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How Does One Determine if Now is the Right Time to Sell?

Answering the question, "Is now the time to sell?" can be a tricky one, as it depends on a wide variety of complex factors. Many studies are pointing to the fact that as baby-boomers retire there will be a dramatic spike in the number of businesses for sale.

In general, the view is that as the baby-boomers retire, they will be selling their businesses. In one study, an eye-opening 57% of business owners noted that age was indeed a factor in their decision to sell and move on. Additionally, another study found that 75% of owners with revenues between $1 million and $150 million wanted to sell their business in just the next three years. Added together, it becomes clear that there will likely be a lot of businesses for sale in the near future.

There are both good reasons to sell now as well as some reasons to consider holding off. Let's first take a look at some of the most important variables and begin by looking at the key reasons to sell now.

Why Sell Now?

The issue of capital gains tax rate is one to discuss with your accountant, as this rate may impact whether now is the right time to sell. A second reason to consider selling now is very straightforward: you're burnt out.

Burn-out is very real and if you are burnt-out, then selling may be a good idea for many reasons. If you've simply had enough, your business will suffer as a result, as you will end up putting less creative energy and effort into the business. Maybe you're losing customers or are paying a supplier too much and you simply don't care or feel like investing the time to remedy the situation. This is a bad sign. The ultimate result of these decisions may be a decrease in the value of your business as you lose market share, customers and momentum.

When you've "had enough" selling is usually a good idea.

Reasons to Wait

Currently, the economy is growing, and that is yet another reason to consider

How Does One Determine if Now is the Right Time to Sell? (cont.)

selling. But there are also reasons you might want to wait. Let's consider the flipside of the issue.

But what if your business had a down year but you know that next year will definitely be better and prosperous? Let's say you've landed a new large client or an existing client is boosting spending. In these scenarios, waiting a year to sell is likely an excellent idea.

In such a situation, you will likely achieve a much better final sales price for your business. However, waiting a year does come with some risks even if you have a new client or new contract.

For example, what happens if a new competitor enters the market or there is a major economic downturn? We can never fully hope to predict future movements in the market or market trends, and that means there is always risks associated with waiting to sell.

Another factor to consider is whether or not there could be a tightening of credit. Most buyers will need to finance a significant portion of the purchase of your business. If lending requirements tighten, selling your business could be much more difficult as a result. Even if your businesses financials improve dramatically while you are waiting to sell; if credit tightens, then it could end up being more difficult to sell.

Remember that the time to plan your exit strategy is when you start your business. The simple and undeniable fact is that business owners, no matter how savvy, simply can't outgrow factors such as aging, interest rates or capital gains.

In the end, the time to sell is when you are ready to sell. That stated, tax implications should be weighing heavily on your decision to sell during the next two to three years. Working with an M&A Advisor can help you gain clarity as to whether or not now is the right time to sell!

Considering 7 Novel Approaches to Deal Structure

Finding ways to address the gap between the buyer and seller is usually key, as a failure to do so can keep a deal from closing. If everyone involved from the principals to their advisors truly want a deal to be completed, then there is much that can be done.

Here are a few of the key "outside the box" approaches that can help ensure that your deal is completed.

7 Great Outside the Box Ways to Approach Deal Structure:

1) If the seller owns the real estate, let him or her lease the real estate to the buyer, as this will reduce the overall price.

2) A seller could also lease machinery and/or equipment to the seller, again, effectively reducing the overall sale price.

3) With a fast-growing business possessing a big upside, consider allowing the seller to share in the growth, which can be achieved via an override or royalty over a set sales dollar amount.

4) Another idea is to place a fast-growing section of the business in a separate subsidiary with the seller owning part of this separate subsidiary. The buyer would retain an option to buy this subsidiary at a later date.

5) The buyer could buy 70% of the business now and 10% more each year for the following three years. This creative strategy decreases the initial sale price by 30%.

6) Have the buyer sit down face to face over dinner and discuss the issues.

7) Consider working closely with an M&A Advisor.

Sellers Need to Realize What Serious Buyers Want

Serious buyers will always want to look at your financials, but there are other key areas that they are sure to want to examine. Here are the six key areas where buyers will look when evaluating a business.

1. *The Industry:* Buyers typically examine the industry as a whole including customers, suppliers, the competition and the future outlook of the industry when they are considering buying a business. That means they'll want to uncover the strengths and weaknesses of your business as well as potential threats from competition and opportunities for growth.
2. *Cash Flow:* You can expect serious buyers to take a very hard look at your cash flow statements. The simple fact is that buyers will want to be quite certain that the business will continue to generate positive cash flow after the acquisition.
3. *Wages and Salaries:* Cost saving devices, of course, make the bottom line look good, but a high level of employee turnover can be a real concern as it creates expenses down the road. Keep in mind that if the target company is to be absorbed by another, then compensation issues could play an enormous role.
4. *Discretionary Costs:* Discretionary costs such as research and development, advertising and public relations will likely receive attention for buyers as well. Many sellers will attempt to reduce these costs in an attempt to create a higher bottom line; however, such cuts will serve to hurt the future bottom line.
5. *Capital Expenditures:* A serious buyer will also factor in machinery and equipment to ensure that they are up-to-date and equal to or even superior to that of the competition. Replacing outdated equipment may help boost the offering price.
6. *Obsolete Inventory:* No doubt, obsolete inventory can negatively impact the purchase price. If possible, address obsolete inventory before selling.

Over and Above the Numbers

Whenever a merger or acquisition is in order, a close review of financial statements is a must. Yet, there are other assets to consider. Let's review ten of the most important, and sometimes overlooked assets:

- Repeat customers or clients
- Broad customer or client base that is diverse and growing
- Long-term contracts
- Profitable alliances
- Recognizable brand name or product name
- Patented products, government approval & profitable copyrights
- Proprietary products
- Valuable intellectual property
- Experienced management team & trained workforce
- Contracts/non-competes with valuable employees

The Letter of Intent

After a buyer has made an offer, the next step is for that buyer to present a Letter of Intent. In the Letter of Intent, the buyer outlines the terms of the possible transaction.

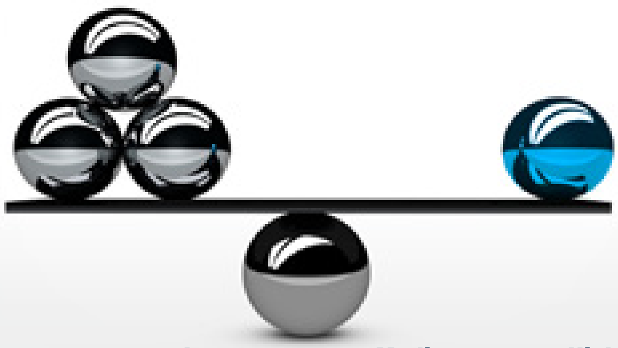
The seller should also provide his or her thoughts as to what should be covered. Here are six key points that should be addressed in any Letter of Intent:

- Price and terms
- The assets & liabilities to be included
- Employee contracts & severances
- Lease or sale of property
- Assumption of contracts & warranties
- Time schedules of due diligence and closing

How Does Your Business Stack Up?

Determining the value of your company rests on a few basic value drivers. It can be difficult to place a specific value on a given company; however, a seasoned professional such as an M&A Advisor can achieve a fairly accurate ballpark figure for what your business is worth.

Ultimately, the possible value drivers are practically endless. That stated, take a moment to carefully evaluate the ones listed to the right as they will give you some idea as to where your business currently stands. Remember that you shouldn't just compare your business against businesses in general, instead you should compare your business against specific competition. Finally, consider what you can do, as part of your overall exit strategy, to improve your company.



Value Driver	**Low**	**Medium**	**High**
Business Type	Little Demand	Some Demand	High Demand
Business Growth	Low	Steady	High & Steady
Market Share	Small	Steady Growth	Large & Growing
Profits	Unsteady	Consistent	Good & Steady
Management	Under Staffed	Okay	Above Average
Financials	Compiled	Reviewed	Audited
Customer Base	Not Steady	Fairly Steady	Wide & Growing
Litigation	Some	Occasionally	None in Years
Sales	No Growth	Some Growth	Good Growth
Industry Trend	Okay	Some Growth	Good Growth

Selling

A recent Price Waterhouse Coopers survey of 300+ privately held businesses in the United Stated outlined the most common steps companies take to improve their prospects for a successful sale. These 7 steps should be undertaken before placing a business for sale:

- **Restructure debt**
- **Improve profitability by cutting costs**
- **Fully fund the company pension plan**
- **Improve the management team**
- **Upgrade computer systems/processes**
- **Seek the advice of a consultant, intermediary or M&A Advisor**

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