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How to optimize the sale price of your business

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Due to the plethora of disruptions caused by the COVID lockdowns, many business owners have contemplated the sale of their business over this last year. Performance and profitability are two key factors in determining the valuation and marketability of a business, among countless others.

Selling a business is often the largest liquidity event in a business owner's life and requires a significant investment of time and resources in order to close a deal on good terms and in a tax efficient manner. However, the time to start strategizing around a future sale is never too early.

When planning the sale of a business, it is important for the owner(s) to identify the amount of cash required to meet their future financial needs and also assess the business marketability and attractiveness to potential buyers. Assessing business marketability is the process of improving the business and optimizing the sale price to ensure you achieve or exceed the cash needed for future financial needs.

A business that's ready to go to market will have some or all of the following value drivers and characteristics:

- Strong financial performance with a recent track record of success and a strong outlook
- A strong, sustainable competitive advantage
- Well-entrenched customer relationships
- A well-defined, credible and supported growth story
- An attractive geographic focus
- Demonstrated operational expertise
- A strong, sustainable management team and a plan for backfilling management gaps that may arise once the deal closes.

These value drivers deserve attention prior to bringing your business to market and, often times, have more impact on your business's valuation than EITDA – which is a common valuation metric based on earnings.

In general, buyers will pay more for a business with less risk because there's more certainty they'll get their cashflow out.

Indicators pointing to high levels of risk include:

- A perception of commodity products
- Low margins and/or margin risk
- High revenue concentration (customer, geography, product line)
- High capital investment needs
- Limited capacity for growth
- Management transition or involvement of shareholders
- Unclear intellectual property ownership

When evaluating the marketability of your business it's critical to understand what the value drivers and risk factors look like and whether a transaction at this time would support the amount of cash required to meet your future financial needs. You may determine it's better to delay a sale to address deficiencies – which is why it's important to plan early and keep your thoughts about selling confidential.

Additional planning considerations would be as follows:

Structuring the deal to maximize after-tax proceeds by working with your advisors as to choice of entity (i.e., C or S Corp.) and tax structure will maximize your post-sale proceeds – which is what actually goes into your pocket.

Consider putting in place a "stay bonus" agreement with key managers that incentivizes them to stay through closing and support the deal. When the deal closes, the owner takes a part of his or her proceeds and pays it to the management team member as a thank-you for staying through the deal and getting it closed. This provides a meaningful check to the manager and, for the business owner, takes the risk of them leaving prior to the sale off the table – there can be tax benefits to that as well.

Always meet with your advisors before engaging with potential buyers and don't reveal financial statements or financial presentations without first thinking about how to position or package the information in a way that optimizes value.

If your business is optimized to sell and you're able to walk away from the sale with the amount of cash required for your financial future, that's incentive to move toward a sale sooner rather than later. If you wait too long to sell your business a market event could happen that impacts your transaction negatively.

So, while it's never too soon to start planning for a sale, it certainly could be too late. Contact your financial advisors today.

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