7 Steps to Sell Your Business

Most business owners sell their businesses only once in their lifetime, and it may be the single most important transaction they ever make. Like anything new, it can be confusing and overwhelming. The following is a seven-step process to help you understand transaction better.

If you are not planning to pass the business to family members, one option is to sell the business to a third party.

This article explains some of the steps involved in the sale process a professional intermediary (advisor, investment banker or business broker) will follow to sell your business to a third party.

An advisor will act as your agent assisting you in the sale of your business. There are several advantages to employing an advisor, namely:

- It allows confidentiality for you and your business during the sale process
- A screening of potential buyers will save you time by dealing only with those who are qualified
- It allows you to remain focused on running your business
- It will provide access to a wide range of financial and industry-specific buyers you might not be aware of
- You will have access to numerous professionals specializing in the business sale process, such as M&A lawyers, accountants, valuators, to name a few

Step 1 – Finding and Engaging the Advisor
Your accountant, lawyer or commercial banker should be able to refer you to a qualified advisor. However, be wary of professionals who offer to act on your behalf as they are not experts and most likely will not have a large network of potential buyers. Some may offer to assist out of self-interest and overlook potential conflicts of working with both the buyer and seller.

During the initial meeting, the advisor will explain the services they offer to help sell your business as well as provide details regarding their compensation model.

Once you have selected an advisor, you will normally be asked to enter into a formal agreement whereby the advisor will be engaged to represent you in the sale process.

Provisions of an Engagement Agreement can vary but typical the terms of the engagement will include the following:

- A definition of the scope of the engagement
- A list of general responsibilities
- A confidentiality and non-disclosure clause
- Details of the compensation model (upfront fee, percentage of completion basis or when the transaction is completed).

Step 2 – Valuation of Your Business
A business valuation will be done either by the advisor as part of their consulting work or by an independent business valuator. It is important to determine the estimated fair-market value of your business to understand what amount of proceeds you can expect from the sale. This information may be critical to you in the development of your financial and retirement plan.

Some business owners may be prepared to accept the best offer available on the market and choose to bypass the valuation.

Step 3 – Preparing the Corporate Information Memorandum
You will be asked to furnish information about your company so that your advisor can complete a Confidential Information Memorandum (CIM).

The CIM includes the following corporate highlights:

- Background on the business and key managers
- A marketing plan
- An operations plan
- Financial data
- Potentially a growth plan
- Information on your industry and competitors

The CIM will also include corporate financial statements for the past 3-5 years (income statements and balance sheets) and should include pro forma projections for the next 3 – 5 years. The document can vary in length from 20 - 100 pages depending on a variety of factors.

This step can take anywhere from six weeks to three months and can run concurrently with Step 2. Your advisor may work with your accountants in developing the CIM.

Step 4 – Creating the Marketing Plan
After completing CIM, the next part of the process will involve summarizing the documents into a one or two page Confidential Acquisition Profile (commonly known as a 'Teaser'), which will be used to solicit interest from potential buyers. It will disclose key details needed for a buyer to decide if they are interested in further investigating the investment opportunity (e.g., sales, earnings, industry, size, years in business, etc.) but without giving away the identity of the seller.

Potential buyers usually fall into two categories: strategic buyers or financial buyers.

Your advisor will review the list of potential strategic buyers with you which can include: suppliers, customers, competitors and near competitors. These may be private or public companies. They are categorized as “strategic” buyers because they are able to derive the most value from your company due to synergies with their existing companies. It is important that you be aware of and approve this list of buyers before they are contacted.

The list of “financial” buyers is generally less sensitive and therefore so is the importance of having you approve it. “Financial” buyers can include private equity groups or high net-worth individuals who have sufficient access to capital to complete the transaction. It is the advisor’s job to make sure these potential buyers are properly qualified and have sufficient financial resources to complete the transaction.

Step 5 – Executing the Marketing Plan
The advisor will contact strategic and financial buyers by way of the Confidential Acquisition Profile. Potential buyers will be required to execute Confidentiality Agreements if they would like additional information and/or the CIM.

The advisor can facilitate meetings or conference calls between the prospective purchaser and owner to determine a potential fit and to answer general questions that the buyer may have. It is the advisor’s role to solicit 'Letters of Intent" to help determine the approximate value and terms that each potential buyer would attach to the company.

The advisor will continue to contact and solicit other buyers on the list to move forward good prospects with the goal of obtaining multiple offers and a fit for your business.

Step 6 – Negotiating the Transaction
Once a single prospective buyer has been selected the buyer and seller will usually engage in negotiations regarding the terms contained in the 'Letter of Intent'. Following the buyers Due Diligence process a "Purchase and Sale Agreement" will be drafted. The advisor will lead the negotiations however lawyers and accountants will also be engaged since the parties will need to agree to financial and legal terms.

An offer to purchase is generally dependent on the results of a due diligence process which can take anywhere from 30 to 90 days to complete. A due diligence analysis includes a review of the following:

- Financial documents – interim and prior year financial statements, tax returns, appraisals
- Legal documents – minute books, contracts, pending litigation
- Management team – assessing the capabilities of key employees
- Marketing and Operation plans – sales history and projections, industry analysis, operating processes and assessment of property plant and equipment

Step 7 – Closing the Transaction
The final step is the closing transaction; this involves the legal transfer of ownership of the company to the buyer.

In addition to the final Purchase and Sale Agreement, all other pertinent agreements will be signed. These could include security agreements, shareholder agreements and employment agreements.

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Summary

The entire sale process from beginning to end can take anywhere from 6 months to 3 years depending on the market conditions and the price you, the business owner is seeking. However, the average time in our experience is 6 to 12 months.

For many business owners, their business is often their most valuable asset and they should exercise care and patience in going through a proper process to sell their business. Using an advisor is going to cost some money, however, the resulting terms and price you realize for your business will more than cover these costs and ensure it's done properly and efficiently.

The proceeding is meant to be a general overview of a process that is very detailed and complex, we recommend that you always consult a professional before undertaking the process of divesting your business.

We realize that every business owner's situation is unique. We are always happy to discuss the specifics of your situation on a no cost, no obligation basis.

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