Long Island
BusinessNEWS

SEPT. 25- OCT. 1, 2009 | VOL. 56 | NO. 44 | $2.00 | WWW.LIBN.COM

TOOLBOX ■ Mergers & Acquisitions

What thou shalt do to prepare to sell thy business

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As an experienced corporate development executive, I have seen a lot of new deals surface over the last six to 12 months. While other businesses are struggling, our mergers and acquisitions advisery firm is experiencing continued double-digit growth. Why? Buyers with strong balance sheets are viewing the recent economic instability as a buying opportunity of the century. Smaller sellers, with potentially weaker balance sheets and less cash on hand to weather the storm, are looking for options, including in most cases, a liquidity event in the form of a sale of their business. As we meet with business owners, we would urge them to consider the items below as the Ten Commandments in preparing their business for sale.

I **Thou shalt ...** start early, assemble the team and commit to the process. Starting a month or two before your expected closing will result in buyers perceiving a fire sale, which will rarely net an acceptable offer for the seller.

II **Thou shalt ...** stay focused on the business and keep your eye on the ball. The last thing you want to show is a down sales quarter while trying to sell your business. Allow your advisers to sell the company while you remain sharply focused on items such as sales, customer service and inventory reduction.

III **Thou shalt ...** manage cash, manage cash and manage cash, again. Sorry for the triple play, but owners that are hyper-focused on their daily cash sheet can command better multiples when selling their company.

IV **Thou shalt ...** consider the concept of continuous pruning and continuous hiring. There are always good people to hire and usually some underperformers to trim. Many successful businesses constantly display a help wanted sign. Most buyers view this as a position of strength in the seller's leadership team.

V **Thou shalt ...** make valuation-driven decisions. Adopt a philosophy that many decisions can be made based on their potential impact on future corporate valuation. For example, when deciding between two new offerings, choose the one which provides the potential of longer-term contracts, recurring revenue sources, service contracts, etc. As a rule of thumb, service businesses sell for less than their annual revenue and contracted-recurring revenue businesses can sell for two to five times revenue or more.

VI **Thou shalt ...** guarantee that one owns the intellectual property that they sell. Ensure that all of your employees and contractors have assigned the IP and you possess clear documentation that supports your ownership of all inventions, ideas and innovations. This is typically one of the first items on a buyer's due diligence checklist.

VII **Thou shalt ...** clean up all shareholder issues and avoid waiting for the due diligence process to settle any 20-year-old family feuds. Although this sounds obvious, it is a common issue that causes concern for most buyers and tends to quickly ramp up the legal bills as the lawyers scramble to repair the mistakes and disputes of the past.

VIII **Thou shalt ...** perform a basic valuation early in the process to set expectations. Don't wait for the buyer's letter of intent to begin the discussion with the other shareholders. Valuation processes can range from a quick review of online deal databases to a more formalized certified valuation analyst approach, which concludes in a 30- to 50-page report.

IX **Thou shalt ...** perform a legal corporate tune-up. Do you know where your corporate book is? Have the shares been issued and cataloged? Have the major decisions been documented and minutes added to the corporate book? Is there a clear equity ownership trail defined in the corporate book? Sorry for the simple questions, but for most owners of privately held businesses the answer is NO. Call your lawyer today and schedule this proactive tune-up project. You will likely save a bundle of cash by avoiding the reactive scramble during the buyer's due diligence process.

X **Thou shalt ...** assemble all paperwork. In two simple words, get organized! Corporate documents, contracts, reviewed financials, tax returns, employee folders, product information, etc. are part of every buyer's favorite due diligence checklist. Be prepared and start making PDF copies early.

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