SMALL BUSINESS
KNOWLEDGE AND
TRAINING PORTAL

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AMERICA'S SBDC TENNESSEE

HOW TO PREPARE YOUR BUSINESS TO SELL

LESSON TOPICS

1. Why Sell your Business

Why you would want to sell your company derives from the principles as to why you started it in the first place. There are four main reasons:

The Freedom of Time
The Freedom of Relationships
The Freedom of Economics
The Freedom of Purpose

2. The Process

To begin the process of selling your business, you must know the current value of your company. You should meet with a professional advisor to determine your current value. There are several different types of exits; they are the following:

Stock Sell- If you are the seller, the stock sell will be more advantageous, because 100% of it will be in capital gains. The tax rate will be lower than your ordinary income tax rate.
Asset Sell- An asset sell is more beneficial to the buyer, but it works out just as well for the seller. You may end up with around 1-5% of the sale's total value going towards ordinary income.

3. Different Types of Buyers

There are several different types of buyers out there. Knowing these types can help you better sell your business. These types are:

Strategic Buyers- These refer to other companies within your industry that are interested in acquiring or merging with other companies. They tend to be very knowledgable about your industry. A drawback with these types of buyers is that they are going to pay you a lower multiple. The multiple is taking your profit line and paying you a multiple of it. You should also be aware of the new company getting rid of a department or employees within your business.
Family Member- The second type of buyer is someone who is going to look to buy out the management team or a family member who transitions into ownership of the company. This method can be very good, but can also be extremely complicated due to mixed interests. Instead of just having a buyer and seller, you now have a buyer, seller, and management team or family member.
Institutional Investors- These will either be family offices or private equity firms. Extremely wealthy institutions will pay for your business, and you will no longer be burdened with risks and liabilities. The employees will all remain intact because the private equity firm does not want to run the company. They are only interested in sustaining the cash flow out of the business.

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LESSON TOPICS CONT

4. Four Fundamentals

There are four basic fundamentals that can help you achieve the maximum value of your company. These fundamentals are:

Top Line Revenue- Any buyer is going to look at three years of your top line revenue. You want to ensure that this has been increasing year-by-year. You want to sell when your business is upwards in momentum.
Adjusted E.B.I.T.D.A.- This refers to your profit line after taxes and depreciation. Doing this will give you a higher profit line, and you will be paid accordingly. You should also clean up your balance sheet; too much debt on your balance sheet can hurt you.
Create a Reoccurring Revenue Model- If you can create a reoccurring revenue model out of memberships, service contracts, or anything similar, it will help you tremendously when you attempt to sell your company.
Becoming a Self-Managed Company- This is when your management team has successfully run the company, taking over all of its processes. These processes should be documented because the buyer would like to see that these things are complete. In a self-managed company, the owner can leave for three weeks without the company being negatively impacted by their absence.