Preparing for a Sale

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Many entrepreneurs build their businesses without having an exit plan in mind. They are often preoccupied with the day-to-day operations, giving little thought to how they should position the business for a potential sale. Not being organized or not having a team of professionals [LAST WEEKS POST] could lead to a drawn out M&A process, and could result in frustrated buyers walking away from the acquisition.

Below are 3 key items entrepreneurs need to ensure are in order before entering M&A discussions:

1. Legal Agreements in Order

During the due diligence period, a potential buyer will have their legal expert go through all the business' legal documents. These will typically include commercial leases, contracts with customers, patents and/or trademarks, employment agreements for staff, and partnership agreements amongst owners.

It is advisable, therefore, to ensure that all your legal agreements are on hand, and that everything is up-to-date.

2. Bookkeeping is accurate

Another important part of due diligence is going through the company's books. In most cases, a potential buyer will give an indicative offer with a rough valuation or value range that may go up or down after a closer look at the finances. Since the value of any company is so closely tied to their books, it is a good idea to make sure everything is accurate and complete. In most cases, a professional accountant should go through the records.

The most important documents will be historic income statements, balance sheets, and financial projections for at least the next 3 years.

Sellers should also have explanations ready for any anomalies (i.e. significant jumps or falls between fiscal periods). Some examples of reasons for numbers that may seem out of place include one-time investments, a change in pricing strategies or the loss of a major customer.

3. Tax Liability is up to date

Along with accurate bookkeeping, it is important to be onside with the tax authorities. The use of a tax advisor is recommended in most cases. Entrepreneurs will want to ensure that they have remitted any unpaid taxes, resolved any issues with the tax authority, and have all tax returns and working papers for the last five years.

A tax advisor will also be helpful in optimizing the deal structure from an owner's perspective.

Resolve or disclose any “skeletons in the closet”

Buyers don’t like surprises, and surprises can lead to substantive drops in the value of a business. While it may give potential buyers a pause, being upfront about business challenges will not necessarily derail talks. In fact, it is significantly less damaging to reveal problems early on, than for the buyer to be blindsided down the road. For example, make sure to resolve or disclose any legal action against the company (past or present), and disclose any ownership issues early on.

In Conclusion

Above all else, being organized will be key to a quick and smooth transaction. Review all documents for accuracy and have someone in charge of fielding information requests during the due diligence process.