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Managing the Sale Process

Selling a Business is difficult! Buying a Business is just as difficult! So what is it specifically that makes these two tasks so difficult?

The initial transaction is contingent on both Seller and Buyer agreeing to price and terms. They both also must consider and agree on what specifically will be included in the deal, how much will it cost, and when will it be paid (at Closing or will it include some Seller financing). All of this takes an understanding of everyone's perspective plus motivation and willingness to listen to the needs of the other parties.

Let's say we got far enough along in the process that a Letter of Intent / Preliminary Agreement is signed. That's just the beginning. The next step in this process is Due Diligence. This is the collecting and reviewing of the data provided to the buyer in order to verify the value of the seller's business and determine if purchasing is the right decision.

The next challenge a buyer has to deal with is financing. They may have to enlist the services one or multiple lenders. What is required as a down payment? What are their loan terms? What are the terms and structure of an offer? What about underwriting? What can change as the lender evaluates the transaction? What if lenders need a Business appraisal, Real Estate appraisal, or an environmental study? The lender will need verification of the buyer's down payment, evaluation of Working Capital, and the "what if" funds / cushion the lender wants the buyer to have. Then they "stress test" the loan which essentially validates whether or not the business can meet the payment if interest rates go up?

the other part of this process yet to be discussed is the paperwork. As you can imagine it's a lot of work and can be quite time consuming. **But don't let that discourage you. That's where we come in**. We can handle much of this on your behalf, and we have a lot of experience doing it. We often tell buyers it's going to be easier to operate the business than to acquire it! Sellers often tell

Lesser Known Challenges of Selling a Privately-Owned Business

1) Owner Transition

Business owners must consider what they are willing to do after closing. Buyers want the owner to provide a smooth transition and the ability to move the owner out when they are no longer needed. The typical time for transition is a few months to a year. If the buyer gets an SBA-guaranteed loan, a written commitment cannot be longer than one year.

If the buyer desires or requires a longer commitment from the owner, a large part of this decision should depend on the new owner's vision for the company's future. Before committing to a deal, it is important to make sure you pick the right buyer (for every factor other than the purchase price and strategic fit).

2) Key Employees

A significant asset of your company is your key employees. More often than not, business owners do not want to inform employees of a sale until it is done or almost done. The timing of informing employees and the message to them is critical. Their willingness to remain under new ownership could make or break a deal. Employees can have the leverage to renegotiate their future compensation and other terms of their future employment. If they have doubts and concerns, those need to be discussed. The age of the key employees is a consideration, especially if some are near retirement. Do they have non-compete agreements? Should the owner, perhaps together with the buyer, offer a bonus for their staying?

3) Purchase Price Becomes Less Important As The Deal Progresses

When selling your company, the purchase price is essential to determine how much, when, and for what. You can overcome that hurdle with your preferred buyer early in the process. The past performance of the business and prospects has to justify the purchase price. Pay close attention to what the buyer does and how things are negotiated. Do you feel good about the buyer and how they will run the business? Deals can change for good and sufficient reasons but should not change because a buyer is trying to take advantage.

4) Due Diligence and Closing Feels like the Buyer Trusts You

us it's easier to operate the Business than to sell it!

So why are we telling you all of this? Simple, we deal with the above all the time. Each transaction is unique and has its own set of challenges. It's impossible to know in advance what will come up, but we are always ready for something difficult to arise and work through. But the fact of the matter is, ***WE GET DEALS DONE!***

So let us know what you are contemplating, and we are positive we can help!

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You will already have executed a Letter of intent laying out the final deal structure. Given what it took to get this far, it may feel like you are only a step or two away from the finish line. However, the hard part is that you will now be challenged in due diligence to deliver data and information to support any claims made, in addition to the most exhaustive and detailed examination of your business that you can probably imagine.

During this process, it is normal to feel some resentment towards the buyer, as you have trusted them enough to agree to sell to them, and they are now putting you under the microscope. There are no words that can help prepare you for this except to say that it happens in almost every deal and is a part of the process you must go through. It is one of those critical times when it helps to have an experienced and trusted advisor to answer your questions and concerns while also representing your best interests and keeping the deal on track.

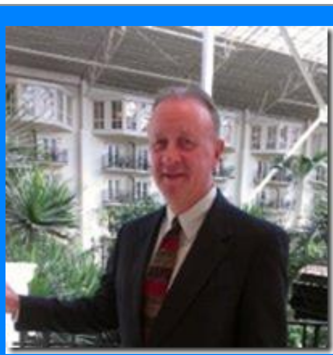
5) Getting through Reps and Warranties
As part of the purchase agreement, you will have to sign representations and warranties, along with countless schedules detailing information that has been disclosed to the buyer. Again, this can go back to the point above about due diligence. You want to be careful and considerate that you offer full disclosure and manage your schedules, reps, and warranties to best protect you from potential post-closing adjustments after the deal has closed.

6) Structuring the Sale

How will the deal be structured? Most business sales are asset sales, not stock sales. Cash at closing, stock, earn-out, warrants, options, or a combination? Every seller, buyer, and individual deal is unique, and there are innumerable reasons for choosing the final deal structure. A deal rarely ends up being the same structure as predicted at the outset, and it will likely depend on input from tax, financial, and legal perspectives to develop the right structure. There is often more than one "right" answer. It is important to remember that the transaction has to work for both parties.

7) Choosing an Advisor

Choosing an advisor is key to a successful sale. Look at and ask for credentials, references, and examples of completed transactions. An advisor will advocate for their client but has to be willing to present the merits of the other side. You may not like what the advisor says, but you need to listen, ask questions, and understand.



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