

Maximizing the Value of My Business

*By Gary Pittsford, CFP®,
President and CEO, Castle Wealth Advisors, LLC*

Over the years many business owners have asked me how they can maximize the value of their business 3 to 5 years before they are ready to sell.

In the industries that we specialize, there are primarily 2 important areas to review carefully in your business as you get it ready to transition to members in your family or someone in your industry.

First, review all of the assets on your most recent year-end financial statement and make sure that everything listed is accurate. Are the accounts receivable all collectible? Is the inventory correct? Are there entries on the financial statement that could be removed (items such as loan to stockholder, or loan from stockholder)? Spend the next 3 years cleaning up your financial statement.

Second, and most importantly, is the “usable cash flow” of the company, which accountants call adjusted EBITDA. Any potential buyer, whether it’s your children or someone else, will want the highest level of cash flow to work with. The more usable cash flow that you can generate in your company, the more valuable the company.

Over the next 3 years before you sell your company, try to increase your gross margins by 1% per year. Also at the same time try to reduce your expenses by 2% per year. If you can accomplish these 2 items over the next 3 years you will have added a lot of value to your company.

Outlined below is a 3 year plan that you should consider before selling your company.

Three years before selling the company start cleaning up the financial statements and tax returns. Any potential buyer and their bankers will want to see the last 2 or 3 years of tax returns and financial statements. You want that information to look as good as possible.

Two years before selling the company, start working with all of your key personnel and make sure that you have all of the right people in the right jobs with the right salary.

When it comes time to sell a company, the first question is price. The second question pertains to all of your important employees that are well-trained and helping you run the company. Will the new owner have a perfect set of employees to help run the company, or will the new buyer have to spend the next 2 years hiring and training new people?



One year before selling the company, start cleaning up your facilities both inside and outside. Make sure all of the signage works in day light and dark. Make sure your facilities look excellent.

When it comes time to sell your company you want the facilities to look good, the employees to be well-trained and your financial statements to look excellent. If you follow this simple 3 year plan you will be maximizing the value of your company.

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 projections. 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.