

Are You Selling Your Business?

Part I: Addressing common business owner concerns and questions in M&A transactions

With 2020 in the rearview mirror, 2021 appears to be the year of possibilities. You are probably looking for options and selling your business might be one of those options. However, there are some things you should consider before doing so.

Over A Neumann & Associates' 18-year history, we've seen and heard a lot while navigating individuals like yourself through what can be one of the biggest decisions of your life. Below, we will discuss the first five owner concerns when preparing to sell a business. In the next issue, we will discuss five more owner concerns.

#1. Revenue is down, but I think my company has growth potential.

Maybe 2020 treated you much like most companies and you had less than stellar revenue. No one will acquire a company for its current performance, but all buyers want to see that a company has growth potential. Thus, it is absolutely essential that a seller steps back and thoroughly defines all potential growth paths for the company, including the underlying capital infusion required to execute such growth plan.

Rest assured; every business has growth potential. Naturally, the current business owner – most familiar with the business – is the most qualified individual to provide guidance for such growth. But sometimes said owner is tired after all the years of running the business and it might take an external consultant or business coach to help define such growth: geographical expansion by opening offices in new regions, synergistic product or service line expansions either by way of organic growth or by acquisitions, the bolstering of human resources by hiring additional personnel – just to name a few. Money well spent!

#2. How long will it take to sell my business?

While it varies greatly from one trans-



action to the next, the typical selling time for a small retail or service business ranges from four to eight months. For a larger business, a six- to twelve-month time frame is more common. However, selling a business is a full-time job in its own right. For that reason, we always suggest hiring an external advisor as opposed to “doing it yourself”. Well-experienced advisors indeed know that a 8–12-month timeline for a business sale can be detrimental to the business' performance if not handled externally.

Thus, the best advisors urge owners to maintain their business' performance, freeing up the owner's time by navigating through the ins and outs of the sale. This includes a lot of “after hours” meetings, understanding that most owners work around the clock.

#3. I'm not a salesperson. How do I even market my company?

The market for ‘companies for sale’ is very competitive, to say the least. With thousands of companies for sale at any given time, there is great ‘market transparency’ with the internet. And with the impending demographic shift, there will be many more ‘baby boomers’ looking to sell a business rather than buy a business. Worse, the sub-

sequent generations have been exhibiting a significant degree of ‘risk adversity’ in running – and acquiring – a business. Additionally, the COVID-19 effect has many questioning next steps.

The implication is that investors will demand concise, convincing information to explore an acquisition.

The most critical marketing documents in this process are the blind profile, confidential memorandum (CM) and an accredited business valuation by a third party.

The blind profile should give an approximate synopsis of the key metrics of the company – assets, Employment and cash flow – but should not divulge the company name, specific operation or address.

The CM – to be obtained by the investor after pre-qualification – should include a detailed asset listing, tax-return-based financial information, growth projections and current and projected EBITDA with normalized sellers discretionary cash flow (SDCF), including an explanation how it was developed. For example, discretionary personal owner expenses being run through a business should be indicated. In addition, the company's competitive advantage needs to be illustrated, revenue streams explained, company organization charts shown and so

forth. Essentially, everything an investor needs to ‘make a decision’ should be truthfully disclosed.

In short, the CM should represent putting ‘the best foot forward’ by the business owner in selling a business. Neglecting such, or simply relying only on a valuation, will significantly reduce the transaction price or jeopardize a sale altogether.

#6. Is it going to be a rough process?

Business owners are usually industry experts – highly competent in the day-to-day operations of their business. Selling a business is a completely different transaction – one in which business owners are not familiar with.

Generally speaking, most business owners feel intense anxiety during the sale process, particularly during periods of uncertainty or conflict. Every deal comes with a unique set of challenges. A good M&A advisor does not expect a business owner to be an expert, but he/she will navigate the owner through the deal process.

By being proactive, a good advisor can reassure a seller during these uncertain times. Such re-assurance prevents a loss of momentum that ultimately can kill deals. Buyers sense uncertainty on the sell-side and are inclined to lose interest in a deal in such a scenario – often interpreting such uncertainty as lack of motivation on the sell-side. Good M&A advisors can put a stop to this process before it spirals out of control by instilling confidence and ensuring the deal is appealing and efficient to all parties.

#7. I haven’t been planning to sell, is it still possible?

Long-term planning is key to any successful business sale. By



keeping updated records, a detailed business history and sales portfolio on hand at all times, it will make your planning pay off. You just never know when that perfect buyer may walk into your business and make you an offer you just cannot refuse.

Insufficient financials do not necessarily have to prevent a business owner from selling a business or to accept a lower business valuation or transaction price. A good advisor will give sellers an early heads-up as to what needs to be improved in the financial reporting system. Often this can be accomplished with rather small adjustments.

Business owners and advisors need to honestly discuss such deficiencies, remedies and how it will impact the anticipated business valuation. A seller needs to understand the need for an immediate, consistent and correct financial reporting system as it will surely be requested from potential buyers.

And whereas a proper valuation on the front end is very important, tax planning on the back end is just as important. It does a seller little good to have obtained one hundred percent of the asking price, only then to turn 50% of such over to the IRS or State government.

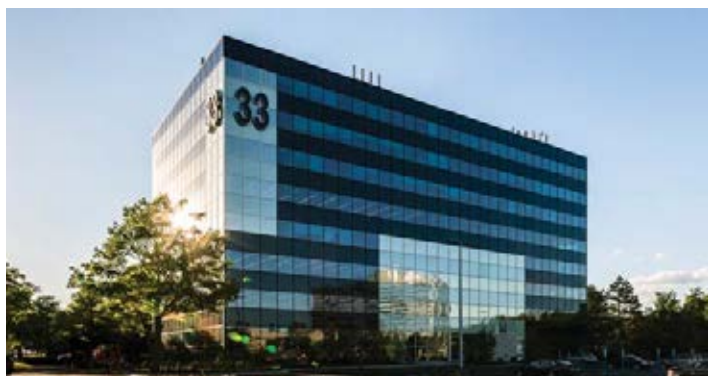
In next issue: part 2

In the next issue, we will look at the next top five concerns and questions owners have when approaching an M&A transaction.

We hope you have found part 1 helpful. If you’re exploring the sale of your business and have questions, please get in touch with me.



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