Guide to Selling a Business

ACQUISITIONFINDERS
Search. Independence. Success.

ABOUT OUR PROCESS

Acquisition Finders offers business owners a unique alternative to typical sell side business brokerage services. We offer a staged sales process, which maximizes confidentiality and increases the number of prospective buyers that are qualified to purchase your business.

By initially offering your business to our *Hidden Gem Search Buyers*, you are connected with well qualified buyers who are "in the market," and ready to close a transaction as quickly as possible. Should none of those buyers be a fit for your business, we will initiate an open market sale, where Acquisition Finders will confidentially introduce you and your business to qualified buyers, maximizing your sales price in the most confidential manner.

Exiting a business is one of the greatest financial events of your life and we want you to be prepared so you can leave it on your own terms — when you want, to whom you want, and with the amount of money you need to live comfortably afterwards. We prepared this workbook to help guide you through all the little steps so you can make the big step. You likely have not exited a business before; that is not a problem, in fact most business owners do not even have an exit plan for their business. If you and your business are ready to sell, there are opportunities in selling your business now and significant dangers if you delay. We want you to make the most informed decision possible so that this transaction can positively affect you and your family's lives in the years to come.

This workbook aids you, the business owner, in examining your expectations and carefully considering what it will take to financially meet not only your needs but your goals before you exit your business. This process will help maximize your financial return, minimize tax liability, plan for contingencies, and increase the likelihood of a successful business transfer.

THE SALES PROCESS

1) Complimentary Consultation to Discuss Sales Goals → 2) Share Financials, Determine Likely Price Range → 3) Sign Engagement Agreement

4) Compile Offering Memorandum → 5) Contact Potential Acquisition Finders Internal Buyers → 6) Contact & Qualify Outside Buyers

7) Negotiate Letter of Intent to Purchase → 8) Assist with Financing & Due Diligence → 9) Negotiate Purchase Agreement & Manage Closing

1175 Vickery Lane, Suite 202
Cordova, TN 38018

Phone: (866) 341-5589
Fax: (901) 284-0228

www.acqfinders.com

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FORMING YOUR TEAM

When you feel it is time to sell your business, never think you must handle it all yourself. Finding an experienced and trusted advisor to guide you through the process every step of the way is paramount. Engaging a professional as early as possible when you are ready to sell your business will increase your chances dramatically as well as get you prepared for the transition. A professional can assist in the process of selling your business and see to it that transactions run smoothly.

At Acquisition Finders, we use our market leverage gained from additional buy side clients to increase your buyer list in ways others cannot. We can also help evaluate your business timeline to determine when you will be ready to sell your business with minimal complications. If applicable, our professionals can provide suggestions to you on ways to make your business more attractive to buyers and increase your value in the short term. Our vast experience with companies in a range of industries allows us to provide multi-disciplinary knowledge across the board, which offers unique solutions and opportunities for selling your business with us. We have been involved in numerous business transactions across multiple industries which allow us to manage your transaction with the utmost expertise.

Upon signing an engagement letter, the next step is to aggregate, consolidate, and share the financial history of your business to receive an accurate evaluation. We will compile financials and determine the value of your business. With your transparency, the appropriate adjustments and addbacks are made to financials to realize the true selling value of your business. You should expect to meet and discuss these exit plans with your board of directors, company executives, attorney, accountant, and wealth manager. These professionals are necessary throughout the process from gathering financial information to handling the due diligence of the transaction

EVALUATING YOUR OPTIONS & EXIT STRATEGIES

Do you want to sell to a strategic buyer, financial buyer, or either?

Understanding the key differences between strategic and financial buyers can help you determine to which type you prefer to sell your business. **Strategic buyers** are operating companies that are competitors, suppliers, or customers of your firm. They could also be unrelated to your company but looking to expand into your industry. **Financial buyers** include private equity firms, venture capital firms, family investment offices, and high net worth individuals. These firms and executives hope to invest in your company to realize a return on their investment. Their agenda is to find private companies with high cash flow and possible growth potential.

Due to the different goals of these buyers, they approach the buying process differently. <u>Strategic buyers look for ways in which your business can tie into or expand their customer base</u>, provide manufacturing scale economies, or equip them with valuable intellectual property. Meanwhile, <u>financial buyers look for high cash flow opportunities to service their debt load and provide a substantial return on investment</u>, since they will usually take on debt to finance their purchase. Yet the line between types of buyers is **not always clear cut**. A strategic buyer may be looking to boost their financials, or a financial buyer could be looking to add on to an existing company.

Another difference is the fact that strategic buyers are familiar with your industry so they will spend more time looking at how your business fits with current operations, but financial buyers can spend much of their time evaluating your industry risk.

Financial buyers will focus more on the infrastructure of the company (IT, HR, Legal, etc.) than a strategic firm with these departments already in place. Strategic buyers can merge your operations to reduce overhead.

Strategic buyers plan on holding your business for the life of their company, while financial buyers will consider the business cycles to allow for exit strategies later. Financial buyers typically plan on holding your business 4-8 years, therefore they will be more sensitive and conscious of business cycle risk in context of a forthcoming exit strategy.

Since strategic buyers must deal with the politics of board of directors, division managers, and internal projects, you should expect the selling process to take longer. A financial buyer has the agenda of acquiring and will proceed with fervency.

Are you willing to stay during the transition period if requested? If so, for how long would you be willing to stay?

Before deciding upon a sale, an owner should really think about what they are trying to accomplish with a sale and what they want to get out of it. Are you willing to have a small, short term role after selling or are you ready to leave right away? Do you want any post transaction involvement in the business? Many times, a financial buyer would like to owner to stay on board for a year or so afterwards to ensure a smooth transition of operations. Strategic buyers would rather fill in the gaps with their own personnel and do no need you to stick around post transaction.

*Is **NOW** the right time to sell your business?*

By examining your business internally to determine if the right structures are in place for an exit, you can make the necessary changes to ensure a buyer joins a winning team. Do you have the right people in the right positions at your company to assist a new owner in operations? Prospective buyers will look at your leadership to make sure the foundations are strong enough to build upon. Buyers would rather grow a winning business than try to save a losing one.

Is your business flexible enough to respond to new entrants into the market? Your business should be able to evolve with technological change or shifting needs of consumers. Does your company culture foster innovation with a desire for constant improvements in efficiency or delivering maximum customer value? If these questions are difficult to answer yes, then carve out some time to consider ways in which your company can become more enticing to buyers. The safest way to get the maximum value for your business from an intelligent buyer is to simply deserve it.

There are a few reasons why you as an owner are interested in selling. You may have personal reasons pushing you to exit such as health problems, timing, risk, age, or lack of an heir. You may need the liquidity for other things in your life. This may just be the perfect time to sell your business, due to economic conditions, future risk, the political environment, or industry performance. Lastly, you may be exiting because there are just other things in life you would rather spend your time doing, such as traveling or enjoying retirement. Whatever the reason, writing down your purpose will motivate you throughout the selling process.

DEFINING A VALUATION RANGE FOR YOUR COMPANY

There are a few things that determine the quality of your business and an achievable valuation in discussions with interested buyers, such as the size of your market opportunity, the speed of products delivery, predictability of your customer base, and competitive advantage of your product. The main thing that drives prospective buyers is what the future holds for your company. The past is not always a determinant of the future, and you as the business owner know best what to expect from your business. The more predictable and sustainable the future, the more enticing your company becomes to buyers. The picture painted to the buyer should be both expansive and credible. If growth is achievable but has purposefully not been exploited, then express this to the prospective buyer.

<u>In the end, if you choose to base your price on personal interests over accuracy, then you are simply wasting your time</u>. Our advisors at Acquisition Finders have experience in many industries to provide accurate, honest evaluations of your company. We have worked for buyers & sellers to successfully close transactions, so we know what buyers are looking for in their evaluation of your company and how to reveal that true value.

DEVELOPING YOUR BUYER LIST

To be prepared for when a buyer approaches you to sell a business, you need to gather together the necessary materials that can help us market to buyers & paint a clear picture of your business model. These materials are often called the Confidential Information Memoranda, or CIM. These materials are necessary so we can share information about your company to prospective buyers. The CIM includes the following materials:

- Executive Summary
- Company History
- Sales Process
- Manufacturing Capabilities
- Growth Opportunities
- Competitive Landscape
- Industry Outlook
- Intellectual Property Overview
- Company Assets
- Past Financials (cash flow, balance sheet, profit & loss stmt. from the last 3-5 years)

After a buyer reviews your CIM, they will likely want to schedule a time to visit your company in person, meet your team, and tour your facilities to get an idea of what your business is all about and whether to move further in the process.

THE NEGOTATION

When negotiating price, be mindful of bias in yourself and in the buyer. You will hope to maximize your selling price as much as possible, because this company is your baby in which you have poured long hours. You want to realize the fruits of your labor. You will be looking at all the positive things the business has going for it and can benefit the buyer.

Meanwhile, the buyer sees your business and hopes to get it for the lowest price possible to get the greatest return on their investment. They will be looking at the negative things the business is up against or how much work must be done to fix all the problems. <u>However, there is one goal that buyers and sellers will agree on, and that is closing a deal that benefits them and their stakeholders</u>.

When it comes to selling a company, it's easy to fixate on price. Price is important in negations but not the only thing. The terms of the deal matter just as much as the price. For instance, is there seller financing and how much are you willing to agree to? Does the buyer get first refusal for future transactions? Does the seller agreement provide the buyer with any recourse against the seller if costly problems arise immediately after the transaction? By negotiating terms beyond price, the seller can learn the top priorities for the buyer. This allows both sides to make compromises to keep the deal moving forward. For example, you may be comfortable with an earn out provided the buyer is willing to pay a higher price.

Understanding what drives the buyer helps increase your bargaining power.

When you make concessions, a few tips to consider are to <u>make sure the buyer knows when you give something up and define how they can return the favor</u>. You can also make a contingency which states that you are willing to yield something in return for the buyer meeting a certain condition.

Enter negotiations with an understanding of the range of potential sales prices for your business. Also, have a walk away number which is the final threshold for you to sell your company. Sticking to this number will help you stay disciplined during negotiation talks and not get tunnel vision. Plenty of time and effort will be spent to sell your business, but remember that it is okay to leave a negotiation empty-handed if your number is not met.

THE TRANSACTION

The sale of a business has many other factors to consider that an owner must decide how to structure, in addition to the purchase price.

- Stock sale or asset sale
- Terms & interest rates on financing
- Liabilities assumed by the buyer
- Employment contracts
- Non-compete agreements
- Current assets retained by the seller
- Stock ownership and equity options packages
- Employee preservations or redundancy layoffs
- Relocation

In addition, there are a few questions to ask and negotiate with the buyer to determine the logistics of the transaction that would benefit each of you.

- How will you be paid? Seller financing, cash, stock, or a mix?
- Are you comfortable with an earn out?
- What is the preferred asset allocation structure?
- How will you handle the after-tax impact as a seller?
- How much will be held in escrow and for how long?
- How will you limit the indemnification liability in terms of amount & durations?
- Are third party approvals needed from directors, lenders, stockholders?
- How do you plan on handling the legal, accounting, and due diligence costs?
- Are you aware of deal protection measures of the buyer, such as breakup fees, voting agreements, no shops, and material adverse changes?

DUE DILIGENCE

Typically, buyers express interest in a company in three steps using first an IOI (Indication of Interest), then a LOI (Letter of Intent), and finally a Purchase Agreement. The IOI is non-binding and provides the proposal terms, valuation, and structure for a transaction. The owner will review this, then decided whether to invite the buyer to learn more about the company. The LOI is a more serious signal of the interest of a buyer and once executed, entails exclusivity with that buyer. The buyer will conduct due diligence on your business and determine if they would like to proceed. If they choose to continue then a purchase agreement will be drafted to define all the details of the transaction, including legal, financial, representation, and warranties. The purchase agreement outlines the terms of the sale.

During the due diligence phase, you as a seller must remember that it is not personal. The buyer is simply trying to better understand your business from the person who knows best, the owner. Going into the deal process, the buyers will likely know a lot about your company's financials, performance, history, and structure. The diligence process should confirm that information, but if it doesn't, then it will be a deal killer. However, the process should also add to that information by expressing your ideas for growth strategies, new products or services, industry analysis, etc.

During the deal process, we will handle a large part while being supported by lawyers, accountants, consultants, and other service providers. Buyers will be looking at a few major parts of your company: accounting, legal, IT, environment, and overall business. As buyers inquire about your company, expect to hear questions pertaining to: products & services, pricing, supplier relations, operations, accounting, HR, IT systems, etc. The best strategy to ensure success is to know what to expect, have the right attitude, and bring the right people together on your transaction team.

Business Due Diligence

- Here buyers want to understand the sustainability of your revenue & cash flow and the growth potential. Buyers may investigate the broader industry to get a better understating of how your business fits in with competitors, customers, and suppliers. Buyers may request to speak with your top customers and suppliers to determine whether the transition will have an effect. Determining the timing of these conversations will be key.

Accounting Due Diligence

- This step is mostly a confirmation that what you have presented to the buyer is the truth. Often called a “Quality of Earnings” report, this involves accountants from both sides to extensively gather data to prepare the requested information. Accountants may be on site to review information and ask further questions. This process can seem intensive, but it is one of the most critical.

Legal Due Diligence

- Lawyers will review all material contracts to understand the terms and conditions previously agreed to with suppliers, customers, and service providers. They will also review leases to make sure access is granted to facilities moving forward. Other items could include previous litigation and corporate books.

IT Due Diligence

- Outside consultants will aid the buyer in determining the technology used in your business, your historical spending on technology, and potential IT risks.

Environmental Due Diligence

- Consultants will review publicly available information on your industry to determine any liability associated with your business. Onsite inspections and prior claims reviews often occur.

COMPLETING A SUCCESSFUL TRANSACTION

The most common scenarios for a company's management after a deal closes include:

- Staying with the company to look for a partner who can grow the business.
- Transitioning the business to new management over a one to two-year period.
- Leaving the company after deal closing.

Strategic buyers often implement their own management team while financial buyers will not buy a company in which the management intends to leave. Generally, your involvement in your business does not conclude immediately after the sale is complete. Most often, the buyer will offer a lucrative contract to you and key executives to help stay on to transition the business. Depending on the terms, incentive payments may be included, contingent on business performance.

A popular transition model is a yearlong phase out. The first quarter, the seller commits full time to assisting the new owner in the transition. The next quarter, the seller steps into a support role and works a standard workweek. The third quarter, the seller moves into a part time roll to help on certain projects. The last quarter, the seller leaves but remains available for phone calls or consultations if needed.

Upon leaving the company, you may have mixed emotions of excitement and loss. This is legitimate, but just remember that this a time to begin again in whatever phase of your life that you choose. The future is yours to shape! Your focus may shift to the realization of life and family goals. These goals might include spending more time with a spouse, mentoring the next generation, or starting another venture.

After years of keeping assets tied up in your business, you will suddenly be faced with managing a significant amount of cash. Your clear investment strategy can go a long way toward alleviating this discomfort. One helpful tactic is to create a mission statement that expresses your family's shared values and details of the plans for your wealth. This can be invaluable in fostering a common vision. Also consider tax smart strategies. For instance, funds may be borrowed or escrowed to address short term cash needs, or losses might be used to offset gains to minimize taxes.

ASSESSMENT

Now that you understand what the selling process entails, here are some questions to bring to light things that you may have yet to consider or need to think more deeply before moving into the selling process. *If a question does not pertain to your situation then continue to the next.*

Identify Owner Objectives — This step defines and tests your objectives so that you know exactly how to achieve your goals.

Do you know your exact goals after selling and what it will take to reach them?	☐Yes ☐No
Do you know how to sell your business to a buyer and pay the least possible taxes?	☐Yes ☐No
Do you know how much money you need, on an annual basis, after you leave your business to live comfortably in your post business life?	☐Yes ☐No
Have you established a time frame in which you would like to stop working in and for your business?	☐Yes ☐No
Have you considered your exit objectives and goals then prioritized them?	☐Yes ☐No
Do you have any additional secondary objectives that may impact planning, such as having your exit benefit certain key employees or family members?	☐Yes ☐No

Identify Business & Personal Financial Resources — By knowing the value of your company and the amount of after tax cash you expect to receive from its sale, you can determine if your financial objectives can be met.

Has your business been valued in the past year?	☐Yes ☐No
Based on historic cash flow, do you have a good idea of what your business should be worth today?	☐Yes ☐No
Do you know the cash flow your business will generate in the next 5 years?	☐Yes ☐No
Is there untapped growth potential in your business that could further increase cash flow in the future?	☐Yes ☐No
Do you know the value you want from your business to leave on good terms?	☐Yes ☐No
If there is a gap between the value you need from your business and its current value, do you have a plan to achieve the growth in value needed for you to leave your business favorably?	☐Yes ☐No

Business Continuity — For some business owners, the thought of how your business will continue in the event of your departure can keep you worrying at night. Business continuity protects your right to receive payment for your interest, provides certainty about what you may be required to pay for the interest of a co-owner, and support the business after your departure so that it can continue to thrive.

Do you have business continuity insurance in place?	☐Yes ☐No
Have you identified who can operate the business and handle the financials during the beginning of the new transfer?	☐Yes ☐No
Do you have a stay bonus plan to keep key employees or other plans to retain them during upon transition?	☐Yes ☐No
Have you established a salary continuation plan?	☐Yes ☐No
Do you have a plan for establishing financial independence of your company?	☐Yes ☐No

Personal Wealth & Estate Planning — As an owner, your situation is unique in the fact that a significant portion of both your personal net worth and income comes from your business. If you have child in your business then you add another layer of complexity to your planning. This step helps to create balance in your transition by addressing the protection of your personal assets, management of wealth now and in the future, and promotion of harmony in your family.

Have you taken any steps to protect your family's wealth?	☐Yes ☐No
Have you thought about how your exit plan will affect your estate plan?	☐Yes ☐No
Have you done any planning to ensure that your family receives full value if you do not survive?	☐Yes ☐No
Have you developed estate planning documentation that outlines your overall personal, financial, and exit plan objectives?	☐Yes ☐No
Do you have a plan to protect your personal assets?	☐Yes ☐No
Do you have personal & family insurance in place?	☐Yes ☐No
Do you have a plan in place to transfer specific non-business assets?	☐Yes ☐No
Do you have a personal wealth management plan in place?	☐Yes ☐No
Do you have a plan in place to allocate business cash flow and business real estate after your death?	☐Yes ☐No

Managing & Protecting Business Value in Preparation for Ownership Transfer — The elements that build the value of a business or preserve it are called value drivers. Value drivers are characteristics that either reduce the risk associated with owning the business or enhance the prospect that the business will grow in the future.

Do you have a key employee(s)?	☐Yes ☐No
Are they incentivized to increase the value of the company?	☐Yes ☐No
Is their performance affected by or reliant upon the person leading the company?	☐Yes ☐No
Are they handcuffed through vesting of performance incentives?	☐Yes ☐No
Do you have an incentivized management team operating the business?	☐Yes ☐No
Is there a plan in place to transition management responsibility that aligns with the timeline of your business exit?	☐Yes ☐No
Have you done any key employee insurance planning?	☐Yes ☐No
Do you have a covenant not to compete in place?	☐Yes ☐No
Have you separated business assets form your business operations?	☐Yes ☐No
Have you completed an employee compensation review & analysis?	☐Yes ☐No
Is there a qualified retirement plan in place?	☐Yes ☐No
Do you have a sale bonus plan in place for your key employees?	☐Yes ☐No
Do you have an established and diverse customer base?	☐Yes ☐No
Is your industry experiencing consolidation from large competitors?	☐Yes ☐No
Do you have a realistic growth strategy that aligns with your overall business and exit plan?	☐Yes ☐No
Can you reduce company debt in preparation for the sale?	☐Yes ☐No
Do you have effective financial controls?	☐Yes ☐No
Do you have a tax efficient business structure in place?	☐Yes ☐No
Have you conduced pre-sale tax planning?	☐Yes ☐No
Do you have an ownership skills development plan in place for your successor?	☐Yes ☐No

If you answered YES to most of these questions then you are on your way to setting your exit objectives, but if you said NO to most of these questions then we encourage you to think more about them in order to develop the answers you need to move on the next steps of selling your business.