

M&A REFERENCE GUIDE FOR SELLING A BUSINESS

Ten Steps to Selling Your Business

1. Explore Options

- Even if you're not thinking about selling now, it's never too early to consider business succession/ continuation planning.

2. Assess Condition and Value of Business

- It's important to define what you are selling and to understand early in the process what you should reasonably expect in return. An investment banker can help you understand what you have to offer and what you are likely to receive in return for it.

3. Hire Investment Banker and Identify Deal Team

- The investment banker will run the deal, which involves creating and executing a plan to sell the business, while coordinating activities with the deal team.

4. Cooperate with Investment Banker and Deal Team

- After hiring an investment banker, it is important to let them do their job by facilitating the data gathering process.

5. Business as Usual

- Operate the business as usual. Resist the urge to tell people until the time is right. If there is a grey area involving a big money decision, discuss it with the deal team.

6. Contact Buyers

- After the company's data is gathered and prepared for presentation to buyers, the investment banker contacts buyers to identify interest and to solicit bids.

7. Negotiate with Buyer(s)

- M&A insiders know that negotiations involve much more than agreeing on a price: negotiations begin with the first contact between buyer and seller, and they can continue until the deal closes (and sometimes beyond!).

8. Facilitate Buyer Due Diligence

- Buyers typically seek a period of exclusivity lasting 60 to 90 days during which time they request and scrutinize detailed information on virtually all aspects of the seller's business, including: financial performance & accounting, taxes, customers, products, services, management & employees, facilities & environmental, machinery & equipment, information technology, human resources, insurance, and legal matters.

9. Draft Purchase Agreement(s)

- Purchase agreements set forth the final terms of the transaction(s) and bind the parties to those terms.

10. The Closing!

- The "Closing," which typically comes on the last day of due diligence, refers to finalizing the deal by the parties executing or signing the purchase agreement(s). For sellers, one of the most exciting parts of the Closing is that when the deal is done, the funds are released!

Questions for Business Owners Thinking about Selling

GOOD QUESTIONS

1. How much is the business worth/is this a good price/how much will this cost?
2. How long will it take to find a buyer and sell it/are these the right buyers?
3. How will the sale be kept confidential?
4. What will happen to my people?
5. Do I still have to work, and if so, for how long?

BETTER QUESTIONS

1. How do I know if it's a good time to sell/am I ready, is the business ready, how does the market look for a business like this?
2. What should I say if someone asks me if my business is for sale?
3. What planning should be done to prepare for a sale/what are the different facets of transition planning that I should be considering?
4. How much will buyers likely pay for my business, how and when will it be paid, and what will be the estimated net proceeds from the sale?
5. Will I be able to continue operating business as usual during the process of selling it?



Hidden Hazards of Selling a Business

Irrational Exuberance – Most business owners would benefit from being realistic about what they have and what they can expect from a sale (for example: state of the business, value to be realized, timing of the sale, time needed to prepare & to sell, efforts required to run the business while trying to satisfy buyers, etc.) If they are both in tune with market pricing, seller's and buyer's price ranges should have an overlap. It helps to know what a good deal looks like if you want to get a great deal!

Underestimating the Value of Expert Advice – Minimizing or avoiding professional fees rarely yields a better return to the seller. Transactions are complicated and involve much more than a seemingly attractive number offered by a professional buyer to an emotional seller. M&A advisors can help keep emotions in check and will work with legal and other advisors to clarify the issues, maximize returns, minimize risk, and close a better deal.

House Not in Order – *Delegation of duties* – it is critical to know who currently does what and who will be needed to run the business. Hence, it is essential to have an accurate assessment of the owner's and managers' roles in daily operations. *Financial systems & reporting* - the ability to present and explain actual and adjusted financial performance to buyers is mandatory. Relevant financial systems and information should be reviewed and verified prior to presentation to potential buyers.

No Time for Timing – In real estate, it's location, location, location; when selling a business, it's timing, timing, timing! You may not like it, but you can't ignore it. Be aware of relevant timing issues; if now is not the right time, figure out when will be the optimal time for a sale.

Data Dump - Owners generally find buyer information requests tedious and intrusive – and they are! Buyer requests are comprehensive and include data that owners rarely show to anyone (let alone to actual or possible competitors). The sensitivity of company data should be considered when preparing it for presentation to buyers. Controlling buyer access to company data will help protect the company's proprietary information and the owner's interests.

When is the Right Time to Sell the Business?

Timing can be critical to successfully selling a business. Raising questions about when to sell and understanding the issues early in the process is key to developing a successful sale strategy.

1. Is it the right time for the business owners to sell?
2. Is it a good time for the company to be sold?



3. Are there any noteworthy timing issues in the company's industry or market?
4. Are there qualified buyers interested in the company when it is ready to be sold?
5. Is the timing right in the economy to support the desired transaction?
6. Considering that the sale process can take 8 to 18 months to complete, is there time to get the deal done?

The answers to these questions are found in an assessment and an understanding of the circumstances specific to the situation at hand. The key to optimizing timing in a business sale is to start a conversation with professionals about selling the business well in advance of the sale.

How to Increase Business Value & Attract Buyers

1. **Track value.** Establishing an initial range of pricing is a key early step to successfully selling a business and/or making plans to increase value. Identifying the key components to your value will help you track progress.
2. **Increase revenue.** Companies with higher revenue levels can qualify for pricing multiples not available for smaller businesses. While it's not the norm, some businesses are even priced based on revenue.
3. **Diversify revenue sources.** Diversity of revenue streams can increase value and enhance appeal. It could be the number of clients or offering different services or products. In general, diversification of revenue sources helps reduce risk. Reducing risk increases value.
4. **Increase profits and/or profitability.** Cash flow is often king when it comes to value. Higher profit (more earnings) and higher profit margin (higher percentage of earnings-to-sales) businesses attract higher pricing multiples.
5. **Reduce/eliminate less profitable work.** Reviewing and comparing services and offerings for overall contributions to value can help identify better or worse areas. Cleaning up accounts is viewed favorably by buyers and promotes increased value.
6. **Reduce expenses.** Eliminating waste or excess reflects good stewardship. Addressing owner-related expenses will need to be done eventually. Sustainable expense reductions can add directly to the bottom line and increase value.
7. **Reduce key person dependence and strengthen management.** Next generation leaders need to be identified and prepared. Managerial depth and operational redundancies ensure that business can continue smoothly should something happen to key people.
8. **Document operational procedures and responsibilities.** There is typically not a single, comprehensive "operator's manual" for a business. From documenting



how and how often machine maintenance occurs to the responsibilities of personnel, the more a business is documented the more attractive it will be to buyers. Increased documentation can lead to increased value.

9. **Upgrade financial statements.** Timely filed and accurate tax returns are expected. Buyers typically look for income statements, balance sheets and cash flow statements prepared at a level commensurate to the business' operations, complexity and size. Enhanced reporting gives the buyer higher confidence in what is reported. This helps reduce risk and increase value.
10. **Engage professionals.** Seeking professional assistance can help to identify specific areas that impact value and appeal to buyers. Engaging a seasoned M&A expert can help owners understand what they reasonably have (and what it's reasonably worth) and how and how long it will take to achieve owners' goals. An experienced M&A pro can help the seller realize its objectives and maximize value.

Typical Components of M&A Fees

- **Retainer/Upfront Work Fee**
 - 90% of advisors charge a “work” fee payable regardless of closing a deal.
 - Monthly retainers of \$5,000 - \$10,000+ are common.
- **Success Fee**
 - The main fee payable for M&A services is a contingent fee based on a percentage (typically 1% to 10%) of the value of a successfully consummated deal.
 - Success fees are structured as a scaled percentage or a flat percentage.
- **Minimum Success Fee**
 - A pre-determined, minimum success fee is common on larger deals.
- **Breakup Fee**
 - More than a third of providers charge a breakup fee if a client does not proceed with a predetermined bona fide offer.
- **Reduce Success Fee by Retainer/Work Fee**
 - Most providers will deduct work fees from success fees payable.
- **Timing of Success Fee Payments**



- Most providers expect full payment at closing, regardless of when purchase price components are payable.
- **Expense Reimbursement**
 - Most providers expect reimbursement of out-of-pocket expenses; common reimbursable expenses are for travel and virtual data rooms.

