Avoiding the Top 10 Mistakes when Selling your Company

Have you ever gotten to the end of a project or even a life experience and wished you could start over? Do you remember playing games as a child and asking for a "do-over"? For those of you who are followers of Stephen Covey's <u>7 Habits of Highly Effective People</u>, you might be reminded of the Habit 2 which states, "Begin with the end in mind."

Too often we learn our best lessons the hard way—by living through them. While experience can be the best teacher, there may be a better way. Early in 2004, a number of my clients contemplated the sale of their companies. Because of the "urgency" of responding to an offer (to borrow another term from Covey), I sometimes learned about it after the fact. I was only able to work from a reactive position once the die was cast. This is much harder than being involved from the starting point. Deal structure, tax implications, sources of funding, strategic fit of partners are just some of the issues that can be best addressed early on. Using our disciplined process can help eliminate some of the emotional issues of an exit strategy, allowing us to look at your situation from the eyes of a prospective buyer.

Here's a Top 10 list of mistakes business owners commonly make:

1) **The owners do not understand the value of the business**: Most owners of closely held businesses have suppressed profits to reduce the true value of the business. The actual financial statements need to be restated to eliminate the owner's discretionary and non-recurring personal expenses. Attention also needs to be drawn to "off-balance sheet assets," tangible and intangible. Historical financial statements don't tell the real story.
2) **The owners have an unrealistic price in mind:** Recent surveys indicate that few companies have a current, accurate valuation. Half of the time owners are unrealistically high in their asking price, and the other half of the time they are low. Whether you think it's worth $5 million or $50 million, without a professional opinion for reference purposes, you can't begin to discuss or justify a selling price that makes sense.
3) **The owners do not understand the investor's motive:** Rather than emphasizing the business's growth potential, they dwell on past performance. Investors are looking to the future for return on investment and growth potential. "BUYERS DON'T BUY WHAT THE SELLER THINKS HE IS SELLING."
4) **The owners do not have proper counsel:** Talk with business owners who made an ill-fated attempt to sell their own business. Most wish they had used an experienced intermediary. Without professional help, they are prone to taking advice from the wrong people.
5) **The owners try to sell to the wrong people**: One of the biggest mistakes is to think that the best investor for the business is a competitor, customer, supplier, or employee. If the deal doesn't happen, and most don't, then a great deal of confidential information about your company has been disclosed. Suddenly, everybody knows more about the company's profits and operations than they should. Keep your intentions confidential unless you're ready to sell at a rock-bottom price.
6) **The owners assume the best investor is local**: Most sellers naturally assume that the market for their business is the immediate surrounding area. The world is now your marketplace and the best investor may be anywhere across the country, or around the world. Thousands of very quiet private investment groups and offshore investors are interested in acquiring profitable, U.S.-based, privately held companies.
7) **The company is not positioned for sale**: Organization, growth opportunity, reputation, market conditions, and industry leadership, are some of the many intangible qualities investors appreciate. Documenting improvements that could be made by an investor with new

capital helps you to better position the company and increases value. There can be a swing of 50% or more in the sale value if the company is solidly positioned for future growth.

8) **There is improper documentation**: Investors are evaluating the purchase based primarily on future growth potential and expected return on investment. They want to see what the profits would have looked like if you had run the business like a public company. They also want you to prepare three-to-five year pro forma financial projections, backed by solid market research, substantiating the future potential of the business. Simply stated… create a presentation to explain the past and sell the future!

9) **The owners do not plan for the sale**: Many business owners have not thought about what their real personal financial needs will be. If you're willing to wait for some of the payments, the investor has more flexibility to pay a higher price. If you insist on an 'all-cash" deal, savvy investors will discount their offerings by 35% or more!

10) **Don't be the first to mention price**: One cardinal rule of negotiating is to never be the first one at the table to mention price. An experienced acquirer, who sees the future potential, may have a higher price in mind. Value is very subjective. You will always regret "leaving money on the table" if you make this pricing mistake.

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To help you avoid these mistakes, call on us to help guide you through the process of selling your company. Our Route to Wealth™ process can help you create a sellable company. 713-984-8044

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