

TEN COSTLY MISTAKES THAT SELLERS MAKE

If you are thinking of selling your business, you need to be aware of the following mistakes that many inexperienced sellers make.

TEN COSTLY MISTAKES

1. Bad timing
2. Poor financial records
3. No Business Plan
4. Indecisive about selling
5. Trying to sell without hiring an intermediary
6. Dealing with Unqualified Buyers
7. Demanding all cash
8. Not hiring an experienced transaction attorney
9. Unrealistic Price Expectations
10. Unwilling to assist in the transition post-closing

1. Bad Timing

There can be a substantial difference in selling price depending upon the market cycle and/or the profit cycle of the business.

If a seller plans ahead, he/she should sell, if possible, during a market upswing and just after a record year of profit.

The best rule is: “if in doubt, don’t go out.”

2. Poor Financial Records

Very few small, privately-held businesses are willing to incur the expense to have their financial records audited by an outside accountant

In many cases, the only records that are kept are for tax purposes, and these records are often kept to minimize taxes. Public companies, on the other hand, tend to keep accounting records so as to maximize better suited than the buyer to project market, sales and cost information.

A business plan, with well-reasoned and documented assumptions, can go a long way towards convincing a buyer of the future growth and profitability potential for the business.

While the buyer is unlikely to accept all of the business plan assumptions, the lack of a business plan means a selling price based on past history rather than future expectations.

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3. No Business Plan

Buyers buy based on their perception of the future outlook for cash generation by the company.

You can be assured that a prospective buyer (or their advisors) will prepare a business plan as part of the evaluation process. You, as the seller, are much better suited than the buyer to project market, sales and cost information.

A business plan, with well-reasoned and documented assumptions, can go a long way towards convincing a buyer of the future growth and profitability potential for the business. While the buyer is unlikely to accept all of the business plan assumptions, the lack of a business plan means a selling price based on past history rather than future expectations.

4. Indecisive about Selling

Selling a business can be a long, involved process. If you are just curious about what your business might be worth or whether someone will “make you an offer you can’t refuse”, don’t start the selling process.

If you are not clear in your mind why you are selling and that you are prepared to see the process all the way through, you will just be wasting everyone’s time, including your own.

Most sellers are motivated by factors other than just money. For example, retirement, sickness, family pressure, burn-out, etc. are often the real motivating factors. If you are not mentally prepared to sell, don’t.

5. Trying to sell without hiring an Intermediary

Some sellers balk at the idea of hiring a merger and acquisition professional to guide them through the selling process. These penny wise (and pound foolish) owners would never think about selling their homes without using a real estate broker.

Selling a business, like selling your home, is a complex legal, financial, and time-consuming process. Determining a proper valuation for the business and recasting historical financial statements to insure credibility and maximize adjusted cash flow are only two important skills that a professional M&A intermediary can provide.

In addition, the intermediary will prepare a Confidential Memorandum, which is the marketing document that presents the business in the best possible light and provides basic information that prospective buyers will require. Then there are buyers to be found and qualified.

When an offer is finally presented, the intermediary can advise you on possible counter-offers, alternative deal structures, etc. When an agreement in principal is reached, there are still literally dozens of issues to be resolved through negotiation before the transaction can be

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closed. These include issues like whether to sell stock or assets, the allocation of the purchase price for tax purposes, security agreements, employment agreements, covenants not to compete, representations and warranties, the removal of seller debt guarantees, etc.

And while all of that is being dealt with, there is still a business to be run, and confidentiality about the sale must be maintained.

6. Dealing with Unqualified Buyers

If your business is not actively being marketed for sale and you get approached on an unsolicited basis by a prospective buyer, the best thing to do is to state emphatically that the business is not currently for sale and ask the interested party to send you a letter stating why he is interested in buying your business and the financial status of the buying entity. Keep this and any other unsolicited inquiries in a file for future reference.

If you do subsequently decide to sell, you can turn this information over to your M&A advisor for further investigation. One of the most valuable things that an intermediary can do for you is to qualify prospective buyers, thereby separating the “serious and capable” parties from the “curious tire kickers” who will do nothing but waste your time.

Serious buyers should be able to clearly state why they want to buy your business, and should not object to requests to produce financial statements and/or financial references that will qualify them as “serious and capable” parties. After all, the first two questions they are likely to ask you are: “Why are you selling?” and “What are your financial results?”

Also, NEVER provide financial or other private details about your business without getting a signed Confidentiality Agreement from the inquiring party.

7. Demanding All Cash

It might seem counter-intuitive to advise a seller not to demand all cash at Closing as the only acceptable form of consideration.

Some sellers get very hung up on the concept of allowing a buyer to pay for a portion of the purchase price out of the future profits of the business. However, this attitude is usually quite short-sighted.

First, agreeing to take some deferred payments through a seller-financed note can help the seller defer some of the taxes due on the sale.

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Also, many buyers will pay substantial premiums for seller financing. Sellers should be prepared to listen and evaluate all otherwise acceptable offers that have a seller financing component.

The seller must realize that buying a business is like buying a piece of equipment. The investment has to pay for itself or the buyer won't purchase it. The issue isn't "all cash". It is how to get the highest price and getting paid.

8. Not hiring an experienced transaction attorney

Nothing can contribute to the death of a deal more than having an inexperienced transaction attorney representing the seller.

Many sellers think that the attorney that has helped them with contractual, labor relations or litigation issues over the years should be able to represent them capably in a M&A transaction. Nothing could be further from the truth.

Experienced transaction attorneys know what usual and customary practices in a sales transaction are. They know when to be flexible and when to dig their feet in.

Some lawyers are deal makers and some are by nature deal breakers. If you really want to sell your business, make sure that the lawyer on your team is an experienced transaction attorney. If you don't know one, ask your M&A advisor to recommend one.

9. Unrealistic Price Expectations

Most sellers have no idea what the market value of their business should be.

If the price expectation is too high, buyers will not think that you are serious and therefore will not investigate the opportunity. Ultimately, the business offering becomes shopworn and has to be taken off the market or dumped at a below market value.

If the price expectation is too low, the seller will leave money on the table.

How does a seller determine what his business should be worth? Get an appraisal from an intermediary that is experienced in selling your type of business.

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10. Unwilling to assist in the transition post-closing

Buyers don't want to be left holding the bag by purchasing a company that has seen its best days. They also want the assurance that the seller has a vested interest in their continued success post-closing.

Many times relationships with customers are founded on personal relationships with the prior owner. The buyer wants to maintain that goodwill and also make sure that they have a reasonable period of time to get up to speed on what it takes to successfully manage the company they are buying.

The seller who wants to sell and have no continued involvement in the business post-closing severely limits the number of buyers willing to buy his/her company.

Avoiding these mistakes before and during the sales process will mean higher value received and a smoother, more timely transaction when you sell your business.

About the Author

Leckie Rives is a Managing Director with M.E.T. Advisors, Inc. MET Advisors is a Merger & Acquisition consulting and investment banking firm based in southern California.

Prior to joining MET Advisors, Leckie functioned as a strategic, operations-oriented senior executive with extensive experience in fundraising, acquisitions, financial management and strategic planning in multiple industries for a \$2+ billion NYSE company and for two venture-backed startups.

Over the course of his career, Leckie has been responsible for more than 25 divestitures and for 24 acquisitions ranging in size from less than \$1 million in value to over \$450 million. Mr. Rives received his MBA at the Amos Tuck School of Business. He earned his Bachelors Degree at Dartmouth College and his Masters from Johns Hopkins University.

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