INDIANA BUSINESS ADVISORS
A SUNBELT NETWORK AFFILIATE

Guide to Selling A Business

2021

Over 2100 Businesses Sold

9333 N Meridian Street, Suite 200 Indianapolis, IN 46260 | office: 317.573.2100 | fax: 317.573.2111

www.IndianaBusinessAdvisors.com

The Process of Selling a Business

If you're thinking about selling your business, this guide is for you. IBA has created a roadmap to follow as you prepare to market and negotiate the sale of your small business.

We know that the decision to sell is often stalled by important questions, all of which this guide will help you answer:

1. Is your business ready to sell?

2. Does your business offer a compelling proposition to a new owner?

3. How much should you ask?

4. How do you launch and navigate the selling process?

5. What's involved in marketing, negotiating, financing and closing the sale?

CAN YOUR BUSINESS BE SOLD?

1. Assess the condition of your business as a sale prospect.

Sales and profit history

Yes No

☐ ☐ Over the past 3 years, have sales revenues consistently increased?

☐ ☐ Have profits consistently increased?

☐ ☐ Have costs and operating expenses increased only at a rate consistent with revenue increases?

Yes answers indicate a recent sales and profit history that positively affects attractiveness and sale readiness of your business. No answers indicate the need for improvement prior to a sale offering.

Financial condition

Yes No

☐ ☐ Do the assets of your business exceed the liabilities of your business?

☐ ☐ Is your business able to consistently cover its costs and expenses from sales revenue?

Yes answers indicate that your business is financially solvent, which positively affects its attractiveness and sale readiness. No answers indicate solvency challenges and a need to decrease debt and increase revenues and assets prior to a sale offering.

Facilities/Equipment

Yes No

☐ ☐ Does your business have modern facilities and equipment?

☐ ☐ If you lease your business equipment, are leases long-term and transferable?

Yes answers indicate that your business facilities and equipment positively affect its attractiveness and sale readiness.
No answers indicate a need to consider upgrades and a lease renegotiation prior to a sale offering.

Staffing

Yes No

☐ ☐ Have key staff members signed employee contracts that will ensure a smooth transition to a new owner?

☐ ☐ Does your business have a staff that customers or clients know and trust, which can provide continuity after your departure from your business?

Yes answers indicate that your staffing situation positively affects its attractiveness and sale readiness.
No answers indicate a need strengthen staffing and staffing policies prior to a sale offering.

Flag areas of your business in need of improvement prior to a sale offering

Based on your Step 1 assessment, use the following list to flag aspects of your business that need to be strengthened prior to a sale offering.

✓ All areas in need of improvement

- [ ] Sales and profits
- [ ] Financial condition
- [ ] Facilities/Equipment
- [ ] Staffing

Create your pre-offering action plan and timeline

To proceed with pre-sale improvements take these steps:

1. For each area of weakness checked in Step 2, create an action plan by listing the improvements necessary to strengthen that aspect of your business. To guide your planning, refer back to Step 1. Look ateach question to which you answered No and create a list of actions
that will allow you to switch your answer to Yes.

2. After creating your action plan, create a timeline for how long it
will take to implement the changes you've listed.

Decide whether to sell now, sell later, or liquidate

After assessing the attractiveness of your business as a sale prospect (Step 1), flagging areas in need of improvement (Step 2), and creating an improve- ment plan and timeline (Step 3), you're ready to decide between the fol- lowing options:

1. Proceed with sale plans based on your positive assessment of the sale-readiness of your business

2. Invest the time and effort necessary to make your business more attractive to buyers, which will delay your sale offering, but which should lead to stronger buyer interest and a higher sale price.

3. Offer your business for sale in its current sub-optimal condition, with awareness that you'll likely receive lower buyer interest and a lower sale price.

4. Liquidate your assets based on your determination that the condi- tion of your business will not appeal to buyers or command a price worth a sale effort.

WHAT'S DRIVING YOUR DECISION?

Define your motivation and sale urgency

Some motivations force quick action. Others allow for a more flexible timeline.

Define what you want to do after a sale

Many business owners want to leave their businesses once and for all. Others want to stay involved, either as a part owner, a contract employee, or a consultant to the new owner. Defining your after-sale interests helps you design a sale approach that fits your motivations.

Decide what you want for your business after a sale

SALE APPROACHES	SELLER MOTIVATIONS					
	Immediate Sale	Immediate Departure	Highest Possible Price	All-Cash Payoff	Post-Sale Involvement	Post-Sale Priorities
Sell to an existing partner	✓	✓		✓	✓	✓
Sell partially to a new co-owner or partner				✓	✓	✓
Sell all or partially to a supplier, competitor or other business			✓	✓	✓	
Sell to an outside individual	✓	✓	✓	✓	✓	✓
Transition to next-generation family		✓			✓	✓
Sell to key employee					✓	✓
Sell to employees					✓	✓
Liquidate	✓	✓		✓		

YOUR PRE-SALE TO-DO LIST

- **Flag the areas of your business in need of pre-sale improvement.**

Buyers prefer businesses that come with low risks and high rewards.

• Aspects of your business that are in good condition will contribute to a stronger offering and likely a higher price.
• Adequacies will contribute to an average-to-below-average price.
• Areas in need of improvement will likely force you to offer price con- cessions (unless they are offset by considerable strengths in areas of greater importance to the ongoing success of your business).

- **Commit to a pre-sale improvement action plan.**

- **Create your pre-sale improvement plan.**

Create an action plan for each weakness you intend to overcome. Include:
• The necessary steps you commit to take.
• The timeline you'll follow.
• The resources you'll commit to the effort.
• How you'll assign tasks in order to complete improvements by the time you intend to launch the marketing of your business for sale.

- **As you strengthen your business for presentation to buyers, keep your sale plans as quiet as possible.**

Share your sale intentions with key staff and outside consultants only as necessary and only when the news is accompanied by a non-disclosure or confidentiality agreement. Even when working with your financial and legal advisors, whose professional relationships are committed to confiden- tiality, stress the importance of keeping your sale intentions private. Should word get out that you plan to sell your business, you risk creating uncer- tainty among employees, customers and suppliers, which can devalue your business at the same time you most need to increase its worth.

SETTING YOUR ASKING PRICE

- **Get your financial statements in order.**

If by any chance you keep your business records in a check book register or shoebox, here's what you absolutely have to do before pricing your business for a sale: You have to assemble formal financial records for your business for this year and the previous three years (if your business is that old).
Unless you're skilled in accounting, work with a bookkeeper or accountant to prepare the following forms:

• Income statement showing your gross revenue, costs, and how much your business made or lost each year
• Cash flow statement showing how money was received and paid out of your business and how business assets changed as a result

• Balance sheet showing the value of all tangible assets owned by your business less the liabilities your business owes.

• Seller's discretionary earnings statement, also called the own- er's cash flow, showing how much your business makes after back- ing out non-recurring and discretionary expenses.

- **Estimate the value of the tangible assets of your business.**

It's essential to list and price all physical assets of your business, including furnishings, fixtures, equipment and inventory, for two reasons:

• The worth of tangible assets is important to business buyers, who will require you to provide a complete asset list, including purchase prices and current market values.

• The worth of tangible assets is also important to you, because if you determine that the value of the assets of your business is very similar to the price you're likely to receive through a sale – which you'll calculate following the next two steps – you may decide liq- uidation is a more expedient route to recovering value from your business investment.

SETTING YOUR ASKING PRICE

- **Prepare your statement of seller's discretionary earnings.**

To calculate your business asking price, you first need to work with your accountant, bookkeeper or business broker to recast your business income statement into what's interchangeably called a statement of owner's cash flow or a statement of seller's discretionary earnings (SDE). Under either name, it is the basis for sale pricing and of primary interest to buyers.

- **Estimate the earnings multiple that's likely to apply when pricing your business.**

Most small businesses sell based on an earnings multiple of 1-4. Translated, that means most owners receive somewhere between one and four times the annual SDE of their businesses, with the multiple pegged to the attractive- ness of the business being purchased.

- **Do the math to arrive at an early estimate of your purchase price.**

Based on how attractive your business appears in key areas that most affect its future success under new ownership, you can multiply your annual seller's discretionary earnings by your estimated earnings multiplier to arrive at a preliminary estimation of your busi- ness purchase price.

- **Do some price checking**

CONDUCTING DUE DILIGENCE

- **Prepare your statement of seller's discretionary earnings.**

An easy definition of due diligence is "serious investigation".
In almost all sales, due diligence is a condition of the buyer's offer. Only after determining that your business conditions meet expectations – or that problem conditions have or will be satisfactorily addressed – will the buyer remove the due diligence contingency and close the deal.

During due diligence, as the seller you need to be ready on two fronts:
• You need to be prepared to provide access to all the information the buyer will want to examine.
• You'll want to be ready to simultaneously examine your buyer's financial condition and managerial experience, especially if you'll be carrying a seller-financed loan or agreeing to accept deferred payments for a portion of the purchase price.

Assemble the documentation you'll need to provide.

Keep your sale intentions confidential while helping the buyer examine your business.

Be prepared for the scope of the buyer's investigation.

During due diligence, further investigate the capabilities of your buyer.

Your success is our success.

Since 1981, Indiana Business Advisors has taken the mystery and confusion out of buying a business. That's because we possess the depth of knowledge, experience and key business relationships required to give you discreet, full-service, investment banking-level professionalism through every step of the transaction.

Contact Us

PH: 317-573-2100

Email: Info@Indianabusinessadvisors.com

Connect with us on social media