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Getting Ready for the Sale

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You have spent the last 30 years shaping your company the way you want it. Now you're having thoughts about transitioning it to a new owner. The owner may be someone inside your family, or it might be another company in your industry.

When you sell the business, the new owner will need accurate tax returns, profit and loss statements, and balance sheets. The new owner and their bankers will want to review the last two years financial information, and sometimes three years.

So where should you start in getting ready for that important day?

First, if you have at least two or three years to go before you sell the business, then work with your accountants, attorneys and financial advisors to make the tax returns as accurate as possible. Review the corporate balance sheet and make sure that the entries are accurate. If there are any entries that are not needed you should remove them. If the inventory is either high or low on the balance sheet, then you need to be able to tell the buyer what the accurate inventory is, which would not include obsolete or X items.

If you sell the company two or three years from now, keep an accurate list of the "add-backs" that the buyer needs to know about. All add-backs would include benefits for you and your family such as cell phone expense, gasoline, travel and entertainment, health and life insurance premiums, and also add to your list any large one-time expenses such as changing the lighting in the store, or paying your lawyer a large fee to collect accounts receivable.

Second, if you have one or two years to go before you sell the business, then work very closely with all of your key employees. Make sure that your managers and key personnel are well trained. Be certain that they have a proper job description and their salaries and benefits fit their job description.

Any potential buyer is primarily interested in negotiating a purchase price for the company, and then their second question is going to be tell me about your employees and how well trained they are.

If your total payroll is too high, then that reduces the value of your business.

Third, if you have at least six to twelve months to go before you sell, then start working on the building and all of your facilities. Make sure the building looks great inside and outside. Make sure that all of your signage is up-to-date and working properly.

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After working with your advisors over at least a two or three year period, you are much closer to being ready for the sale.

When you meet a potential buyer you will be able to show them accurate tax returns and financials for the company. You will also be able to show them a list of all of the add-backs which would increase the usable cash flow, or adjusted EBITDA, that the buyer is looking for. The buyer will also see that the employees are all well trained and doing a great job, and when the buyer walks in they will see a good looking building on the inside and outside.

Because of all this hard work with your team of advisors, you are better prepared for that sale and all of this work will help increase the sales price.

Gary Pittsford, CFP®, is President and CEO of Castle Wealth Advisors, LLC. Castle specializes in helping families and closely-held business owners with valuations, succession planning, estate and income tax analysis and retirement income security. Castle's senior partners work with clients throughout the country in making logical decisions that help them fulfill their personal and business financial goals. For more information visit www.Castle3.com, call 1-888-849-9559 or e-mail Gary directly at Gary@Castle3.com.