

Maximizing the Value of Your Business

You have worked hard over the years to build your business into a success. It's time to start thinking about reaping the rewards of your efforts. In many cases, you are like the 70% of business owners that decide sell the business.

If you are planning to exit your business in the next five years, the following are steps you should consider taking to achieve the maximum the value on the sale of your company.

In our experience, the highest valuations and most favorable sales terms are achieved by businesses that have been 'de-risked' by the owner prior to going to market. This process provides buyers with increased confidence in their ability to successfully run the business after you have departed.

What we mean by 'de-risking' your business is ensuring that potential acquirers can more easily understand your company during the sale process. How do you 'de-risk' your company? Here are the key points:

1. *The financial position and history are clear and transparent*
2. *Potential buyers can easily comprehend the operational processes*
3. *Buyers can see how businesses growth potential*
4. *They can understand how dependent the business is on the owner(s) and any key employees*

To increase the confidence of a potential buyer, you should consider the following five items:

1. Financial Information

Financial statements provide the history of your company and can be the best indicator of its future performance. The more comfortable a buyer feels with the financial information available, the less risk will be associated with the transaction resulting in a higher valuation (price) by the acquirer. Buyers evaluating your business will generally want to review at least 3 years of financial information including annual income statements and balance sheets and monthly statements for the previous twelve months.

Actions to consider:

- *Upgrading the level of certification on your financial statements from Notice to Reader to Audited Financial Statements*
- *Increasing the amount of financial detail you can provide about your company by including information such as internal monthly income statements, sales by product/service line, sales by customer and operating budgets*

2. Business Plan

Having a comprehensive business plan to accompany your company's financial information will increase your credibility with potential buyers. Your business plan should include the following:

- *Brief history and overview of the company (including information such as timeline, milestone and organizational chart)*
- *Marketing summary of the company (including information such as product/service descriptions, industry overview, customers and competitors)*

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- *Operations summary of the company (including information such as description of facilities, equipment and other physical assets, overview of operational processes, suppliers and description of employees and their roles)*
- *Financial summary of the company (including information such as historical financial statements and future financial projections)*

3. Growth

It is easier to sell your business if its sales and profits are growing. Buyers will believe more in future growth potential if the business is showing increasing cash flow. You may want to consider planning for and implementing changes that will increase the cash flow potential of your company such as:

- *Introducing new products/services*
- *Selling in new markets*
- *Increasing pricing*
- *Increasing marketing and sales resources*
- *Reducing expenses*

4. Perceived Risks to Your Business

Each business is unique but there are some general things that tend to increase the perceived risk to the buyer and potentially lower the price they will pay for the business. Depending on the type of business you operate, you may want to take steps to reduce these perceived risks including:

- *High concentration of revenue or margin from a small number of customers*
- *Revenue concentrated in one product/service or in one industry*
- *Dependence on a small number of employees or you*

5. Succession Management

Your business will have more value to a buyer if you can show that the company's value and ability to produce cash flow is independent of your involvement and if the employees can operate it without you, your personal knowledge, skills and contacts.

How can you make a buyer feel comfortable that the value of your company does not depend on your involvement in it? Some steps you may consider taking are:

- *Increasing the talent level and experience of the managerial staff to allow for a seamless transition*
- *Focusing your efforts on training, delegating and supporting senior management and employees to assume leadership roles for customers and projects*
- *Your agreeing to remain with the business post transaction to enable the passing on operational knowledge and key relationships with customers and suppliers to the new owners*