

If you're thinking about selling your business:

You're going to ask "How much can I get for it?"

Here's the situation: You've had your business for a number of years, you have assembled a good team, you've paid yourself well, but it's time to think about selling.

What's on your mind: How much is my business worth? How can I maximize the value and my return on investment? What makes my business more desirable to a buyer?

All good questions – and there are many more as well. So let's have a look at several of the factors involved with business valuations and discover why it's not as scientific as one might think! Let's also look at what can boost the price paid by the buyer.

GB Manager of XXXX of PwC says, "There are three popular approaches to valuations;

- 1) Asset based is used if earnings are low and don't support the replacement cost of the assets;
- 2) market approach, also known as rule of thumb, pegs value as a percentage of gross sales or as a multiple of normalized earnings for businesses in a similar sector;
- 3) and finally, the income approach is the most common with several methods/variations to provide indication of value. Typically the income approach is a multiple of "discretionary" pre-tax income – income that reflects only what is required by the business and excludes depreciation, personal expenses, bonuses and unusual write downs and includes reasonable compensation for the owner."

FACT: What a buyer pays is consistently different from what the business is valued at. So you might ask – why bother? GB simply states, "Knowing the range of value is the first step in understanding what the business could sell for. A valuation educates the seller with meaningful information. It provides a benchmark for comparative purposes and helps prepare the seller for the negotiation process."

FACT: The business seller has two consistent risks. Logan Day of Ernst & Young Suggests that one of primarily risks for the seller is engaging a firm to assist in the sale of the business that simply applies a rule of thumb to set the "asking price" instead of completing a thorough review. This almost always costs the seller money. Another primary risk is for the seller to base the value on something other than fair market value. Occasionally a business owner will talk with an advisor that informs them of some very unusual transaction that sold for a "none typical" price. This creates unrealistic expectations. Or in the case where the seller calculates what funds his retirement plans require and tries to base the selling price on that requirement. The best way around this is to work with a team that deliberately determines the strength and weaknesses of your company and properly benchmarks that information against current marketplace trends to establish a fair baseline for the value for your business.

David Braun, President of MAXIMA Divestures says, "The selling price for a business can be affected by how the company is described and presented to the buyer. Buyers are looking for opportunities, but like every business owner that assesses an opportunity, they're also looking for the pitfalls – where's the risk?"

Buyer's scare away pretty easily – surprises found late in the due diligence process can easily kill the deal. At the very least this will probably cost the seller money off the selling price. Presenting the business in a well-documented manner will address the benefits and the risks in a positive fashion – it sets up the opportunity for the seller to get the best possible price for the business.

Valuations can also be improved by how the hidden asset within your company are identified. These assets don't typically show up on the balance sheet but do contribute to the return on investment for the buyer. Your hidden assets can include a strong client list, a seasoned business team, customer loyalty, in house systems to insure job repeatability and client satisfaction etc. Each company has to be reviewed on a case by case basis.

But that's not the end of the story. Phil Hochhausen, Manager of Corporate Development for MAXIMA says the selling price for a business has a lot to do with who's buying it – what advantages are gained by the buyer." A large part of the successful selling of business requires the deliberate strategic development of the potential buyers target list.

A "strategic" buyer will pay more under certain circumstances:

- Gaining instant market exposure and a new customer base
- Applying manufacturing efficiencies proven by the seller
- Expanding product offerings and potential commingling of production
- Getting instant access to expertise they no longer have to hire out

{Wee bit of an endorsement here from Mr....} "While Maxima focuses on working with clients having sales in the range of \$2M to \$15M in annual sales, the principles involved in selling any business, large or small are very similar." {The Man from Glad adds} Business owners who have built up a successful business know their business well – but they won't know the business of selling their business."

It's important that the seller's business is well documented, that they have a coach to help them stickhandle through the transaction process. Successful business owners deserve to score a goal for their hard work!

What other considerations are there in selling your business?

- Finding the Right Buyer
- Information Disclosure
- Competitive Concerns
- Succession Plans
- Exit Strategies
- Legal Advice
- Funding Strategies
- Tax Considerations
- Funding
- Management buyouts
- Terms of Sale
- Employment Contracts

As the business owner you have the choice on who you team with to successfully sell your business.