



Charleston  
BUSINESS BROKERS  
PLAN • PREPARE • MAXIMIZE VALUE

## CASE STUDY

### CASH MAY VERY WELL BE KING BUT NOT FOR BUSINESS VALUE

When I asked the prospective seller if he would like to receive another quarter million dollars for his business above his current valuation he, of course, responded in the affirmative. He did not necessarily like my next statement which was “come back and see me in a year after you show all of your cash on your profit and loss statement”. As it turns out he routinely pocketed \$70,000 to \$80,000 a year in cash and it never made its way to the books. It never occurred to him that when it was time to sell that, without verification, no buyer would give him credit for any cash receipts. Blind trust is not a part of the business sale process. And he did come back in a year and we did get him another \$240,000 on the sale after he altered his business practices.

Another client was pocketing over \$100,000 in cash annually. Now this client was a bit more savvy and had a file on each client transaction along with signed customer receipts documenting the cash payments. This client also did not necessarily like my next statement which was “we can utilize those files for income verification with prospective purchasers but we cannot use those files for acquisition loan purposes.” Banks frown on such practices; effectively causing a problem for the deal in that the bank’s third party valuation is not going to support a contracted purchase price when the \$100,000 in cash is not a part of the profit and loss statement and tax returns. It is now a year and a half later and this client is now ready to go to market.

These two examples, using cash receipts as an example, simply underscore the need for business sellers to prepare in advance for the sale of their business. The proper recording of cash receipts is but one example of how sellers can properly prepare their business for sale and maximize their business value.

### **LESSON LEARNED**

In order to maximize value in the business sale process business owners need to be thoughtful well in advance of the sale. Most business owners are quite adept at running their business operations but have little or no knowledge of the business sale process or what drives value for prospective purchasers. The business owners who educate themselves well in advance of a planned sale not only realize increased value but, quite simply, dramatically increase the odds that their business will even sell.

### **TIP (THOUGHTFUL IN PREPARATION)**

Step one on this lesson is really quite simple. Record all of your cash receipts and properly report this cash. Step two is the recognition that the handling of cash is but one aspect of preparing your business for sale. Don't decide one day that you are going to market the next day. Obtain qualified, professional guidance well in advance of your business sale and reap the future benefits of that guidance.



***Established 2000. Experience matters... especially when you are entrusting the sale of your most valuable asset, your company, to a third party intermediary. Properly prepare your business for sale well in advance of taking your business to market by consulting with a professional intermediary. Achieve the results you deserve by starting with the right intermediary. Call us at (843)849-1175; Email us at [info@charlestonbusinessbrokers.com](mailto:info@charlestonbusinessbrokers.com); or visit us on the web at [www.charlestonbusinessbrokers.com](http://www.charlestonbusinessbrokers.com).***