

Buy into a plan

How to prepare for the sale of your business **By Anne-Margaret Sobota**

The sale of a business is a complex transaction, and the process can begin anywhere from three to five years prior to the actual sale, says Tom Zucker, president of EdgePoint Capital Advisors, a merger and acquisition advisory firm in Beachwood.

The keys to a successful sale are the right help and preparation.

Here are five major factors to consider when you're looking to sell your business.

■ **Know your true value.** Figure out what your company is worth and how you can make it worth more.

"Every business is unique, and there's no single, simple formula for determining value," says Zucker. "All buyers buy future cash flows, not past cash flows."

Your valuation includes things such as cash flow and intangibles — trademarks, trade secrets, supplier contracts, patents and licenses.

Only a valuation expert can give you an accurate number.

"Rules of thumb are very dangerous," says Zucker. "Don't believe them. We get lots of accountants and lawyers that will say, 'It's four times cash flow.' It doesn't work that way."

■ **Identify potential buyers.** "You want to have the largest possible pool of strategic buyers at the table to buy your company," says Zucker. "In order to do that, you have to spend some time (looking), and typically that's part of what an M&A adviser will do."

As you start thinking about who your buyers might be and why, you can start changing your company to be more compatible with them. It's important make your business amenable and interesting to as many potential buyers as possible.

"One buyer is no buyer," Zucker says. "You have to have a competitive process between multiple buyers at the same time to get the highest and best price."

■ **Have a financial plan.** "The owners must know what they need to retire on," says Zucker. "A number of people don't have any kind of financial adviser that has done sophisticated situation analysis to determine how much money they need to retire."



EdgePoint Capital Advisors' Tom Zucker

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■ **Consider management succession.**

It's important to understand all the alternatives, whether it's selling to a third party or having employees buy the business through a management buy-out or an employee stock ownership plan.

You also need to understand what a buyer, if you are going to sell to a third party, is going to need from a management capability, says Zucker.

■ **Remove excesses.** The last thing you want to have is excess equipment. Clean up your business, your office and your plant.

"A lot of people have excess compensation or excess expenses," says Zucker. "If you can bring that back to a normal level that a buyer would realize is true, we find that to be very, very good advice."

If you find better uses for assets that are not involved in the production of a product or the production of a service, you'll get more money in the end.

"Buyers buy businesses. Businesses have recurring cash flow, and assets are used to produce cash flow," says Zucker. "For example, if you have an asset in your business that's an old tow motor that hasn't been used for 15 years and it's just sitting there idly collecting dust, the theory of the way buyers buy is that that asset isn't going to be getting full value."

HOW TO REACH: EdgePoint Capital Advisors, www.edgepointca.com

Help wanted

When preparing to sell a business, it doesn't take much to spin the odds in your favor, says Tom Zucker, president of EdgePoint Capital Advisors, a merger and acquisition advisory firm in Beachwood. All it takes is a little expert help and guidance.

Shelling out a little cash on the front end for professional services can put a lot of added value on your sale, says Zucker. An expert's preparation and experience allows him or her to discuss and negotiate key points, such as purchase points allocation, intangibles, and earn-outs and buy-backs — things the typical business owner knows very little about.

"What we end up finding is these owners, the \$10 [million] to \$50 million business owners, are sitting there going, 'Boy, I don't really have any alternatives. My tax accountant has limited knowledge about selling a business. They only know about the tax documents. And the lawyer knows about the legal process, but they don't understand the business side or the financial side,'" says Zucker.

"The theory ... is that we're going to provide you four times more money in your pocket than the fees we charge you," he says. "So I would think any owner that's going out to the process trying to do it themselves, unless they're looking just for a quick sale or a friendly sale, I would say that it is foolish."

You've spent years building your business and its value. Don't leave anything to chance.