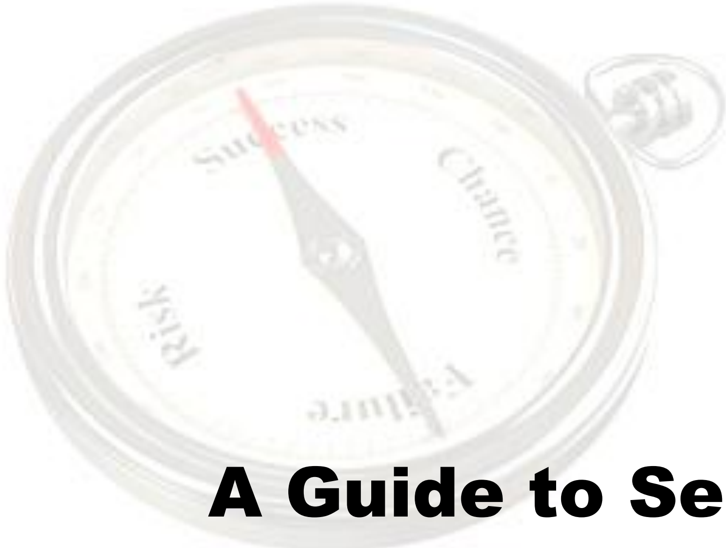

A Guide to Selling Your Business

By Marc L. Williams &
Wendy P. Williams

Charleston
BUSINESS BROKERS
PLAN • PREPARE • MAXIMIZE VALUE

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Marc Williams, President

This guide is written to provide business owners with a comprehensive, common sense overview of the process of selling a business. Business owners are adept at running their business operations on a day-to-day basis and often assume that this knowledge, in and of itself, will sell their business. Unfortunately, it will not. Business owners are by nature confident in their abilities and often assume that they understand what is important to buyers. However, in reality buyer motivations vary from individual to individual. Business owners provide structure to their business in order to maintain profitability and achieve growth and often assume that this structure is sufficient to entice buyers. Often times it is not.

Charleston Business Brokers is committed to providing professional guidance in bridging the gap between these issues and successfully selling your business. The sales process must be a cooperative effort between you, your business broker and your team of professionals, such as your accountant or attorney, which have assisted you in growing and protecting your business.

Charleston Business Brokers is knowledgeable and experienced in analyzing, marketing, and selling businesses and does so with honesty and integrity. We take your trust in us very seriously and welcome you to compare our reputation and services with others offering business brokerage services.

Unfortunately and surprising to many, the national average shows that only one in five businesses listed for sale ever sell. Buyer issues certainly have a role in this disappointing statistic, but the reality is business owners and business brokers are the driving forces that produce this outcome. The business owner must acquire the necessary knowledge required to prepare their business for sale and must be committed to the process and willing to accept personal responsibility for the outcome. Likewise, the business owner must choose their advisors wisely and this certainly includes their choice of business brokers. Your business broker must also be committed to the process but, as importantly, must be a knowledgeable professional capable of managing the sales process.

You can sell your business. You need knowledge and you need professional assistance. It is our intent that this guide provide you with insight into both.

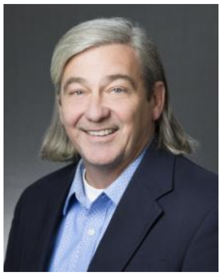
In this regard, it is appropriate to provide guidance in realizing the full value of this guide. This guide starts with the assumption that the business owner has made a decision to sell their business and is seeking to engage a qualified professional to assist in this process. That being the case, the guide provides information on what services should be expected of their business broker and provides tips and guidance in making the right selection. From there the guide provides assistance to the business seller in understanding the dynamics of the sales process, valuing the business, issues to consider and action to take in order to ensure that your business sells.

As an aid to the business owner, many chapters conclude with a ***Practical Considerations*** section that provides tips and guidance relative to the subject of the chapter. These ***Practical Considerations*** are designed to provide the business seller with a common sense roadmap in formulating their action plan. It is our belief that if you use these tips, you can avoid many of the common pitfalls to selling your business.

The guide ends with a comprehensive self assessment of your business entitled "Will Your Business Sell?" Complete the assessment yourself or request assistance from Charleston Business Brokers and use the resulting information to determine your best course of action in realizing your personal and business goals.

Marc L. Williams

President
Charleston Business Brokers



Marc L. Williams
President
Charleston Business Brokers

Wendy P. Williams
General Manager
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Chapter 1

What Business Sellers Should Know

A Broad Overview of the Business Sale Process

What Can Business Brokers Do?

Business brokers are the professionals who facilitate the successful sale of a business. Business brokers provide guidance to the business owner in valuing their business, properly presenting the business to the market, and providing guidance to the business owner in structuring the sale so it makes sense for the seller and the buyer. Business brokers can find the right buyer for the business, work with the business owner and the buyer in negotiating the sales agreement, and provide counsel every step of the way until the transaction is successfully closed. Business brokers will also assist the buyer in all the details of the business buying process.

Most businesses can be sold if they are priced and structured properly. With this said, it is important for sellers to understand that only the marketplace can determine what a business will sell for. Many factors such as the amount of the down payment a seller is willing to accept, if any, along with the terms of the seller or SBA financing, can greatly influence not only the ultimate selling price, but whether the business sells or not. These issues are discussed more completely in the following sections of this guide.

How Long Does it Take to Sell My Business?

It generally takes, on average, between six to eight months to sell most businesses. Some businesses will take longer to sell, while others will sell in a shorter period of time. It is imperative the marketing process begin as soon as possible with the asking price for the business determined properly right from the start.

It has been proven that the amount of the down payment may be the key ingredient to a quick sale. The lower the required down payment, the shorter the time it usually takes to consummate a successful sale. Why? It makes sense that the lower the amount of cash required to purchase the business the broader and deeper the pool of potential buyers. For example, there are far more potential buyers with $100,000 than say $500,000.

Why is Financing So Important to the Sale of a Business?

In the great Recession not so many years ago the only financing available to buyers was seller financing. At that time, surveys showed that sellers who asked for all cash received, on average, only 70 percent of the asking price, while sellers who accepted terms on average received 86 percent of the asking price. While seller financing of a portion of the sales price can often still be a component of the sale, fortunately Small Business Administration (SBA) acquisition loan guarantees are available and funded through commercial lenders. These SBA loans require 10% to 25% down payments; have favorable ten year amortization schedules; and provide working capital as a component of the loan.

Why are the Seller's Discretionary Earnings (SDE) So Important to the Sale of a Business?

Even more fundamental to the sale of a business than financing considerations is the basic question of what economic benefit can a new owner expect to receive from the business. This topic is discussed more fully in Chapter 4, Valuing Your Business in which Seller Discretionary Earnings are clearly defined, but it deserves consideration here. A buyer, when you boil it down to its essence, is simply purchasing a future stream of income. The greater the stream of income and the more certain that stream appears, the higher the price a buyer is willing to pay for the business and the more certain one can be that the business will sell. And this fundamental also greatly impacts any form of acquisition financing, whether it be seller or third party lender financing. That is to say, if the future stream of income is insufficient to provide a financial return to the buyer and reasonably make debt service payments, then, as a general statement, the business is priced too high and the business will not sell. It is helpful for sellers, when considering the pricing of their business to put themselves in the shoes of prospective purchasers and ask the simple question, "Would I buy my business at this price?".

What Happens When There is a Buyer for a Business?

When a buyer is genuinely interested in a business purchase, a business broker will assist in the preparation of an offer or proposal. This offer or proposal may have one or more contingencies. The potential buyer will review detailed financial records, lease arrangements, the franchise agreement (if there is one), and other pertinent details of the business. The buyer's proposal will then be presented to the business owner for consideration. The business seller may accept the terms of the offer, reject the terms of the offer, or may make a counterproposal.

Business brokers will submit all offers to the seller for consideration. At first review, the seller may not be pleased with a particular offer; however, it is important to look at it carefully. While it may be lacking in some areas, it might also have some positive aspects to seriously consider.

When the seller and buyer are in agreement, the business broker will work with both parties to satisfy and remove the contingencies in the offer during what is called the due diligence period. It is important that the seller cooperate fully in this process and provide requested information in a timely manner. One does not want the buyer to think the seller is hiding anything.

At this stage, or earlier, many sellers retain outside advisors to help review the information. When all the conditions have been met, closing documents are drafted, reviewed by all parties and their advisors and signed. Once the closing has been completed, money will be distributed, and the new owner will take possession of the business. The business broker will work with the seller throughout this entire process.

What Can the Business Owner Do to Help Sell Ones' Business?

First and foremost, the seller must be open and forthright with their broker and fully disclose all aspects of their business – both good and bad. In addition, cooperation between the business broker, the potential business buyer and other professionals (accountants and attorneys, for example) involved in the selling process is important. A buyer will want up-to-date financial information. Also, it is important that the attorneys are familiar with the business closing process. Time is of the essence in any business sale transaction and inexperienced advisors lengthen the time table often endangering the deal. Quite simply, the failure to close on schedule permits the buyer to reconsider or request changes to the original proposal.

The advisory team must all be working towards the common goal of selling the business for the best price and terms available in the marketplace, and closing the sale as quickly as possible. The business broker will be involved in all the details of this process.

Business, more than any other occupation, is a continual dealing with the future; it is a continual calculation, an instinctive exercise in foresight.

Henry R. Luce

Chapter 2

Services of the Business Broker

Brokers Orchestrate the Steps of the Sale

When it comes time to sell, one of the best decisions a business owner can make is to continue managing his or her business efficiently (and profitably), while depending on the services of an experienced business intermediary to orchestrate the steps of the sale. To make the seller's job easier and more effective, the business broker will responsibly fulfill the following services:

1) **Opinion of Value**. The business broker should be an expert in valuing the business and incorporating intangibles; thus reducing the danger that every seller fears--under-pricing the business. At the same time, the business broker can help the seller to understand that the selling price is dictated by the marketplace--not by a well-meaning advisor or friend who may have an unrealistic idea of what the business is worth. In providing a well documented Opinion of Value, the skilled business intermediary will also have access to a database of similar businesses that have sold and will analyze those sales for guidance on a market value for any business.

2) **Prepare a marketing strategy** and offer advice about essential professionally produced marketing tools, such as a detailed business offering memorandum; in fact, the broker will assist the seller in all key aspects of presenting the business as effectively as possible. Later, the broker can also help in the structuring of the sale transaction.

3) **Determine the right buyer for a particular business.** To locate and qualify prospective buyers, a business broker uses computerized databases to access comprehensive lists of local, national, and at times international buyers--all to increase the chances of selling a business at peak value. With that said, effective brokers have a database of buyers and also utilize numerous methods of finding buyers and prepare a customized marketing plan for the sale of the business.

4) **Present offers to the seller** and advise as to both strengths and weaknesses of the offer. The business broker will be a vital advisor during most stages of the negotiation, bringing to "the table" objectivity as well as negotiation skills developed through years of experience in the buying and selling of businesses.

Full Service Business Brokers Should Provide at a Minimum the Following:

▫Professional Sales Packaging that includes the following: ◊ Company Background ◊ Seller's Reason for Selling ◊ Business Highlights and Strengths ◊ Business Challenges and Opportunities ◊ Proposed Sale Structure ◊ Historical Financials ◊ Asking price and proposed terms

▫Business valuation analysis and pricing recommendation

▫Business sale preparation checklist

▫Guide to Selling Your Business

▫Customized business sale marketing plan

▫Qualification of prospective purchasers

▫Review of business operations with qualified purchasers

▫Review of company financials with qualified purchasers

▫Intermediary in Seller and Purchaser meetings and negotiations

▫Intermediary during final contract negotiations

▫Intermediary during due diligence period

▫Coordination of the business sale closing

In Addition, Many Business Brokers Directly or Through Affiliated Consulting Arms, Provide the Following Professional Business Sale Consulting Services to Sellers and Purchasers on a Fee Basis:

▫Company Documentation Audit and Plan

▫Financial Statement Formulation and Planning

▫Personnel Structure and Management that includes the following: ◊ Organizational Charts ◊ Policy Manuals and Training ◊ Corrective Action Programs ◊ Operational Procedure Manuals and Training

▫Financial Statement Recasting

▫Budgeting and Forecasting

▫Business and Strategic Planning

▫Marketing Planning

▫Business Key Performance Indicators

Practical Considerations in Selecting a Business Broker – and ways to find the truth

Aside from the obvious requirements that your broker be knowledgeable and experienced, there are a number of practical considerations that should be addressed prior to engaging a broker.

1) ***Is your broker responsive?*** While this may strike many as an obvious requirement, the sad fact remains that many brokers are not responsive to telephone and email communications. This basic professional deficiency translates in to lost buyer opportunities, frustrated sellers and a less-than-satisfactory experience. Can you imagine your broker not responding to prospective purchasers of your business? It happens all too frequently. So how can this be tested prior to engaging a broker? Simply by making contact with the broker via telephone or email as a prospective purchaser and measuring the initial response time (it should be the same day), the efficiency in receiving a non-disclosure agreement (which should also be the same day), and the efficiency in receiving preliminary information on the business (which should be the same day as receipt of the executed non-disclosure agreement). The results of this exercise will tell you everything you will need to know about the manner in which the broker will be responding to inquiries on **your** business.

2) ***Does your broker place your interests before their own?*** This may be another obvious requirement but it is one that ultimately causes tremendous problems for unsuspecting sellers. This basic professional deficiency also translates into lost buyer opportunities, frustrated sellers and a less than satisfactory experience. Can you imagine your broker being more interested in their fee than in accomplishing the objective of selling your business? It happens all too frequently. So how can this be tested prior to engaging your broker? Simply ask the broker if they actively work with other brokers in selling your business (commonly referred to as co-brokerage). And the key word here is actively. If the broker actively works with other brokers for the seller's benefit then the broker will have two items readily available to show you as follows: i) Multiple standing co-brokerage agreements with area business brokers; and ii) Written marketing plans for clients that include an action item of proactively sending area brokers information on newly listed businesses.

3) ***Will your broker provide the level of service that you require?*** Simply put, does your broker have an operational support system in place? Once again, this is a fairly obvious requirement that unfortunately many sellers' discover is deficient only after engaging the broker. Can you imagine working with a broker who does not answer emails in a timely manner; whose phone consistently goes to voicemail and who just can't seem to keep your records coordinated and updated. It happens all too frequently and can be avoided simply by determining

two facts: i) Does the broker have a systematic approach to selling your business based upon business sale fundamentals? ii) Does your broker have experience in selling businesses? This may seem to be a rather obtuse question but the fact of the matter in South Carolina business brokerage is an unregulated industry!

4) ***Will your broker properly present your business to the market?*** This may be another obvious requirement but it is another one that ultimately causes tremendous problems for unsuspecting sellers. This basic professional deficiency also translates into lost buyer opportunities, frustrated sellers and a less than satisfactory experience. Can you imagine your broker presenting your business to prospective purchasers by the use of handwritten notes and sloppily prepared packages? It happens all too frequently. So how can this be tested prior to engaging your broker? Simply by asking the broker to provide you with two items readily available to the broker as follows: i) A sample seller marketing package from one of the broker's current listings; and ii) A sample written marketing plan customized for one of the broker's current listings. What you receive will be how your business will be presented to buyers and you must decide if that is satisfactory to you.

5) ***Will your broker prequalify your business for an SBA loan?*** Your broker should have relationships with the SBA lending division of several commercial banks. Your broker should provide your company financials and the marketing package prepared for your business to these lenders and obtain a "pre-commitment" letter that first confirms that your business can be approved for financing and secondly what the terms of that financing would look like. This is a key component in selling your business.

6) ***Will your broker prequalify prospective acquirers of your business?*** Your broker should require written representations from prospective purchasers that they have sufficient funds to acquire your business prior to providing a prospective purchaser with your confidential financial information. And your broker should have sufficient SBA lending relationships that will independently qualify prospective purchasers at the appropriate time in order to avoid unnecessary negotiations with purchasers who are not qualified for financing.

Chapter 3

The Business Sale Process

Specific Steps in the Business Sale Process

The business sale process does not need to be frightening or intimidating. Fear is rooted in the unknown. In order to provide a basis of knowledge, the following is a step-by-step summary of the typical process of a business sale:

Step 1. Initial seller meetings are conducted by the seller's broker and the seller is provided information on the process of a business sale.

Step 2. A Listing Agreement is completed by the seller's broker & signed by the seller. Prior to or immediately after signing the Listing Agreement, the Seller provides the

broker with the following documents to assist with the business sale:
a. Complete lists of all equipment and other assets to be included or excluded in the business sale.
b. Profit and loss statements, balance sheets, and tax returns of the business covering the last three years.
c. The most recent interim profit and loss statement, balance sheet, and sales tax returns.
d. Real and personal property leases.
e. Copies of all patents, licensees, loan documents, contracts or agreements necessary for the business sale.
f. All agreements relating to employee benefits.
g. Any environmental reports.
h. Copies of all other documents needed to present a fair and accurate description of the business to prospective buyers.
Note: In conjunction with the execution of the Listing Agreement, the broker provides guidance to the seller in setting the asking price for the business. Independent valuations are available and may be warranted on a case-by-case basis.

Step 3. During the engagement period, the seller updates each document when any material change has occurred. The seller consents to the broker publishing, advertising or distributing information about the business for sale to prospective purchasers and to cooperating brokers as well as to contacting landlords and any others regarding any of the information about the business.

Step 4. Seller's broker writes a narrative on the business called a Business Profile or a Confidential Business Memorandum that is provided to prospective purchasers after execution of a Nondisclosure Agreement by the prospective purchaser. Seller's broker plans a marketing and advertising strategy and the business for sale is added to web sites in such a manner so the general public cannot identify the business.

Step 5. Buyers in the broker's database and buyers who have responded from the advertisements will have their backgrounds and finances evaluated to determine if they are qualified buyers. If qualified buyers are interested in the business for sale, they will be provided the Business Profile or the Confidential Business Memorandum. If further interest is shown, the seller's broker will arrange a meeting with the buyer about the business for sale. If this meeting is productive, the broker will arrange a face-to-face or conference call between the seller and the buyer with the broker present. If appropriate, an on-site visit to the seller's business will be coordinated by the broker.

Step 6. If a buyer decides to make an offer at a fair price, the buyer's broker will write the offer and secure a deposit at the appropriate time.

Step 7. The seller's broker will present all offers to the seller.

Step 9. Seller and seller's broker will review each offer and decide whether to accept or counter the offer. If seller decides to counter, they can:
a. Mark up the original offer, initial the changes and sign the offer;
b. Write-up a counteroffer; or
c. Re-write the offer entirely.

Step 10. Due diligence starts once an offer is accepted.

a. If the due diligence process proves the business to be as represented, the buyer, through broker coordination, provides written notice that all purchase conditions have been met.

b. If the due diligence does not prove the business to be as represented, either the offer for the business for sale can be renegotiated or the offer will be cancelled and the buyer's deposit check will be returned.

c. If the due diligence proves the buyer to be as represented (capable of managing the seller's business, financially capable and with good credit), the seller proceeds.

d. Once both the buyer's and seller's contingences are met, the seller's broker will prepare to coordinate the closing of the transaction.

Step 11. Seller's broker secures, answers and/or provides the following to legal counsel and the SBA lender to ensure a timely closing process:

a. Copy of the Purchase Agreement and Counteroffers;

b. All financial statements and marketing materials;

c. Secures the deposit check from buyer;

d. Secures leases - amount of monthly rental, security deposit, assignment, new lease, and other pertinent matters;

e. Works with the attorney's and SBA lender to target a closing date;

f. Assists the seller in obtaining a Certificate of Existence from the South Carolina Secretary of State as well as a Certificate of Tax Compliance from the South Carolina Department of Revenue;

Practical Considerations in the Steps to Selling Your Business – and ways to increase your chance of success

Aside from the obvious steps in selling your business, there are a number of practical considerations that should be addressed, with guidance from your broker, during the process in order to maximize your chance of success in selling your business.

1) ***Conduct a pre-listing due diligence review of your business.*** The absolute worst time to find out that, in fact, your business has problems that make a sale insurmountable is during the prospective purchaser's due diligence period after a contract for purchase has been signed. To get to that stage you and your broker have expended many hours of time, energy and effort in selling your business only to find out that the business cannot be sold. This disconcerting situation is one that is almost entirely avoidable if you are guided by a knowledgeable broker and you provide all requested information and more on your business – both good and bad – in the initial stages of your engagement with the broker. You see, even if certain aspects of the information you provide is less than flattering to your business, it can be properly addressed up front so that it is not an obstacle to selling your business. And, if determined that it is an obstacle to selling your business, it can be properly addressed with a plan of action to correct the situation prior to expending energy in taking your business to market. Experienced brokers have the forms and checklists necessary to perform a pre-listing due diligence that provides you and your business with the knowledge that you should insist upon that your business can be sold. This due diligence requires your time as well as the

broker's time and is often reflected in up-front engagement fees charged by the broker.Insist on this process with your broker.

2) ***Prepare yourself mentally to be an active participant in the sales process.*** Your broker should communicate well, be responsive to your business needs and should proactively work to sell your business. Your broker, however, will be unsuccessful in these efforts if you are not an active, responsive participant in this process when called upon to be so. Delays in updating financial information, responding to questions, scheduling calls with buyers, and scheduling on-site visits will inhibit the sales process and lessen your chance of selling your business. Be responsive.

3) ***Prepare yourself mentally that the process is not personal.*** Some business owners cannot separate their business from themselves as individuals. These business owners take all questions about their business personally and are insulted by any offer or question. Understand that the prospective purchaser is objectively analyzing your business and not you as a person. While emotions are certainly a part of any transaction, the most successful business sellers keep those emotions in check and view the process for what it is - a business transaction.

4) ***Understand that the transaction will be an asset sale and not a sale of stock and you need to discuss this with your financial advisors.*** The wrong time to realize that your business is organized as a C corporation, and you may have tax issues once your business is sold, is during the purchaser's due diligence period. Your business broker should not provide you with specific tax guidance but they should provide you with the knowledge of the transaction structure that is required in order for you to seek tax guidance from your accountant or financial planner. Very few small business sales are structured as stock sales – the vast majority are asset sales. Most legal advisors to purchasers will strongly discourage the purchaser from acquiring a seller's stock and the contingent and often unknown liabilities that can be attached to that stock. Purchasing the assets of the business (customers, name, accounts, vendor relationships, assets, inventory, web address etc.) removes the chance for an unforeseen liability to attach itself to the new owner's business. Upon engaging a business broker, talk to your accountant or financial advisor and devise a strategy to assist the broker in structuring a sale that benefits you and takes into consideration your unique tax consequences.

Chapter 4

Valuing Your Business

Measurable Techniques to Determine Value

The decision to sell your business is a personal decision that is your decision alone. Once that threshold decision is made, valuing your business becomes the single most important decision in the sales process. While pricing certainly becomes a personal issue in rewarding you for your hard work, the valuation of your business is a business decision that should be based upon established guidelines and market practices.
Pricing should be realistic and supported by business financials and operational

practices. With that said, **your broker's mission is to obtain the highest possible price for your business as their fee structure should be tied to the price of the business to ensure that everyone's goals are in alignment.** In this regard, this outline is designed to aid you in your discussions with your broker in setting a price for your business that is rewarding, realistic, and documented. It is our experience that businesses with asking prices that meet these criteria more quickly attract qualified purchasers and resulting offers which meet or appropriately approximate asking prices.

A. Fundamental Value Enhancers

Fundamental value enhancers are those aspects of your business that are the core drivers of your business profitability. These value enhancers are common to most, if not all, businesses. Quite simply, the better these areas of your business are managed, the better your profitability and the higher your asking price. While not a comprehensive list, the following fundamental value enhancers are a good starting point for you in valuing your business:

1. Your company documentation is clear, comprehensive and organized

Buyers gain, or lose, confidence in the condition of your business based upon many factors – the first of which is your ability to clearly and accurately substantiate your business operations. Your filing systems for insurance, customers, accounts receivable, accounts payable, assets and other core operational components should be comprehensive and organized.

Companies with well-documented operations command higher prices.

Companies with well-documented operations more easily complete the due diligence period and close the sale at the contracted price. See Chapter 10 for a detailed check list.

2. Financial Statements accurately represent your company earnings

Financial statements for three years, and preferably five years, should accurately provide a clear picture of your company's profitability. The goal is to provide prospective purchasers with a documented income stream that is not a risk for the purchaser. Purchasers invest in the future income stream that your business will produce so providing a clear path to this income stream, through documented historical financials, is critical in attracting purchasers and maximizing your sales price.
The trend that these financial statements show also impacts your company evaluation. Business buyers will examine if your business is growing, flat, or declining. For example consider if "Business A" made a profit of $200,000 last year and $100,000 the prior year and "Business B" made the same $200,000 profit last year, but $300,000 in the year prior. In almost every case, Business A is worth far more in the eyes of an individual buyer. They want to acquire a business that is growing, or, at the very least, is stable.
The importance of having good, clean and accurate books and records can not be emphasized enough. It may very well be the single most important influencing factor of

the price and terms when a business is for sale.

In addition, it is important that you, and your broker, be able to fully understand and explain your financial statements. For example, any aberration in expenses should be easily explained as a one time event, if, in fact, that is the case. Likewise, sales income trends should be understood and easily explained or promoted, as the case may be. In addition, be prepared to explain why there are excess or insufficient salaries, family employees who are not needed, excess rent or property expenses, unnecessary travel, entertainment, and auto expenses.

Companies with well-documented financials command higher prices.

A clear understanding of your financials provides the basis for recasting your earnings in the most favorable light in order to maximize your selling price. See the discussion on Recasting Financials in this chapter for an overview of this key sales component.

3. Your skilled staff and management team ensures continuity of income

The personnel assets of your company – meaning employees and managers – should instill confidence in the buyer that once you, as owner, are gone the income stream can be continued. The goal is to provide prospective buyers with a clear picture of a competent management team and skilled, trained employees who know their roles within the company. Personnel policy manuals, procedure manuals and employee evaluation and training manuals provide a clear picture of this organizational structure, if available.

Interestingly enough, most small business buyers will purchase a business outside of their area of expertise or experience. As such, it is important that the transitional period after the sale is something that the buyer sees as being reasonable. A buyer must feel confident they'll be able to have a good grasp of things within a short time after they take over. This can only be accomplished if the business is well managed with policies, procedures and systems in place.

Companies with well-trained employees command higher prices.

A clear understanding of your organizational structure provides buyers with confidence that your current staff can continue to produce a favorable income stream and ensures that the transition and training phase occurring after closing goes smoothly. See our outline Transition and Training for an overview of this aspect of the sales process.

4. Efficiency is shown in your company's control of operations

Inventory. This includes the number of units, cost, fair market value and age. Inventory affects your company's value not so much by what you have, but by what a purchaser believes is economically prudent to purchase. A purchaser will buy inventory at a level that the company's cash flow will support and not beyond.

If your inventory is greater, you may experience severe inventory discounting in the purchase price. Find the level of inventory turnover that is appropriate for your business and clean up your inventory by selling older units; then operate at that level.

Accounts Receivable. Do you have accounts in the 90 plus day category? Your answer will tell you how your company's value will be perceived by a purchaser. A purchaser will not assume that money will be collected from late paying customers and will assign little or no value for those sales.

Assets. You might also think that simply itemizing the value of your assets will determine at least a minimum value of your business. This is true only if your assets can be supported by the business cash flow. Control the level of furniture, fixtures, machinery, equipment and spare parts so that you own only what is needed for sales and growth. Don't scrimp on the assets that will make you money. This is important since your business purchaser will be concerned only with the assets that are necessary for business operations.

Companies with efficient inventory levels, controlled accounts receivable, and the right asset mix command higher prices.

A clear understanding of your fundamental operational controls provides buyers with confidence that your current assets and controls can continue to produce a favorable income stream for the buyer in the future. See our outline Preparing for Sale for an overview of this aspect of the sales process.

B. Value Boosters and Intangibles

Value boosters and intangibles are those aspects of your business that provide that extra level of value that allow you to command prices at or above industry norms. These value boosters are common in many businesses, although very few businesses will have every listed value booster. While not a comprehensive list, the following value boosters provide a good starting point for you in identifying the extra value in your business not found in competitive businesses:

1. Recurring Income Sources

Any business with a strong recurring revenue base is both highly sought after and will almost always command a premium. Examples are alarm monitoring companies, marinas, self storage facilities, and some pest control businesses. The lure is that a new buyer is almost assured of continuity and can count on revenue from day one. If any part of your business has a recurring revenue component, then play it up. If not, think about ways that you can possibly generate some; it will be well worth the effort and expense to do so.

2. Exclusive Products or Services

If there is an element of exclusivity to your business, whether in product or territory, this can be a huge selling factor. Naturally, the buyer will want to see this transition to them and so you need to consider this situation. For example, in a distribution business that has an exclusive territory, it will be paramount (and definitely a deal contingency) that the relationship with a particular supplier, for example, will continue. Conversely, if the entire business relies on this relationship, it can hurt you. It’s the supplier version of customer concentration. However, if the relationship is solid and a new contract will be granted to a buyer, it can be worth a premium in the sales price.

3. Broad Customer Mix

Perhaps the meaning of customer mix is best illustrated by an example. Two companies generated the same profit to the owner for the past two years. The first company has one hundred clients, none of which represent more than five percent of the company's revenues. The second company has the same one hundred clients, but two of them contribute forty percent of the revenue. The first company is worth more because if one or two of the second company's clients stop buying, the business could decline by almost half. A broad customer base provides operational stability and evidence, to the buyer that they can continue to produce the income stream that they are purchasing.

4. Your Business is Manageable

There is a direct correlation between the purchase price of a business and the ease in which someone new can operate it. If highly specialized or certified skills or licenses are required to operate the business, the pool of potential individual buyers shrinks drastically. In the market, there are many people always looking to acquire a business. The greater the amount of those people who can see themselves running the business, the more demand there will be for the business, and therefore the higher the price and the better the terms a seller can get as a general rule. If a business simply requires good all around business management skills, then the buyer pool will be quite large.

As an aside, this does not necessarily make highly specialized businesses less valuable if the business is well run and meets fundamental value requirements. However, the buyer pool for these businesses will be much smaller and as a result these businesses may take longer to find the right buyer qualified to operate the business.

5. Strong Customer Perception

Does your company offer good value with limited customer quality concerns? Or better yet, do your customers see an exceptional and recognized superiority of your products and services? These traits more often than not create demand for your company's products and services which equates to increased market share, stability and, accordingly, increased value.

6. Superior Customer Service

Your high level of commitment to customer service is most often reflected in your pricing policies. Competing on price alone is a dangerous business practice that lowers your business valuation as competitive forces are more apt to damage your business model than a company that puts customer service first. Don't compete on price alone, if you can help it. Let customers know that they are receiving much more than the competition could provide. Sell experience, confidence, and reliability. Prices may be higher than your competitor's prices, but this may allow your company to thrive and hold a higher value.

7. Unreported Income

If you are taking in cash sales and not reporting it, then you cannot expect to be paid for it when the time comes to sell the business. If you had the benefit of not paying taxes for years on this money, and you have no quantifiable means to prove the number, then surely you cannot expect

anyone to pay you anything, let alone a premium for this revenue.
Typically, a seller wants to have this factored into the price. However; one must consider the provability of this unreported income. The questions become:

- Can you prove it?
- How?
- Do you even want to prove it?

You may want to be very cautious about this situation.
Having said all of this, there is a way for you get the best of both worlds, as long as you're willing to make a small, short-term sacrifice. As soon as you decide to sell your business, start putting all the income on the books. The average business will sell in 6 to 8 months. During that time you can demonstrate to any buyer the increase in the top line revenue when you reported all the income. The difference in the selling price can be significant. More importantly however; it can be undeniable proof and full validation of your claim although you may need to agree to structure this portion as an earn out in order for the buyer to feel comfortable.

C. Business Valuation Concepts

Business valuation plays a key role whether you are selling, buying or investing. Realistic valuation brings buyers and sellers close enough to begin a successful negotiation process. Conversely, an unrealistic valuation can become a barrier to generating interest. It is important that both buyer and seller have a good idea of how the market values the type and quality of business being looked at. Otherwise, it is unlikely that they will progress to even a preliminary negotiation.

Strictly speaking, a business is worth what a buyer will pay for it. Business valuation is the mix of art and science that attempts to pre-determine that number up front without going through the negotiation process. While inexact by definition, there are a number of ways to estimate a fair price. Some methods are more appropriate for certain types of situations. A recommended best practice is to determine the two or three approaches that are most appropriate and use an average or weighted average of the outcomes to arrive at your final valuation.

There are many companies specializing in valuations of privately-held companies. Fees for these valuations range from a few thousand dollars to tens of thousands of dollars depending on the size and complexity of the business. With this said the vast majority of businesses can be properly valued utilizing an earnings multiplier – if properly applied.

In fact, if we are going to use a rule of thumb to value a business, some type of earnings multiplier makes the most sense to prospective buyers. It directly addresses the buyer's motive to make money - to achieve a return on investment. In short, sales multiples mean nothing unless they can be translated into earnings. It is important to remember that large companies receive higher valuation multiples from the market compared to smaller companies, partly due to lower enterprise risk.

It is important to note at this time that the issue of which earnings to use in your valuation plays a crucial role in maximizing the value of your business. That is to say, most business sale transactions utilize company **historical** financials as the basis for the valuation of the company. However, as we have emphasized, a buyer is purchasing the future cash stream that the business can generate – the buyer is purchasing the future, not the past. Therefore, projected earnings, or commonly called forecasted earnings, if believable and supported by realistic circumstances at the very least provide support for values derived from historical financials. While these projected earnings can be time consuming and difficult to formulate, these projections make sense to most buyers as long as the projection is realistic.

With that said, our discussion of fundamental value enhancers as well as value boosters in the previous two sections form the basis for an earnings multiplier approach to valuing your business. The following discussion defines the earnings multiplier approach and provides guidelines for you in properly applying this valuation approach to your business.

1. Earnings Multiplier Valuation Defined

In its simplest form, the earnings multiplier valuation values a business based upon the yearly economic benefit that the business generates for the owner. Starting with your profit and loss statement adjustments are made to accurately reflect the economic benefit that your business generates for you. The resulting economic benefit, or adjusted EBIDTA amount is then multiplied by a number to determine the value of your business.

2. Determining EBITDA

Probably the most widely used of these methods is the so-called *EBITDA Multiplier Method (**E**arnings **B**efore **I**nterest **T**axes **D**epreciation and **A**mortization).* To determine EBITDA, you take the earnings of the business before interest and taxes and add back non-cash expenses from the income statement such as depreciation and amortization.

Example of EBITDA Earnings Multiplier Method	
Revenue	$10,000,000
Cost of sales	8,000,000
Gross profit	2,000,000
General and administrative costs	500,000
Depreciation	100,000
Amortization	50,000
Interest expense	250,000
Total expenses	900,000
Net income before taxes	1,100,000
Income taxes (40%)	440,000
Net income after taxes	660,000

Calculation of EBITDA	
Net income after taxes	660,000
Interest	250,000
Income taxes	440,000
Depreciation	100,000
Amortization	50,000
EBITDA	$1,500,000

In order to clearly represent the economic benefit opportunity to a new buyer, and accordingly to maximize value, EBITDA is then adjusted in several ways. First, expenses that will not be carried into the new business are removed and added to EBITDA. These can be substantial for the closely held family business. Excessive compensation and perquisites may be provided to the owner and his or her family in order to reduce taxes. Since these are really disguised dividends, they can be added back to EBITDA after reducing their total for the cost of replacing the family with a capable manager paid a market salary. In addition, one time or extraordinary expenses not likely to recur are also often removed and added to EBITDA.

Of note, this process is often referred to as "recasting" your financials.
Also of note, on most Business For Sale websites, EBITDA or Recast Financials are commonly referred to as "Cash Flow" which is commonly defined as company before tax profit plus owner compensation, interest and depreciation. The term "Cash Flow" when used in this manner is a descriptive term alerting potential buyers to the economic benefit that they are purchasing. It is beyond the scope of this example but in reality cash flow and economic benefit are entirely different calculations.

3. Determining the Multiple

Once you have recast your financials, it is time to determine the appropriate multiple to apply to your cash flow number. All of the discussion on Fundamental Value Enhancers and Value Boosters now come into play in setting the appropriate multiple which can be 2 to 10 times cash flow with typical valuations and resulting sales using 1.5 to 4 times adjusted EBITDA.

Example of Applying an Earnings Multiple	
EBITDA	$1,500,000
Earnings Multiplier	x 3
Estimated Business Value	$4,500,000

Perhaps another perspective on what this multiple represents and how it relates to Fundamental Value Enhancers and Value Boosters will assist in clarifying what this multiple truly represents. Clearly, the adjusted economic benefit (adjusted EBITDA in the above example) represents documented historical performance by your company (or believable forecast financials supported by documented historical performance). But what does the multiple represent? The multiple represents the amount of risk that the purchaser is willing to assume. That is to say a multiple of 2 represents to a buyer that, if they maintain current or projected cash flow, they will receive a return on their investment in 2 years. That is equivalent to a projected annual return of 50% which is the type of return rate that encourages buyers to take the leap of faith to purchase an existing business.

So how do Fundamental Value Enhancers and Value Boosters impact the multiple? Quite simply, you can command a higher multiple (read the buyer will accept greater risk) if the assumed risk is mitigated by the fact that your company documentation is clear, comprehensive and organized; your company financial statements are accurate and documented; you have a skilled staff and management team; and your company operates in a controlled and efficient manner. These fundamentals provide certainty to the buyer; increasing the likelihood of the buyer paying a higher multiple for the business and consequently assuming more risk. In addition, if your company has one or more value boosters such as recurring income or exclusive products your multiple may be increased, or at least you have the ammunition to support a higher asking price than may be the industry norm for your business.

4. Inventory, Real Estate, Debt and Intangibles

The handling of inventory, real estate and intangibles such as agreements not to compete deserve special consideration in the valuing process and, as a general rule, are not addressed in the earnings multiplier method of valuation. Accordingly, these assets must be addressed separately.

Inventory. Inventory is almost always valued at cost and, depending on the value of the inventory, may or may not, be included in the price of the business as set by using the earnings multiplier method of valuation. As discussed in Fundamental Value Enhancers, the age, condition, and control of your inventory can play a large role in the sales transaction and careful thought must be taken as to how adding back inventory value will have on the transaction.

Real Estate. In most instances, if the real estate is being offered for sale with the business, the real estate is valued separately and priced separately from the value of the business. Many businesses, depending on the desires of the owner, offer their business for sale either with the real estate or without. If the business is purchased without the real estate, generally an agreed market rate lease rate is set by the seller so the purchaser can determine the best course of action for the purchaser (purchase the real estate or lease it from the seller). Keep in mind that in the instance of a lease the adjusted EBITDA will need to be reviewed as the recasting process recasts the financials to reflect what the economic benefit will be for the buyer after closing.

Debt. While it is generally not common for purchasers to assume debt obligations of the seller, the more common approach is for the business assets to be purchased separately from any debt obligations of the seller. EBITDA adjusts the price of the business upward by assuming that the buyer will not have the interest payments that the seller is paying.

Intangibles. As a general rule, an owner's agreement not to compete or to provide training and consultation during the transition period are included in the value of the business derived at by the earnings multiplier method of valuation. Extended periods of non-compensation agreements or extended periods of consultation however may be compensated in accordance with mutually agreed terms.

D. Valuing Your Business

Step 1 – Determine what documented economic benefit you will utilize to show your business in the best light.

▫Last Year's Full Year Income Statement
▫This Year's Year-to-Date Income Statement Annualized
▫Forecasted Income Statement

Step 2 – Calculate EBITDA utilizing your documented cash flow

Company:	
a. Revenue	
b. Cost of sales	
c. Gross profit (a minus b)	
d. General and administrative costs	
e. Depreciation	
f. Amortization	
g. Interest expense	
h. Total expenses (d + e + f + g)	
i.Net income before taxes (c minus h)	
j. Income taxes	
k. Net income after taxes (i minus j)	
Calculation of EBITDA	
l. Net income after taxes (from k)	
m. Interest	
n. Income taxes	
o. Depreciation	
p. Amortization	
q. EBITDA (l + m + n + o + p)	

Step 3 – Calculate Expenses that will not be expenditures for a New Owner and adjust EBITDA accordingly.

Company:	
a.EBITDA	
b.Owner's Compensation	
c.Other Compensation	
d. Automobiles	
e. Cell Phones	
f. Club memberships or Dues	
g. Entertainment	
h. Other:	

i. Other:	
j. Other:	
k. Other:	
l. Other:	
q. Adjusted EBITDA (a less b through l)	

Step 4 – Determine a Supportable Multiple for your Business.

Are your fundamental value enhancers in place?

Is your company documentation clear, comprehensive and organized? (It is recommended that you complete the Due Diligence Checklist)
Are your company financial statements complete, accurate and documented?
Are your staff and managers competent and trained? Are policy and procedure manuals in place and enforced?
Are your inventory, accounts receivable and company assets documented and controlled?

General Multiplier Range – 1.5 to 4 based upon your self assessment of your company's fundamental value enhancers

Your company's multiplier: ______________________________

Do you have any Value Boosters or other Intangibles that would justify increasing this multiple?

Do you have recurring income sources?
Are your products or services exclusive or protected?
Do you have a broad customer mix?
Can your business be managed utilizing good all around business management skills?
Does your company have strong customer perception?
Does your company provide a higher level of customer service than your competitors?

The General Multiplier is increased according to your self assessment of your company's value boosters or other intangibles that decrease a purchaser's risk

Your company's Multiplier increase: _____________________

TOTALCOMPANY MULTIPLIER: _______________

Step 5 – Calculate Your Company's Value

Company:	
a.Adjusted EBITDA	
b.Earnings Multiplier	
c.Estimated Business Value (a x b)	

Practical Considerations in Valuing Your Business – it's all about perspective

The valuation of a business is perhaps the biggest area of concern for an owner and the single most area where the owner actually has the least amount of information. There are a number of practical considerations that an owner should be made aware of in the valuation process.

1) ***When all is said and done, it is the business financials that determine the value of your business.*** As discussed in this chapter there are numerous variables that are considered in valuing a business but, ultimately, the value of the business will rest on the foundation of the business financials and seller discretionary earnings. We all are aware of the business advice, "run your business by the numbers". Some do and some don't, but those who do, as a general statement, receive higher prices for their business.

2) ***The market will ultimately tell you the value of your business.*** Business brokers are conduits to the market. They provide pricing guidance but are not the market itself. Likewise, independent third part valuations are tools that owners and business brokers can utilize to provide to the market as evidence of a business's value. However, it is ultimately the market that will provide the answer to the question, "what is my business worth." For example, one of our clients insisted upon receiving $300,000 for their business. Our valuation estimates showed a price of $250,000 would be the top end of the market at the time. We reluctantly moved forward and over the course of several months received several offers in the range of $220,000 to $240,000 all of which were rejected by the owner. The owner ultimately pulled their business from the market frustrated with the process. The market had spoken.

3) ***Use your instincts in determining the price of your business.*** When pricing guidelines are presented to you, ask yourself "what would I pay for my business?" If the value appears too high, it probably is. Be wary of advisors who place too high a value on your business without justification. Unscrupulous advisors will acquiesce to owner demands to place an unrealistic price on their business in order to obtain the listing. However, as seen from the example above, this ultimately accomplishes nothing and ends in frustration for all parties. You did not build your business without using your good instincts and you will not sell your business without using those same good instincts. Take a step back from the situation and ask yourself if your pricing makes sense.

4) ***Your broker should have access to a database of comparable business sales to provide market guidance on value.***

Chapter 5

Business Buyers

A Diverse Group

Once the decision to sell has been made, the business owner should be aware of the variety of possible business buyers. Just as small business itself has become more sophisticated, the people interested in buying businesses are becoming more diverse and complex.

Before we examine those buyers, sellers should commit to being the initial source for potential buyers. This thought often confuses sellers and leads to questions such as “if I knew who would purchase my business, then I wouldn’t need a broker.” Well, that could be true in some instances but, more often than not, a qualified intermediary is a valuable resource in order to sell the business – often times especially with purchasers identified by the seller. In those instances, the personal relationship between the seller and the prospective purchaser known to the seller poses special issues that do not allow for arms length negations that can be accomplished without the assistance of an intermediary. With that said, sellers should always provide their broker with a list of possible purchasers that include employees, vendors, customers and competitors.

The following are some of today's most active categories of business buyers:

FAMILY MEMBERS

Members of the seller's own family are a traditional category of business buyer: tried but not always true. The notion of a family member taking over is amenable to many of the parties involved because they envision continuity, seeing that as a prime advantage. And it can be, given that the family member treats the role as something akin to a hierarchical responsibility. This can mean years of planning and diligent preparation, involving all or many members of the family in deciding who will be the heir to the throne. If this has been done, the family member may be the best type of buyer.

Too often, however, the difficulty with the family buyer category lies in the conflicts that may develop. For example, does the family member have sufficient cash to purchase the business? Can the selling family member really leave the business? In too many cases, these and other conflicts result in serious disruption to the business or to the sales transaction. The result, too often, is an "I-told-you-so" situation, where there are too many opinions, but no one is really ever the wiser. An outside buyer eliminates these often insoluble problems.

The key to deciding on a family member as a buyer is threefold: ability, family agreement, and financial worthiness.

BUSINESS COMPETITORS

This is a category often overlooked as a source of prospective purchasers. The obvious concern is that competitors will take advantage of the knowledge that the business is for sale by attempting to lure away customers or clients. However, if the business is compatible, a competitor may be willing to pay the price to acquire a ready-made means to expand. A business brokerage professional can be of tremendous assistance in dealing with the competitor. They will use confidentiality agreements and will reveal the name of the business only after contacting the seller and qualifying the competitor.

THE FOREIGN BUYER

Many foreigners arrive in the United States with ample funds and a great desire to share in the American Dream. Many also have difficulty obtaining jobs in their previous professions, because of language barriers, licensing, and specific experience. As owners of their own businesses, at least some of these problems can be short-circuited.

These buyers work hard and long and usually are very successful small business owners. However, their business acumen does not necessarily coincide with that of the seller (as would be the case with any inexperienced owner). Again, a business broker professional knows best how to approach these potential problems.

Important to note is that many small business owners think that foreign companies and independent buyers are willing to pay top dollar for the business. In fact, foreign companies are usually interested only in businesses or companies with sales in the millions.

SYNERGISTIC BUYERS

These are buyers who feel that a particular business would compliment theirs and that combining the two would result in lower costs, new customers, and other advantages. Synergistic buyers are more likely to pay more than other types of buyers, because they can quickly see the results of the purchase. Again, as with the foreign buyer, synergistic buyers seldom look at the small business, but they may find many mid-sized companies that meet their requirements.

FINANCIAL BUYERS

This category of buyer comes with perhaps the longest list of criteria--and demands. These buyers want maximum leverage, but they also are the right category for the seller who wants to continue to manage his company after it is sold. Most financial buyers offer a lower purchase price than other types, but they do often make provision for what is important to the seller other than the money--such as selection of key employees, location, and other issues.

For a business to be of interest to a financial buyer, the profits must be sufficient not only to support existing management, but also to provide a return to the new owner.

INDIVIDUAL BUYER

When it comes time to sell, most owners of the small to mid-sized business gravitate toward this buyer. Many of these buyers are mature (aged 40 to 60) and have been well-seasoned in the corporate marketplace. Owning a business is a dream, and one many of them can well afford. The key to approaching this kind of buyer is to find out what it is they are really looking for.

The buyer who needs to replace a job can be an excellent prospect. Although owning a business is more than a job, and the risks involved can frighten this kind of buyer, they do have the hunger--and the need. A further advantage is that this category of buyer comes with fewer complications than many of the other types.

As a small businessperson, you have no greater leverage than the truth.
John Greenleaf Whittier

Chapter 6

Ten Steps to the Successful Sale of Your Business

Preparation Leads to Business Sale Success

In an effort to distill a lot of information into a succinct action plan, we offer the following guidelines:

Step 1. Make sure you have a valid reason for selling your business.

Don't decide to sell because you have had a bad week. Also, don't decide to test the waters just to see what sort of price your business will command. Before you decide to sell your company, focus on your true objectives. The first thing a prospective buyer will want to know is the reason you are selling. The more valid the reason you offer, the more serious the buyer will be.

Step 2. Don't wait until you have to sell, for either economic or emotional reasons.

You don't want anxiety to force you into accepting a deal that's not good for you--or for the buyer.

Step 3. Once you have made the decision to sell--and before talking to your business broker-- you should gather the information needed to market and subsequently sell your business.

These items bear repeating again as they are critical to the sale of your business.

Here's a list of the key items your business broker needs to market and sell your business:

▫Complete lists of all equipment and other assets to be included or excluded in the business sale.

▫Profit and loss statements, balance sheets, and tax returns of the business covering the last three year.

▫The most recent interim profit and loss statement, balance sheet, and sales tax returns.

▫Real and personal property leases.

▫Copies of all patents, licensees, loan documents, contracts or agreements necessary for the business sale.

▫All agreements relating to employee benefits.

▫Any environmental reports.

▫Copies of all other documents needed to present a fair and accurate description of the business to prospective buyers.

Step 4. Remember that you are part of the marketing team.

Your business broker can't do it all--and might even ask you to come to an office meeting to tell the rest of the staff about your business. Follow your broker's advice about dealing with prospective buyers--there's a right and a wrong time to meet them.

Step 5. Confidentiality works both ways.

The broker will constantly stress confidentiality to the customers to whom he or she shows your business. However, as the seller, you must maintain confidentiality about a pending sale in your day-to-day business activities.

Step 6. You, as the seller, should put yourself in a prospective buyer's position.

The next time you go to your place of business, pretend you are a buyer looking at your business for the first time. How impressed are you?

Step 7. Just because you are selling, now is not the time to let the business slip. It's important that prospective buyers see your business at its best: bustling, and showing no signs of neglect.

Here are a few areas to focus on:

▫Keep normal operating hours.

▫Repair signs and replace outside lights.

▫Tidy the outside premises (if appropriate).

▫Spruce up the interior as well.

▫Repair non-operating equipment or remove it.

▫Remove items that are not included in the sale.

▫Maintain inventory at constant levels.

Step 8. Engage an outside professional who understands the sales process.

David Gumpert, former Harvard Business Review associate editor said, "Inexperienced lawyers are often reluctant to advise their clients to take any risks, whereas lawyers who have been through such negotiations a few times know that's reasonable." If you are going to use a lawyer, use one who is seasoned in the business sale process.

Step 9. Be flexible! You need to keep the ball rolling once an offer has been presented.

Study it closely. Just because you didn't get your asking price, the offer may have other points that will offset it, such as higher payments or interest, a consulting agreement, more cash than you anticipated or a buyer that you are comfortable with. You have probably spent years building your business--you want it to continue to be successful. The right buyer may be better than a higher price, especially if there is seller financing involved, and there usually is. If you must counter-offer, do so only on those points that are really important to you. Be willing to negotiate if you must to complete the deal. There is an old adage that the first offer you get is probably the best you will ever get--and it's true.

Step 10. Remember that most successful transactions are successful because they create a win-win situation for everyone involved.

Practical Considerations in the sales process – and not-so-common sense advice to survive the process

The sale of a business can be approached in many ways but one of your most important considerations is to keep your sanity and approach each day as business as usual. There are a number of practical considerations that an owner should be made aware of in the sales process.

1) ***"Win-win" is not simply a cliché.*** Businesses are occasionally sold for exorbitant prices under unusual circumstances but, even in those cases, both parties believe the transaction to be in their best interest. If any negotiation is to succeed then both parties must walk away feeling as if they have structured a deal that meets the needs of both parties to the deal. Approach

negotiations with a Win-win attitude and you increase the chances of success.

2) ***A bird in hand is worth two in the bush.*** Not to get caught up in too many cliché's but this is another "truism" that business seller's often learn the hard way. It is a sad thing to observe when a million dollar purchase dissolves over a seller's unwillingness to compromise on an aspect of the deal that amounts to several thousand dollars. Or, more frequently, seller's will receive their first offer that is perhaps 20% less than the asking price and refuse to negotiate only to find out over time that the offer was actually right on target with the market's perception of the businesses value. When you receive an offer, especially your first offer, take time to pause and truly appreciate the value of the offer and the fact that a bird in hand is worth two in the bush.

3) ***Re-energize your business when you decide to sell.*** When you decide to sell your business step outside the door of your business, turn around, close your eyes and then walk back inside with your eyes wide open as if you were the buyer. What do you see? Motivated employees? Clean inviting work spaces? Organized financials? If not, roll up your sleeves and get to work in re-energizing your business. Perhaps the greatest irony in selling your business is the fact that the activities required from an owner to grow their business are almost identical (excepting strategy) to the activities required from an owner to sell their business.

Chapter 7

Ten Steps to Successfully Managing the Sales Process

Mentally Prepare to Sell

We've discussed many mental aspects of selling your business and in an effort to compile the high points into a concise summary, we offer the following "attitude adjustment" guidelines:

Step 1. Place a reasonable price on your business – inflated expectations not only create unnecessary stress, they result in disappointment!
Since an inflated figure either turns off or slows down potential buyers, rely on your business broker and other professional advisors to help you arrive at the best "win-win" price.

Step 2. Accept and be happy to carry on "business as usual"
Don't become so obsessed with the transaction that your attention wavers from day-to-day demands, affecting sales, costs, and profits. Since the selling process could take as long as a year, the buyer needs to keep seeing a healthy business.

Step 3. Do your homework and engage experts to insure confidentiality
A breach of confidentiality surrounding the sale of a business can change the course of the transaction. Expert intermediaries can channel the process and the parties involved to keep the sale within safely silent bounds.

Step 4. Prepare for the sale well in advance
Be sure your records are complete for at least several years back and do all pertinent

legal or accounting "housecleaning"--as well as a literal sprucing-up of the plant or store.

Step 5. Anticipate information the buyer may request and accept the process

For example, in order to obtain financing, the buyer will need accurate and well-documented information on all assets as well as information to satisfy environmental regulations (when real estate is concerned).

Step 6. Be prepared to achieve leverage through buyer competition

This can be tricky; you are wise to let your business broker, as a third party, create a competitive situation with buyers to position you better in the deal.

Step 7. Be flexible

Don't be the kind of seller who wants all-cash at the closing, or who won't accept any contingent payments. Depend on the advice of your intermediaries--their knowledge of financing and tax implications-- to keep the deal sweet instead of sour. In short, anticipate problems and view them as a part of the process.

Step 8. Negotiate; don't "dominate."

You're used to being your own boss, but be prepared to learn that the buyer may be used to having his way, too.

Step 9. Keep time from dragging down the deal

To keep the momentum up, work with your intermediary to be sure that potential buyers stay on a time schedule and that offers move in a timely fashion. And whatever you do don't be the source of delays that cause you stress and kill the deal.

Step 10. Be willing to stay involved

Even if you are feeling burnt-out, realize that the buyer may want you to stay within arm's reach for a while. Consult with intermediaries to determine how you can best effect a smooth transition. Prepare yourself mentally that the sales process is just that – a process.

Chapter 8

Business Sale Financing Basics

Seller Financing Results in Higher Prices and Quicker Sales

As has been discussed, when contemplating the sale of a business, an important option to consider is seller financing. Many potential buyers don't have the necessary capital or lender resources to pay cash. Even if they do, they are often reluctant to put such a hefty sum of cash into what, for them, is a new and untried venture.

Why the buyer hesitation?

The typical buyer feels that, if the business is really all that it's advertised to be, it should pay for itself. Buyers often interpret the seller's insistence on all cash as a lack of confidence--in the business, in the buyer's chances to succeed, or both.

Understand that the buyer's interpretation has some basis in fact. The primary reason sellers shy away from offering terms is their fear that the buyer will be unsuccessful. If the buyer should cease payments for any reason the seller would be forced either to take back the business or forfeit the balance of the note.

The seller who operates under the influence of this fear should take a hard look at the upside of seller financing. Statistics show that sellers receive a significantly higher purchase price if they decide to accept terms. On average, a seller who sells for all cash receives 70 percent of the asking price while sellers who accept terms on average receive 86 percent of the asking price. This 16 percent difference on a business listed for sale for $150,000, means that the seller who is willing to accept terms will receive approximately $24,000 more than the seller who is asking for all cash.

Even with these compelling reasons to accept terms, sellers may still be reluctant. Selling a business can be perceived as a once-in-a-lifetime opportunity to hit the cash jackpot. Therefore, it is important to note that seller financing has advantages that, in many instances, far outweigh the immediate satisfaction of cash-in-hand.

▫Seller financing greatly increases the chances that the business will sell.
▫The seller offering terms will command a much higher price.
▫The interest on a seller-financed deal will add significantly to the actual selling price. (For example, a seller note at eight percent carried over nine years will double the amount carried. Over a nine-year period, $100,000 at eight percent will result in the seller receiving $200,000.)
▫With interest rates currently the lowest in years, sellers can get a much higher rate from a buyer than they can get from any financial institution.
▫The tax consequences of accepting terms can be much more advantageous than those of an all-cash sale. (Check with your tax attorney.)
▫Financing the sale helps assure the success of both the sale and the business, since the buyer will perceive the offer of terms as a vote of confidence.

Obviously, there are no guarantees that the buyer will be successful in operating the business. However, it is well to note that, in most transactions, buyers are putting a substantial amount of personal cash on the line in many cases, their entire capital. Although this investment doesn't insure success, it does mean that the buyer will work hard to support such a commitment.

There are many ways to structure the seller-financed sale that makes sense for both the buyer and the seller. Creative financing is an area where your business broker professional can be of help. He or she can recommend a variety of payment plans that, in many cases, can mean the difference between a successful transaction and one that is not. Serious sellers owe it to themselves to consider financing the sale. By lending a helping hand to buyers, they will, in most cases, be helping themselves as well.

What is Seller Financing?

Sellers of small businesses usually allow the buyer to pay some of the purchase price of the business in the form of a promissory note. This is what is known as seller financing.

Seller financing is particularly common

when the business is large enough to make a cash sale difficult for the buyer (over $100,000), but too small for the mid-market venture capitalists (under $5 million). Seller financing is also common when the business, for any number of reasons, does not appeal to traditional lenders. A rule of thumb is that sellers will typically finance from 1/3 to 2/3 of the sale price. Many do more than that. It all depends on the situation as each transaction is unique. The interest rate of the seller note is typically at or below bank prime rates. However, with that said, circumstances can dictate that the interest rate be substantially above bank prime rates. The term of the seller note is usually similar to that of a bank.

For a service business which sells for $500,000, for example, the transaction might be structured as $150,000 down from the buyer and $350,000 in seller financing. The seller note might run for five to seven years and carry an interest rate of 8% to 10%. Monthly payments are the norm and usually start 30 days from the date of sale unless the payment schedule must be modified to allow for the seasonality of the business revenues.

When a seller offers seller financing, the price the buyer can afford to pay goes up as the amount of the down payment required by the seller goes down. Of course, repayment is limited by the health of the business and anticipated seller discretionary earnings.

Why Would A Seller Offer Financing?

Sellers are nearly always reluctant to offer seller financing. Like all of us, they fear the unknown. Despite the advantages of playing bank, it is an uncomfortable role for them. They usually come around to seller financing only after some effort has been made to persuade them.

A seller's first encounter on this issue might be with the business broker. In many cases, but not all, the business broker will bring up the issue. Most business brokers agree that sellers need to offer seller financing, but not all are willing to discuss the issue at the beginning of the listing. When the buyer is unknown, the seller's fear of seller financing is greatest. Some brokers prefer to wait until the buyer prospect is known before suggesting the amount and terms of seller financing.

Offering seller financing up-front, however, can attract buyers and speed up the business sale. This is the major issue that usually persuades a seller to offer some type of financing.

Seller financing is seen by buyer prospects as comforting proof that the seller is not afraid of the future of the business. Buyers are more likely to believe a seller's optimistic view of the business' future when seller financing is offered. In addition, some buyers can't or won't look at businesses for sale unless seller financing is a possibility. And the fact remains that the more buyer prospects that look at a business, the better the chance a seller has to get an acceptable offer. A seller can also get a better price for a business that has financing in place. As in nearly all buying situations, buyers are often focused on achieving a purchase on terms that allow them to buy with as little 'cash in' as possible, even if the long term costs are higher.

Seller financing can also lead to a speedier sale. If the seller plays bank, then the deal gets done more quickly. Applying for a bank loan takes a long time for some buyers, and the rejection rate for new acquisition loans is very high - sometimes as much as 80%! Banks also move much slower than sellers, even when they do approve a loan. A seller is much more likely to grant a loan request, approve a transaction, and close it as fast as the attorney can get the agreements prepared. Banks take anywhere from thirty to 120 days to approve and close a loan. There is also the possibility that the bankers will give the buyer negative feedback about the business, so that the buyer backs out.

A seller may also see tax advantages and profitability in seller financing, but these alone are not usually compelling reasons to offer seller financing. Capital gains from a small business sale can be reported in installments if seller financing is in place. This stretches out the capital gains tax into future years. Charging interest is also profitable. Sellers, however, are usually not as worried about tax liabilities as they should be until after the sale has taken place. They also usually believe they can get better interest rates from investments than from seller notes.

Why Should A Buyer Ask For Seller Financing?

Buying a business without seller financing is like buying a home without a home owner's warranty. The seller note is a bond for performance. This is the major reason a buyer asks for seller financing in addition to obvious reasons – capital short falls.

Beyond that, sellers have a strong motive to maintain the business goodwill if they have a remaining stake in its future ability to pay back the seller note. Without such an interest, sellers may choose to question the new owner's skills and integrity. After a sale takes place, the seller and buyer frequently disagree about the future of the business. This disagreement is a natural outgrowth of their different positions and can become serious. If a seller note is in place, the seller has a motive to temper any irritation caused by the buyer with forbearance.

Even with a non-compete agreement in place with the seller, the fact that the business owes the seller a major amount of money may change the nature of the seller's attitude. Instead of being indifferent or quarrelsome, a seller who is still owed money is more likely to be solicitous and genuinely helpful.

How Is Seller Financing Usually Secured?

Seller financing can be as creative as sellers and buyers want to make it. Most sellers, however, like to add security provisions in as many forms as possible. This can encompass personal guarantees as well as specific collateral, stock pledges, life and disability insurance policies and even restrictions on how the business is run.

The most common requirement is for a personal guaranty by the buyer and the buyer's spouse. Sellers expect this. If a buyer objects, sellers immediately question their seriousness. A personal guaranty is not a specific lien on any particular buyer asset, but is the guaranty that the buyer is placing all assets at risk as needed to satisfy the loan. If the seller note payments are not made, the seller has to proceed with the long process of formal foreclosure. But, to satisfy the foreclosure, the seller will have access to all buyer assets. The spouse's signature is required to prevent the transfer of assets to the spouse's name to dilute the buyer's net worth.

Specific collateral is the other common source of security. If no bank financing is involved, the seller wants a first mortgage on any real estate and first security agreements on all personal property involved in the sale. Sometimes, the seller will require that the buyer offer additional security in the form of additional mortgages and security agreements on real and personal property that the buyer owns. If a bank is involved, the seller must usually settle for second place in the line of secured creditors behind the bank.

A third type of security is the 'stock pledge.' The buyer is required to form a corporation and give the seller the rights to 'vote the stock' in case of seller note default. This allows the seller a speedier solution than foreclosure. If the terms of the seller note are not met, the seller can vote to require that payments be made and can even vote to replace management of the business. This threat is usually enough to guarantee seller note payments are not missed.

Life and disability insurance policies on key members of the buyer's new management team are less frequently used methods of adding security to a seller-financed transaction. Term life insurance is available at rates which are relatively low, so this is most common. Disability insurance is used less often because it is more expensive. The seller will typically want the business to pay for these policies up to the amount of the seller note. These policies stay in effect until the seller note is paid.

Restrictions on how the business is run are sometimes added. These restrictions can be in the form of requiring that the new owner preserve certain account or employment relationships, that certain operating ratios of the business are maintained, that the new owner's pay is limited, or that other important operating benchmarks are met until the seller note is paid. Most sellers won't use this form of adding to their own security as a creditor. They usually readily identify with buyer objections to any controls placed on the new business owner.

How Can Both Buyer and Seller Benefit?

If you are a buyer or seller and this all seems a bit intimidating to you, take heart! It's just as intimidating for the other party! Don't lose site of the fact that this is just a normal transaction between two parties who must each benefit if a deal is to be struck which takes us full circle to the win-win approach to selling your business.

Buyers are simply looking for a fair chance to buy a job or to receive a reasonable return on investment. They usually have modest goals about what they need to earn for the job they are buying. They are usually fair about how they define what they need to receive as a return on investment for the business risks they are assuming.

Sellers are mostly just ordinary people who once bought or started a business and now want to sell it. They want to get the most they can, but they have learned to be practical. They are usually persuaded by fairness and reasonableness. If not that, then they are at least eventually persuaded by the reality of what's possible.

From a buyer's perspective, seller financing can offer better terms and a friendlier lender. The buyer will be able to buy the business quicker because they will not have to wait a month for the bank's loan committee to meet. There are no loan processing or guarantee fees and, usually, no invasive lender controls or audits.

From a seller's perspective, I would advise an early commitment to seller financing is best. It will save you a lot of time and you will get a better price because you will see more buyer prospects as there are many more buyers who can afford to take a chance when the admission price is reasonable.

Seller financing, properly understood and employed, can really benefit both buyer and seller.

If you don't drive your business, you will be driven out of business.
B. C. Forbes

Chapter 9

Why Some Business Sales Fall Apart

Helpful Information to Avoid Common Pitfalls

Why Do Deals Fall Apart?

In many cases, the buyer and seller reach a tentative agreement on the sale of the business, only to have it fall apart. There are reasons this happens, and, once understood, many of the worst deal-smashers can be avoided. Understanding is the key word. Both the buyer and the seller must develop an awareness of what the sale involves--and such an awareness should include facing potential problems before they swell into floodwaters and sink the sale.

In a survey of business brokers across the United States, similar reasons were cited so often that a pattern of causality began to emerge. The following is a compilation of situations and factors affecting the sale of a business.

The Seller Fails To Reveal Problems

When a seller is not up-front about problems of the business, this does not mean the problems will go away. They are bound to turn up later, usually sometime after a tentative agreement has been reached. The buyer then gets cold feet--hardly anyone in this situation likes surprises--and the deal promptly falls apart. Even though this may seem a tall order, sellers must be as open about the minuses of their business as they are about the pluses. Again and again, business brokers surveyed said: "We can handle most problems . . . if we know about them at the start of the selling process.

The Buyer Has Second Thoughts About the Price

In some cases, the buyer agrees on a price, only to discover that the business will not, in his or her opinion, support that price. Whether this "discovery" is based on gut reaction or a second look at the figures, it impacts seriously on the transaction at hand. The deal is in serious jeopardy when the seller wants more than the buyer feels the business is worth. It is of prime importance that the business be fairly priced. Once that price has been established, the documentation must support the seller's claims so that buyers can see the "real" facts for themselves.

Both the Buyer and the Seller Grow Impatient

During the course of the selling process, it's easy in the case of both parties for impatience to set in. Buyers continue to want increasing varieties and volumes of information, and sellers grow weary of it all. Both sides need to understand that the closing process takes time. However, it shouldn't take so much time that the deal is endangered. It is important that both parties, if they are using outside professionals, should use only those knowledgeable in the business closing process. Most are not. A business broker is aware of most of the competent outside professionals in a given business area, and these should be given strong consideration in putting together the "team." Seller and buyer may be inclined to use an attorney or accountant with whom they are familiar, but these people may not have the experience to bring the sale to a successful conclusion.

The Buyer and the Seller Are Not (Never Were) in Agreement

How does this situation happen? Unfortunately, there are business sale transactions wherein the buyer and the seller realize belatedly that they have not been in agreement all along--they just thought they were. Cases of communications failure are often fatal to the successful closing. A professional business broker is skilled in making sure that both sides know exactly what the deal entails, and can reduce the chance that such misunderstandings will occur.

The Seller Doesn't Really Want To Sell

In all too many instances, the seller does not really want to sell the business. The idea had sounded so good at the outset, but now that things have come down to the wire, the fire to sell has all but gone out. Selling a business has many emotional ramifications; a business often represents the seller's life work. Therefore, it is key that prospective sellers make a firm decision to sell prior to going to market with the business. If there are doubts, these should quelled or resolved. Some sellers enter the marketplace just to test the waters; to see if they could get their "price," should they ever get really serious. This type of seller is the bane of buyers. Business brokers generally can tell when they encounter the casual (as opposed to serious) category of seller. However, an inexperienced buyer may not recognize the difference until it's too late.

Or...the Buyer Does not Really Want To Buy

What's true for the mixed-emotion seller can be turned right around and applied to the buyer as well. Buyers can enter the sale process full of excitement and optimism, and then begin to drag their feet as they draw closer to the "altar." This is especially true today, with many displaced corporate executives entering the market. Buying and owning a business is still the American dream--and for many it becomes a profitable reality. However, the entrepreneurial reality also includes risk, a lot of hard work, and long intense hours. Sometimes this is too much reality for a prospective buyer to handle.

And None of the Above

The situations detailed above are the main reasons why deals fall apart. However, there can be problems beyond anyone's control, such as Acts of God, and unforeseen environmental problems. However, many potential deal-breakers can be handled or dealt with prior to the marketing of the business, to help ensure that the sale will close successfully.

A Final Note:

Remember these four components in working toward the success of the business sale:

1. Good chemistry between the parties involved solves many problems.
2. A mutual understanding of the agreement, in writing, is imperative.
3. A mutual understanding of the emotions of both buyer and seller is critical in reaching a win-win agreement.
4. The belief, on the part of both buyer and seller, that they are involved in a good deal ultimately results in a closing.

Effective leadership is putting first things first. Effective management is discipline, carrying it out.
Stephen Covey

Chapter 10

Will Your Business Sell?

A Self-Assessment Guide

Understanding the Challenge

The little secret that the majority of business brokers do not share with their prospective clients is that, on average, only one out of five businesses that are listed for sale are actually sold. There are a myriad of reasons for this ranging from the quality of the business to the quality of the broker representation. This guide is prepared in order to ensure that your business is ready for sale and that your goals and objectives in selling your business are met by providing you the information and tools necessary for you to be an active participant in selling your business. You can sell your business. The first step in this process is understanding that knowing how to run your business and knowing how to sell your business are two distinct skill sets. If you are to use this guide in taking the necessary steps to becoming an expert in selling your business and acting upon that knowledge, then take the time to assess your situation.

Formulating Your Goals

As discussed, this guide is written based upon the assumption that you have decided to sell your business and, in doing so, you share three goals common to most business sellers:

Goal 1. You want to sell your business. As discussed, the reality is that only one of five businesses listed for sale actually sell.

Goal 2. You want to sell your business at the highest price possible. On average, businesses sell for approximately 80% of their list price.

Goal 3. You want to sell your business in a reasonable time frame. On average, businesses sell in three to eight months and, in the current environment, this average has stretched to twelve months.

Acting on Your Goals

It is with this starting point that this self-assessment is prepared in assisting you in reaching your goals in selling your business. The following action plan is designed to maximize the opportunity for you to reach these goals. The action plan allows the business owner to objectively measure their business, accept responsibility for the sales process in working with the business broker and understand that the decisions that they make as to whether to act or not act will impact the ability to reach their stated goals. The following self evaluation, albeit imperfect, provides a quantitative methodology in which to measure where you are; identify areas of your business that require improvement, if any; and to act decisively in reaching your goals.

Positioning Your Business for the Future

Please note that this guide is prepared from the viewpoint of the prospective purchaser. That is to say that it is argued that from anywhere from 70% to 100% of a prospective purchaser's analysis of your business will be undertaken with an eye to the future - after the purchase is consummated. Historical financials simply offer evidence that your business has a satisfactory operating history and, more importantly, is positioned for further growth; stable and trained employees offer evidence that your business can operate in the future with a new owner; business plans and forecast financials provide a credible road map for a new owner that provides guidance in realizing the planned growth; the due diligence process is undertaken to document the accuracy of your representations as to the past but it is done so in order to confirm that the new owner's plans for the future are not inhibited by the past. This is key to meeting your objectives - remember that prospective buyers are purchasing the future so act accordingly and position your business for the future in a believable, credible manner and prospective buyers will respond favorably.

Working Together

Finally, it must be noted that no one can guarantee whether your business will sell; whether it will sell at your targeted price; or if it will sell in a reasonable time frame. What can be guaranteed is if you use this self-assessment and act upon it you have increased the odds that you will meet your objectives. If this action is combined with the services of a reputable, professional business broker then your odds are further increased. Examine the quality of the materials the broker is utilizing to properly present your business to prospective buyers; examine the depth of the marketing program; examine the broker's understanding of your business - can they articulate your business strengths and adequately respond to perceived weaknesses? In short, the working relationship between you and your broker is critical to your success in meeting your objectives and both parties must take responsibility for the outcome.

Evaluating Your Business and Taking Action

Before you begin the process of truly evaluating the ability to sell your business you must be able to answer the following questions in the negative:

Q: Do you or your business have any threatened, pending or on-going legal issues?
Q: Does the length, terms or assignability of your real estate lease impede a new owner from operating the business from its current location?

If the answer to these two questions is no, then proceed with the following review.

Fundamental Selling Enhancers

As reviewed in prior chapters, fundamental selling enhancers are those aspects of your business that are the core drivers of your business profitability. These selling enhancers are common to most, if not all, businesses. Quite simply, the better these areas of your business are managed, the better your profitability and the more confidently a prospective buyer will view the prospects for the future of your business. Businesses are sold every day without all of these fundamentals in place but, remember, our goal is to manage the sales process and increase your odds for successfully reaching your goal of selling your business; selling your business at a maximized but fair price; and selling your business in a reasonable period of time. Our belief is that businesses that do not have all of these fundamentals in place may very well sell, but at prices that are reflective of their deficiencies.

1. Company Documentation is Clear, Comprehensive and Organized

Assess your business to the following:

▫Profit and Loss Statements for the last three years
▫Profit and Loss Statements for the current year
▫Business Tax Returns for the last three years
▫Entity Records
▫Business Formation Documents (Articles of Incorporation) which may include the following: ◊ Entity is in Good Standing with the State of Incorporation ◊ Minutes of Shareholder or Board Meetings ◊ Contractual Agreements with Shareholders or employees ◊ Contractual Agreements with Suppliers and Vendors ◊ Contracts or supply agreements with Customers ◊ Customer Lists
▫Equipment Leases
▫Real Estate Leases (with a minimum of a 5 year term remaining)

▫Asset Lists and Documentation which may include the following: ◊ Vehicles (Title Documents) ◊ Inventory ◊ Capital Equipment and Depreciation Schedules
▫Licenses and Permits

Does your business have any value drivers that add value?

Assess your business as to the following:

▫Audited Company Financial Statements
▫Intellectual Property Ownership (Copyrights, Patents, Trademarks and Servicemarks)
▫Trade Secrets (Documented Processes, recipes, information or methods that are not known to your competitors that give your business a competitive advantage)

2. Company Physical Premises are Clean and Organized

Assess your business to the following:

▫Building is clean and appealing and includes the following: ◊ Lighting is working and adequate ◊ Walls and floors are clean ◊ Signage is working and appealing ◊ HVAC is operable and adequate ◊ Grounds are clean and manicured ◊ Employee work areas are clean, uncluttered and organized ◊ Parking areas are clean and clearly designated ◊ Merchandise, if applicable, is attractively displayed

▫Inventory is neat and organized in includes the following: ◊All inventory is current and saleable ◊ All inventory is readily identifiable

▫Office supplies are neat and organized and includes the following: ◊ All supplies are current and useable ◊ All supplies are readily identifiable
▫Business and office equipment are in good working order and includes the following: ◊ Computer equipment and software ◊ Credit card processing equipment, if applicable ◊ Warehouse equipment ◊ Manufacturing equipment, if applicable ◊ Store fixtures and displays, if applicable ◊ Office furniture is clean and functional
▫Internet presence is organized and current and includes the following: ◊ Company web site ◊ Company email addresses ◊ Information Technology support

3. The Company is Attractive to Buyers

Assess your business to the following:

▫Profits are consistent or increasing over the last two to three years
▫Seller's Discretionary Income is healthy
▫Accounts receivable are documented and collectable
▫Accounting systems are in place and consistent from year-to-year
▫The company business plan is well-written and shows how profits can be substantially increased
▫Evidence of secure relationships with key suppliers
▫Evidence of secure relationships with key customers
▫Experienced employees will continue to work the business
▫Owner compensation (including fringe benefits) is clear

Does your business have any value drivers that add value?

Assess your business to the following:

▫Recurring Income Sources
▫Exclusive Products or Services

▫Broad customer mix
▫The company business is manageable (or, if it requires expertise processes are documented in writing)
▫Experienced General Manager is in place and will stay (if the buyer desires)

4. Intangibles

Assess your business to the following:

▫The business maintains honest business practices
▫All relevant information is disclosed (especially negative facts)
Believable explanation for selling

Does your business have any value drivers that add value?

Assess your business to the following:

▫Awards and other types of recognition
▫The business is structurally lean (less profitable locations, product lines or divisions are closed)
▫The business is operationally lean (workforce, equipment, receivables are at appropriate levels to maximize profitability)

Chapter 11

Testimonials

Charleston Business Brokers routinely receives very positive feedback from our clients, from prospective purchasers and from our referral sources regarding the quality of the work we deliver. The examples below were all received within the last year and were all unsolicited. The original emails are on file in Charleston Business Brokers' office. We take pride in our work and appreciate the fact that our clients recognize the value of our professional work.

Really appreciate your efforts over the last several months. For Miranda and I this was obviously a big decision and you made us feel at ease throughout the whole process and most importantly of course found a great buyer. If there is anything I can do moving forward as far as a testimonial or whatever just let me know. ***Bryan Buzon (Seller)***

I am copying in Marc Williams, my business broker, on this email. If at some point you are looking to sell your business Marc is the person to call. I could not have sold my business without Marc. His expertise in every facet of the sale from marketing to the closing made the whole process run very smooth. I know selling is not on your mind right now but if you need someone to do a simple evaluation on your business, how to increase margins, how that equates to the sales price, etc. feel free to give Marc a call.
I have no doubt he could provide some

worthy advice that would benefit your business. His number is 843-601-5030. ***Bryan Buzon (Seller and now Referral Source)***

Marc,

Thank you for your work on this. While it would have been nice to have the books a bit cleaner, Bob and I definitely appreciate your efforts on this. On this search I have dealt with a few different selling brokers and I can honestly tell you, if I was on that side of the transaction you would be at the top of my list to call. It is evident you take pride in your work.

Regards,

Duane Biasi (Buyer)

HI Marc,
Duane has agreed that any goodwill depreciation taken for this transaction will not be included in the EBIT calculation. Actually, he said that "..in the spirit of the deal this is a reasonable thing to do".
I think we have done a good job for our clients. Thanks for your work.

Bob (Advisor to Buyer)

We're on the same page Marc, on all points mentioned. And you're correct in your response to my "pulling the rug" comment. There is no doubt in my mind that you are providing your professional services to us and doing a great job of it. My goals are to close on My Capital Letters, get it transitioned and spun up in the new owners hands... then begin growing Envies Flavor Shot. As soon as the P&L is good, it will be for sale next. You have that seat.

Terry Peterson (Seller and Future Seller)

Marc

I understand where the situation is at this time. Please let me know if they don't meet any of their deadlines. I.e. Deposit or signing off on due diligence. I am ready to jump in if there is break to do so.

Thank you for all your work and help on this opportunity. It was greatly appreciated

Joe Click (Buyer)

Thanks Marc.
So you know, I appreciate all your help and couldn't be more pleased with the job you have done to this point. You've proven to be the right choice to help me with this transaction. Now, let's just get it over the finish line.

Josh Durbin (Seller)

Thanks again for your time, and know that we were very pleased with the work you did, and your input. Much appreciated!

Thank you,

Hobi (Consulting Client and Future Seller)

Good Morning, Marc

I know it wasn't an easy one: I hope it wasn't the hardest one you ever did. But I want to thank you for all you did to keep the transaction moving along. I really appreciate your help and would be happy to provide an excellent reference for you.

Mary Ann (Seller)

Marc,

It has been a stressful and intense past couple of days, but we just wanted to take the time to say THANK YOU for EVERYTHING! Happy holidays to you & your family. And if ever we can refer someone your way, we won't hesitate to do so.

And you were a ROCKSTAR!

Kevin and Diego (Buyers)

HI Marc,
From a quick look at your website, it looks like your business is going gang-busters and I am not surprised, as you provide a great service. (I have sent other people to you.)

Mary Ann (Seller and now Referral Source)

Fantastic news! Thank you Marc and great job.

Have a wonderful afternoon, thank you again for the opportunity to help both of our businesses grow!

Joel Cardwell (Realtor/Referral Source)