5 Steps to Take Now if You Want to Sell Your Business In 2018

Due to the recently passed Tax Cuts and Jobs Act (TCJA), business owners who were looking to sell their business in 2018 may now be reconsidering. After all, the TCJA cuts corporate tax rates resulting in increased cash flow for profitable companies. While this is true, it is also worth considering that private company valuations will increase in 2018, because companies will be able to increase their dividend payments or distributions to shareholders. The recent increases in the value of public companies have been, at least in part, because of the expected consequences of the corporate tax cuts. All that said, if you are planning to sell your business in 2018, then here are some suggested steps to take to increase the chances of a successful transaction, and, to maximize the value of a sale.

1. Make sure your books are in good order. Most executive teams of private companies tend to focus on what they are good at – sales, product, service, technology, etc. They would not be successful if they weren't good at these operating skills. But when it comes to financial matters, the focus tends to be on AR, AP, and payroll. The question of revenue recognition, capitalization of certain costs, accruing employee and tax liabilities and other financial reporting issues are rarely addressed on an ongoing basis. Buyers, on the other hand, especially Private Equity funds and portfolio companies of these funds, are very focused on the numbers. Most buyers will pay to have a Quality of Earnings reports produced on the seller's financials. Any negative variance against the seller's reported financials may result in the buyer asking for a price adjustment. Our recommendation is that you make the necessary changes to your financials before going to the market. Ideally, become GAAP-compliant as this is the standard the buyer will most likely be adhering too. If you don't have the skills in-house, hire a qualified accounting firm. Investment of time and money on this subject will produce a guaranteed return if the transaction is successful.

2. Make sure your corporate legal documents are in good order. This includes incorporation documents, operating agreements, partnership and shareholder agreements, board meeting minutes, and certificates of good standing in the states in which you operate. Does the company have a clear ownership structure? Have the correct stock certificates been issued? Does the company have all the necessary state and city licenses? Are agreements with customers and suppliers in good order? Are state employment laws being abided by? Confer with your legal representatives. We recommend that sellers should interview and hire an experienced M&A attorney before going to market. As with any questions that may arise about the veracity of seller's financials, inadequate and incomplete legal documents have a chilling effect on a transaction.

3. Make sure the materials you will send to potential buyers have a clear message of value. Why should a buyer buy your business? Is it growing? Is it highly profitable? Does it have a unique competitive edge? Do you own IP – do you have a patent? It is important that the seller can articulate value, and the more quantitative data you use to justify that value, the better. Describing the company having a great track record sounds subjective. Describing the company as having a CAGR[1] of 30% over a five-year period is tangible and objective (assuming it is

[1] Compound Annual Growth Rate

accurate). Documents that should be prepared before going to market include an executive summary, a Confidential Information Memorandum, and financials. If you do not have the experience to produce these documents, hire an M&A advisor to help you.

4. Prepare a buyers list. Creating a competitive process will vastly increase the chances of closing a deal and is the most likely route to achieve the value you seek. Two interested buyers are five times better than one, and three buyers are ten times better than two. Do your research regarding strategic and financial buyers and run a parallel process, i.e., reach out and engage with multiple parties at once. This method is significantly better than engaging and disengaging with each party in series. Consider using an M&A advisor to run the process – they will (a) have access to buyers with a history of relevant transactions and (b) can run a process without taking time away from your operational responsibilities.

5. Get tax and wealth management advice. Many sellers are only considering the tax implications of a transaction in the final hours of a deal. Getting tax advice in advance of a transaction may well change the structure of a transaction – for example should it be a stock sale or an asset sale? Speaking to a wealth manager in advance will determine how to receive and manage the money you will collect from a transaction.

In summary--be prepared. Hire professionals that have the experience and skills that will guide you through a transaction. Time and money spent in advance will pay handsomely when a transaction closes.

Questions about selling your business? Contact us today.

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