionally and effectively.

3. Negotiate the Deal

Presenting your business effectively to all interested buyers, as we’ve just described, is actually in large part, negotiating the best deal with your buyer. Therefore, to be an effective negotiator, you don’t simply insist on having your asking price, you convince the buyer that your business is really worth its asking price. In order to do this, you should be forthcoming and open-handed about your business and, most importantly, you must be prepared to give good, convincing answers to the tough questions which will inevitably be asked.

Here, again, preparation is the key. If you’ve retained a professional advisor or business broker, and with his (or her) help, have done your homework, anticipating the questions and issues that are likely to arise,

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you will be able to negotiate successfully with the toughest and smartest buyer.

Since many serious potential buyers will have professional representation, it is particularly important for the seller to have professional representation as well. A professional representative will help you not only to communicate with the many potential buyers that a successful business is likely to attract, but will provide you with greater leverage and “distance” in the negotiation process. In other words, your professional advisor, as an experienced negotiator, will help you to present your business effectively, negotiate the best price and terms for you, and allow you to keep your focus on running your business.

Chapter

6

Structuring the Transaction

Structuring the sale transaction of a business involves reaching agreement between the buyer and the seller on several basic questions:

- What is being sold?
- For what consideration?
- How is the purchase price paid? When? On what conditions?
- What other terms and conditions must be worked out?

In this chapter we will address the common structural issues of most smaller business transactions.

1. What to Sell: Stock or Assets?

There are two ways to sell your corporation: an “asset sale” in which you sell the assets of the corporation, distribute the proceeds to the stockholders and liquidate the corporation, and a “stock sale” in which you sell the stock of the corporation, and get paid directly for the value of your shares. Each of these two types of sales has distinct advantages and disadvantages for the seller and for the buyer. Many of these are outlined in the Figures 6.1 and 6.2. Keep in mind, however, that none of these is absolute. In each given situation, something that is a disadvantage for some, may not make a difference for others. Review the pluses and minuses of each approach carefully, given the specifics of your situation.

That said, it is worth remembering the basic rule of thumb in this business – sellers always want to sell stock and buyers always want to buy assets. The reasons for this are several, as the following table

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reveals. However, there are a couple of fundamental issues for most sellers and buyers. For the sellers, selling stock avoids the “double taxation” problem, which results when a traditional corporation (*i.e.*, not subchapter S) must pay taxes on the sale of its assets, and then, its shareholders must pay additional taxes when the proceeds of that sale are distributed to them. For the buyers, on the other hand, the two biggest issues, generally, are: being able to obtain a “step-up” in the value of the assets purchased, as described below, and being able to exclude from the sale most—if not all—of the liabilities of the target corporation.

Of course, as with most issues, the asset vs. stock sale dilemma is ultimately solvable by an appropriate compromise on price. A seller should be willing to accept a bit less for his stock and a buyer should be willing to pay bit more for the assets. The measure of this compromise will depend, naturally, on the specifics of each particular situation.

Figure 6.1
Asset vs. Stock Sales – Seller’s Position

		Seller’s Position	
		Pros	Cons
Asset Sale	<ul style="list-style-type: none"> • Seller can choose assets and liabilities to be sold • Seller can maintain corporate existence • Seller can maintain ownership of non-transferable rights (e.g. license, patent) 	<ul style="list-style-type: none"> • C-corps subject to double taxation • S-Corps and LLCs may have higher taxes due to purchase price allocation • Depreciation recapture tax if assets are “stepped-up” 	
	Stock Sale	<ul style="list-style-type: none"> • C-corps avoid double taxation • Generally results in capital gain or loss and • Avoids ordinary gains including any depreciation recapture tax 	<ul style="list-style-type: none"> • Difficult to choose assets and liabilities to be sold • Seller cannot maintain corporate existence • Ownership of non-transferable rights is or assets is lost

Figure 6.2
Asset vs. Stock Sales – Buyer’s Position

		Buyer’s Position	
		Pros	Cons
Asset Sale	<ul style="list-style-type: none"> • Buyer can choose assets and liabilities to assume • Buyer is generally free of any undisclosed liabilities • Cost basis of assets may be “stepped up” 	<ul style="list-style-type: none"> • Ownership of non-transferable rights is lost • Transaction may be more complex • May not have right to use corporation’s name (unless transferred) 	
Stock Sale	<ul style="list-style-type: none"> • Tax attributes carry over to Buyer • Transaction is generally less complex • Non-transferable rights or assets can be retained by Buyer 	<ul style="list-style-type: none"> • Buyer may assume undisclosed liabilities • No “step-up” in cost basis of assets • Inability to change state of incorporation, type of entity and tax elections 	

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2. Seller Financing

“Should a business owner offer seller financing?” The answer to this question is, generally, “yes” for one, simple reason. Most—if not all—buyers want, expect, need, and even demand seller financing. Buyers like seller financing because (a) it is easier and more advantageous financially to buy a business using borrowed money, and obtaining commercial credit to purchase a small to mid-sized business is fairly difficult, and (b) buyers like the seller to have some “skin in the game”, or some continuing investment in the business which would indicate to the buyer that the seller has confidence in the continuing success of the business. Thus, in almost all cases, providing seller financing will significantly improve your chances of successfully marketing your business.

For this reason, unless you are unusually confident about the marketability of your business or particularly averse to lending money, you should seriously consider accepting a buyer’s note for some percentage of the sale price of the business. Of course, the percentage of seller financing that you would be willing to accept is entirely up to you. As a basic rule of thumb, something on the order of 30% of the sale price is generally a reasonable amount.

In addition, it should be obvious that you would not lend to just any buyer. Most sellers say that they are willing to consider seller financing for the “right” buyer, meaning, one who is a good risk—has a solid credit history, strong personal financials and the skills and dedication to continue your business successfully. Of course, you might think that this test is too rigorous and will disqualify too many buyers. However, consider this: anyone who is not willing to step up and say he is the “right buyer” and prove it, will probably not buy your business in any event, and will succeed only in wasting your time.

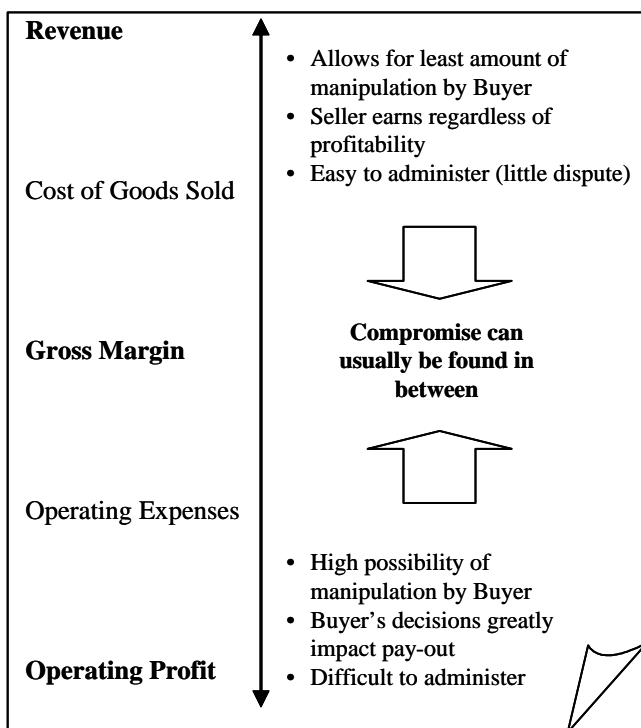
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3. Creating a “Win-Win” Scenario

As we’ve already mentioned, most buyers want the seller to have some “skin in the game” or an interest in the continuing success of the business after the sale. One way to accomplish this, as we said earlier, is partial seller financing. Another approach is for the seller to have some form of participation in the success of the business after the sale – typically referred to as “earn-out”. This potentially creates a “win-win” situation – the buyer is able to defer some of the purchase price and is reassured that the seller has confidence in the business, and the seller has an opportunity to participate in the growth of the business going forward.

For example, the parties can agree on a certain level of gross profit (for instance, last complete year before the sale) as the benchmark level, then if the new owner is able to exceed this level over the next several years, the seller would be entitled to some agreed upon percentage of the “excess” amount of gross profit. Obviously, each deal is unique and there are limitless possibilities for measurements and incentives in each deal. However, the most common structure is to use a key financial benchmark as the basis for an earn-out. Typically, benchmarks which are higher in the income statement (*e.g.*, revenues) are more desirable to the seller; benchmarks lower in the statement (*e.g.*, operating profit) are more desirable to the buyer. Figure 6.3 explores some typical earn-out structures.

Figure 6.3
Common Earn-Out Structures



Naturally, any such “earn-out” has to be well thought-out and properly documented as part of the sale transaction. And there are, of course, risks. Fundamentally, the seller and the buyer have to consider that a profit sharing arrangement creates a sort of partnership between them, and both need to be clear about and comfortable with this prospect.

However, if it works, both the seller and the buyer can come out ahead. In sum, structuring a business sale transaction requires thought and creativity. In some cases, the deal structure may be very simple (just

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like selling a house) – the buyer gives the seller a certified check at closing, and the seller walks away. In other cases, many structural issues may be involved (only some of which we can address here). To address and resolve these issues properly and thus ensure the success of your transaction, do your homework, and secure the advice of professionals – your M&A advisor, your attorney, and your accountant.

4. Making a Smooth Transition

All buyers are interested in making a smooth transition – one where the key employees remain, and revenues and profits of the business do not suffer. Many buyers (particularly individual entrepreneurs who are planning to be full-time managers) are interested in receiving on-the-job training from the seller, particularly when that individual acts as the general manager of the business. Alternatively, a financial or corporate strategic buyer may be interested in retaining the services of the seller under an employment or consulting contract, either on a short- or long-term basis, in order to ensure a smooth transition. In either case, the continued participation of the seller is an important issue to be addressed when structuring the deal.

Where an individual buyer is buying the business from an individual seller, in most cases, the buyer will want the seller to remain with the business for some period of time after the closing in order to train the buyer and to provide introductions to the seller's key business contacts (customers, vendors, etc.). Generally, a reasonable training and transition period for the average business is on the order of four to six weeks. This amount of seller's time should generally be included in the purchase price. Beyond that period of time, the sellers generally require compensation for their time and effort, at a reasonable rate (*i.e.*, a rate comparable to that which a general manager of the business would receive).

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Of course, actual deal terms vary widely, and in a business where the new owner's training is particularly difficult or important, the seller may want to provide a more extensive transition in order to ensure a successful sale. In addition, if the seller will continue to have an interest in the ongoing success of the business (whether by virtue of seller financing or profit participation, as described below), a more generous training and transition program is in the seller's own interest.

On the other hand, corporate or financial buyers may want to secure the seller's continued services through an employment or consulting contract. Indeed, both financial and strategic buyers may want the seller to remain with the business for an extended period of time if that individual has demonstrated the ability to grow and manage the business, and replacing him (or her) would not be easy. In this case, an employment or consulting contract is a critical part of the structure of the deal.

As a general matter, while the value of such a contract may be part of the consideration received by the seller, it should not be a part of the selling price of the business, but an addition to it. The reason for that is that the seller will provide additional value to the buyer through his continued services for which he should be compensated, and to shift a part of the selling price of a business into an employment contract would be disadvantageous for most sellers (except C-corp. sellers), because it would deprive them of the tax benefit of selling their business (*i.e.*, capital gains treatment for selling the business vs. ordinary income treatment for employment contact).

Chapter

7

Closing the Deal

After the parties have agreed on the principal terms of the deal (such as, the price, the terms of payment, and the basic structure of the transaction), and those terms have been memorialized in a term sheet or a letter of intent, the parties must complete the last several steps before the closing. The buyer must conduct its due diligence investigation and satisfy itself that there are no financial, legal or other problems with the business which would stand in the way of its acquisition.

The seller must provide disclosure to the buyer to enable him to conduct his due diligence. The seller must also work to resolve any problems or issues which inevitably surface during the due diligence process, or adjust the terms of the deal to account for any such issues. Lastly, the parties must prepare and negotiate a purchase contract which will contain their respective representations and warranties and determine to the extent possible the parties' rights and obligations after the closing. The following are several basic suggestions, for the seller, to make sure that a good deal reaches the closing.

1. Provide Full Disclosure

In conducting its due diligence investigation, every buyer will request and expect that the seller provide extensive (in some cases, virtually unfettered) access to its books, accounting records, and other business information. Accommodate the buyer. Indeed, help the buyer by providing full disclosure and full access to your records and information. As we've said before, it is always the best policy to be forthright and open-handed about providing information and answers

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to the buyer's serious and legitimate questions. It is in your best interest to satisfy the buyer that your business is everything you say it is, because only a confident buyer—a buyer who has been satisfied by your answers to his questions—will proceed to the closing.

2. Anticipate and Address Problems

During virtually every due diligence process, some issues or problems—some serious, some not; some known to you, some not—will be uncovered by the buyer. Your job, as the seller, will be to resolve those problems, again, in a way that satisfies your buyer. Naturally, some problems you may not be able to resolve before the closing. In this case, the terms of the deal may need to be adjusted in order to satisfy the buyer and close the deal. For instance, one common device is setting aside a part of the purchase price in escrow to satisfy any unresolved liabilities (tax liens, environmental claims, lawsuits, etc.) after the closing.

However, the central point here is that most of the problems or issues that the buyer will uncover during his due diligence will already be known to the seller. Therefore, it is to the seller's advantage to try to identify, address and resolve these problems ahead of time. Don't wait for the buyer to find the problem. If there is a tax lien on your business – pay it; if there is a legal claim – settle it; if there is a dispute with a vendor – resolve it. Clearly, the fewer problems there are for the buyer to find, the greater the chance of a successful closing, and the smaller the chance that some seemingly minor problem will derail an otherwise solid deal.

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3. Use Professional Advice

Lastly, the seller and the buyer will enter into a purchase agreement which will set forth the terms and structure of the deal, the representations and warranties (most importantly, of the seller), and govern the rights and obligations of the parties post-closing. For this reason, this is a serious and critically important legal document. Its negotiation and preparation should not be taken lightly. Most importantly, secure the help of an attorney with experience in business transfer transactions. A seasoned corporate or business attorney will be familiar with the issues involved, will anticipate problems, and will help find solutions. If you do not already have such a lawyer, your M&A advisor, business broker, accountant or other professional should be able to provide a referral.

About Skyline Equity Advisers Ltd.

Skyline Equity Advisers is one of the country's premier firms dedicated to providing small and middle-market business owners with M&A advisory services. The Skyline team, which includes attorneys and financial specialists, brings a uniquely professional approach to the task of selling a business. Skyline's clients, who are located across North America, enjoy a full range of "value added" services as part of every sale transaction as well as nation-wide, even world-wide, exposure through our marketing efforts.

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