CERTIFIED PUBLIC ACCOUNTANTS
BUSINESS ADVISORS
FINANCIAL ADVISORS

ROADMAP TO PREPARE YOUR BUSINESS FOR SALE

10 Things you should do now

As the founder of your business, you have likely poured your heart into its growth and success. You have invested countless hours of time and money into it. Its likely that you have a substantial part of your wealth tied up in the business. Now that you are ready to retire, you need to extract that value. There is a lot at stake you should invest a substantial amount of effort to maximize your company's value and accomplish a smooth transaction.

Much like preparing your house for sale, your business needs "housekeeping" as well. However, it is more complicated than just cleaning the office by straitening up, vacuuming and dusting. We highly recommend you engage a seasoned professional, such as an M&A Advisor to guide you through the process. However, there are certain things you can do now – 2 to 3 years prior to selling that will help ensure your success.

1. Set Goals – Determine what you want to accomplish through selling your business. Examples may include – maximizing value, a smooth transition, a good leader for you employees and a good cultural fit, establishing a target date, and maintaining strict confidentiality.

2. Reduce Owner Reliance – The number 1 issue of selling a business is the business has to succeed without its owner. Your goal here is to set up the processes, procedures and human capital that can carry on the daily activities with little input from you. Accomplishing this reduces the buyer's risk and increases their chances of success.

3. Financial Reporting & Analysis– The gold standard is for your financial reporting to be following Generally Accepted Accounting Principals (GAAP). If you have a CPA firm conducting annual audits, you have already accomplished this. Your financial numbers will tell a story of your growth and performance.

Learn more about our services, including how we've helped other businesses in your industry by visiting our website at **www.dhjj.com.** To discuss your individual needs, please call us at

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Organize your financial statements is a data set that shows by month the last three to five years. Study the trends and ratios. You should know your numbers and be able to speak about the financial performance to potential buyers. What are the Key Performance Indicators "KPIs" that drives volume, sales, margin, and profit? These should also be incorporated into your financial reporting package and trended over the last 24 months. DHJJ offers a great service for this called a Quality of Earnings

4. Financial Forecast – Having a snapshot of what the future performance and profit will be is a key tool to sell your business. A three to five-year forward-looking income statement shows that future goals are both realistic and feasible. It allows the potential buyer to visualize what they will get if they invest in your business.

5. Build Your Team – Selling a business is a complex process with a lot at stake. Most owners of small and middle market businesses have a substantial amount of their wealth tied up in the business. To extract that wealth to fund your retirement shouldn't be left to guessing and chance. Most professional experienced advisors will more than pay for themselves to assure you maximize your value and don't make costly mistakes. The following seasoned professionals will ensure a successful

a. M&A Advisor – This is your quarterback for the transaction. In addition to knowing how to market your company and negotiating the most favorable terms, the M&A advisor will coordinate your entire team.

b. Personal Financial Advisor ("FA") – The FA will help you determine where you are at now with being able to fund your retirement plan, they will be able to quantify any shortcomings your plan may have. They will also develop a plan to properly manage the large sum of money your will receive upon selling your business.

c. Attorney – Multiple legal documents and issues will need to be negotiated throughout the sales process. You may already have an attorney, but it will be essential that your attorney has experience in selling a business.

d. Tax Specialist – Business sales transactions are subject to the most complex tax code and strategies. Accurately navigating tax aspects will be essential to a successful sale. A basic CPA is not necessarily trained in this area. Having a specialist can save you millions of dollars.

e. Valuation and Appraisal Experts – This is plural on purpose. Knowing what your assets are worth is the only way you can know if an offer is good or not. In addition to a business valuation, you may also benefit from having appraisals conducted on machinery and equipment, other fixed assets, and real estate. One expert may or may not be qualified in all these areas.

6. Compliance and Documentation – Review and get your legal and tax compliance in order. Are your registrations, and licenses all up to date (in every state you operate in)? Corporations are required to keep board of director minutes however in reality, many small and medium-sized businesses do not document such meetings. and Sales tax compliance is often overlooked by owners before selling. Companies that operate in multiple states have a difficult challenge in ensuring that the different rules in each state are being followed. Reviewing these compliance issues early enough provides you with adequate time to fix them before you start marketing your business.

7. History, Milestones, & Customers – Take this time to document who the company is, how did it started, what are the key milestones, how your service or products solve customer problems, and more. Who are your customers? Are sales to customers one-time sales, repeat sales or recurring subscription-based sales? Is there a concentration risk in customers where any one customer represents more than 10% of annual sales? What is the tenure of customers? What is the lifetime value of your customers? All this type of information will be used to tell your story to buyers.

8. Value your Business – Understanding how buyers will value your business will not only help you solidify your retirement plan. The initial valuation should be done early in the process (2 or 3 years before the target date) so you will be afforded time to improve your business value. At this stage, you don't need a qualified appraisal. An "Indication of Value Assessment" will suffice. DHJJ offers a great product for this called an Indication of Value and Marketability Assessment. Contact us to learn more.

9. Understand Operational Risk and Fix Deficiencies – A primary key to sustainable long-term growth is having a balanced organization that operates at peak efficiency in each functional area of the business. Any deficiencies in the business operations tend to be viewed as risks and lower the buyer's valuation of your business. Companies can increase their value by 30% to 40% within a 2–3-year period if they improve these deficiencies. DHJJ has an excellent assessment product designed to flush out these issues called Operational Effectiveness Assessment. It looks at over 250 different qualitative metrics in 8 functional areas of your business. The final report becomes a roadmap to reduce risk and increase value.

10. Rapidly Increase Company Value – Obviously the easiest way to increase value is through more customers, revenue and earnings. That is not an easy challenge. If it were easy, you probably would have already done that. Other factors within your control that improves value include, operational efficiency, create realistic forecast, identify and mitigate volatility, develop a recurring revenue model with written customer contracts, cut unnecessary expenses, strengthen the management team, automate processes, clean organized financials with KPIs, consider acquiring a smaller company and improving cash flow through best practices in A/R and A/P management.