



TODAY'S BUSINESS SCENE

the newsletter for privately held businesses



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When is the Best Time to Sell Your Company?

The old saying that "timing is everything," usually applies to selling one's business. Ultimately, every business owner will have to exit their business, and the sooner one prepares to sell, the better the final results will be.

With each passing year, more and more baby boomers are reaching retirement age. In many cases, this means they have no choice but to sell their businesses. The time is now upon us where a massive number of businesses will be put up for sale.

Statistics and studies back up this claim. Studies show that people born between 1946 and 1964 make up 40% of small business owners, and about 10,000 baby boomers retire every single day. Business owners who get out in front of this pending avalanche stand to benefit considerably.

There are many other good reasons to sell. Many business owners find that general burnout, and especially the burnout associated with operating a business during the pandemic, is prompting them to think about selling. Burnout isn't just unpleasant for a business owner, but it can also be dangerous for the well-being and longevity of the business itself. An owner experiencing burnout is an owner who is unlikely to make the best decisions and seize new opportunities. The results of burnout can be staggering and range from a loss of customers to getting caught off guard by new and existing competitors. In the end, burnout can dramatically decrease the value of a business or even destroy it.

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Lion Business Advisors is here to strategically and confidentially sell your business.

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When is the Best Time to Sell Your Company? (cont)

The economy is bouncing back from the pandemic, which can mean that right now is a great time to sell. If the pandemic reinforced any truism, it reminded us that regional and global economies can change in a heartbeat. There are many complex variables on the table.

Simply stated, we are in a period of uncertainty, and that makes predicting the future of the marketplace harder than in recent decades. These facts, combined with the current strong economy, point towards now being a potentially good time to sell your business.

Most business owners have never sold a business before, but instead, they have spent a sizable chunk of their professional careers building up their business. As a result, most business owners don't know what it takes to successfully sell a business. Working with a proven business broker, one with years of experience, is a smart way to evaluate your current situation and determine if now is the right time to sell your business.



What Serious Buyers Look For

Obviously, serious buyers want to carefully look at the financials of a company under consideration and all of the other major aspects of the company. However, there are a few other areas the serious buyer will investigate that sellers may overlook.

The Industry

The buyer will want to take a serious look at the industry itself, the customers, the suppliers, the competition, etc. This investigation will cover the strengths, weaknesses, threats from competition, and opportunities of the potential acquisition. With the growth of the "big box" retailers, much power has shifted from the manufacturer to the retailer. A manufacturer may want to increase prices, but if Wal-Mart says no, it's a very powerful no.

Discretionary Costs

Some sellers will reduce their expenses in discretionary areas such as advertising, public relations, research and development, thus making for a higher bottom line. However, these cuts will hurt the future bottom line, and smart buyers will take notice of this.

Obsolete Inventory

This is another area buyers will take a serious look, which can impact the purchase price. No one wants to pay for inventory that is unusable, antiquated or unsalable.

Wages and Salaries

A company may be paying minimum wages, or offering few or low-cost benefits, a limited retirement program, etc. These cost-saving devices will make the bottom line look good, but employee turnover may create expensive problems later on. If the target company is to be absorbed by another, compensation issues could be critical.

Capital Expenditures

The serious buyer will take a very close look at machinery and equipment to make sure they are up to date and on par with, or superior to, that of the competition. Replacing outdated equipment can modify projections and may affect an offering price.

Cash Flow

Serious buyers will take a long look at the cash flow statements and the areas that affect them. The buyer wants to know that the business will continue to generate positive cash flow after the acquisition (i.e., after servicing the debt and after paying a reasonable salary to the owner or general manager). Other areas sellers overlook, but the serious buyer does not, are: internal controls/systems, financial agreements with lenders, governmental controls, anti-trust issues, legal matters and environmental concerns.



Is Your Deal Really Going to Be Successful?

If you're selling your business and things are looking positive with your buyer, you might be tempted to start resting easy. If you have a signed letter of intent, you might be even more tempted to think things are pretty settled. However, the fact of the matter is that much can be uncovered during the due diligence process, which is often when deals start to fall apart. Due diligence is an essential step that protects buyers, and sellers should be well-prepared to have things in good shape far in advance. Let's take a closer look at some areas where a deal can potentially go awry.

Products and Equipment

When the sale involves a business that handles manufacturing, equipment is carefully evaluated during due diligence. Buyers will be thinking about any potential environmental issues that could affect the business. If you're selling a business and have loose ends with your equipment or facility, this should be handled in advance, if possible.

Buyers will also be looking at the various product lines and inventory. They will be considering how the sales are spread among the product lines. For example, if one product makes up the majority of sales, that can raise red flags in the mind of a buyer. They will also think about supplies and how likely they are to be stable once the business switches hands.

Buyers will want to look at breakdowns of customers so they can consider the company's market share and also where the sales are coming from. Similarly, to only having one product, if a business only has one or two key buyers, that can be a source of concern for buyers.

Intangible Assets

When you are selling a business, your buyers will also be thinking about the assets like intellectual property. Will all trademarks, patents and copyrights be transferred during the sale? If not, it can be a big source of concern for buyers.

Buyers will also consider the state of the human resources department. Sellers should be aware that buyers will be typically looking for established staff members who are unlikely to leave. This is another area where sellers have the opportunity to prepare in advance to achieve optimal results.

Sales Issues

Your prospective buyer will want to carefully examine accounts receivable. If you have bad debt, you might want to sort out these kinds of issues before the due diligence phase. They will also want to have a firm understanding of

everything that is included in the sale. Oftentimes during due diligence, a buyer finds out that equipment or patents are not included with the sale, and it quickly derails the deal.

If you're selling a business, you'll want to put yourself in the buyer's shoes and consider what you would want to see if you were buying a business. Anything that you can do in advance to improve your workforce, equipment, premises, and financial records is highly recommended. The goal is to have a smooth transition for the buyer, and anything that could stand in the way of that taking place should be analyzed and improved if possible. When you work with a business broker or M&A advisor to sell your business, you will have an expert in your corner to help sort out the details.

Four Significant Issues You Need to Consider When Selling Your Business

The process of selling a business can be very complex. Whether you've sold a business in the past or are selling a business for the very first time, it is imperative that you work with an expert. A seasoned business broker can help you navigate through what can be some pretty rough waters. Let's take a closer look at four issues any seller needs to keep in mind while selling a business.

Number One – Overreaching

If you are both simultaneously the founder, owner and operator of a business, there is a good chance that you are involved in every single decision, which can be a significant mistake. Business owners typically want to be involved in every aspect of selling their business, but handling the sale of your business while operating can lead to problems or even disaster.

The bottom line is that you can't handle it all. You'll need to delegate the day-to-day operation of your business to a sales manager. Additionally, you'll want to consider bringing on an experienced business broker to assist with the sale of your business. Simultaneously running a business and trying to sell has gone awry for even the most seasoned multitaskers.



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Four Significant Issues You Need to Consider When Selling Your Business (Continued)

Number Two – Money Related Issues

It is quite common that once a seller has decided on a price, he or she has trouble settling for anything less. The emotional ties business owners have to their businesses are understandable, but they can also be irrational and serve as an impediment to a sale. A business broker is an essential intermediary that can keep deals on track and emotions at a minimum.

Number Three – Time

When you are selling a business, the last thing you want is to waste time. Working with a business broker ensures you avoid “window shoppers” and instead only deal with real, vetted prospects who are serious about buying. Your time is precious, and most sellers are unaware of just how much time selling a business can entail.

Number Four – Don’t Forget the Stockholders

Stockholders simply must be included in the process whatever their shares may be. A business owner needs to obtain the approval of stock holders. Two of the best ways to achieve this is to get an attractive sales price and secondly, to achieve the best terms possible. Once again, a business broker serves as an invaluable ally in both regards.

Selling a business isn’t just complicated; it can also be stressful, confusing and overwhelming. This is especially true if you have never sold a business before. Business brokers “know the ropes” and they know what it takes to both get a deal on the table and then push that deal to the finish line.

