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The 7 Step Checklist for Preparing Your Business for Sale



Selling a business is the biggest financial event of most business owners' lives.

Unfortunately, many owners have unrealistic expectations surrounding what their business is worth, how long it might take to sell, and if it's even sellable in the first place.

We've created this checklist to give you a head start on your transition. While this list is not comprehensive, checking off each item is sound planning that will make any business sale smoother and easier on you, your employees, and your families.

01 **Clean Up Your Books**

When the time is right to begin thinking about transitioning away from your business, the first step is to clean up your books.

While it's obvious that every business has accounting needs (we all need to categorize transactions & produce financial statements), it's also essential to remove any personal expenses from the business P&L.

The reason is that potential buyers will not be interested in paying your auto lease, cell phone bill, or travel expenses after a sale.

Since buyers will want to determine in due diligence what core expenses they'd need to retain after a transaction, it's cleaner and easier to do the work for them.

In general, the more "buttoned up" your business is, the more a buyer will be willing to pay. The "messier" it is, the less a buyer will be willing to pay.





02 Evaluate Your Needs

There are more than a few ways to exit from your business. The **best** way depends on your personal needs.

Before heading too far down the path of preparing your business for sale, it's extremely important that you know exactly what you need in a sale to meet your personal objectives – financial & otherwise.

If you're transitioning out of your business into retirement, you'll likely want a professional to run a retirement analysis to determine how much money you need to walk away with. If you're transitioning to another career or the purchase of another business the analysis will look different.

In either event, you'll likely want an experienced financial planner to run the assessment for you, and an accountant to forecast the tax ramifications of a sale.

After all, it matters not what the business sells for. What only matters is what you keep after taxes.



03

Get An Appraisal

An appraisal is a reality check. You've probably heard that 80% of the businesses put up for sale ultimately do not sell. And of the 20% that do, the vast majority sell for less than what the owner thought the business was worth.

Hiring an objective professional to appraise your company provides a helpful baseline, but can also uncover areas where improvement can drastically add value.



Margins versus competitors, growth rates, transferability of customer agreements, and employee retention are all factors that can drive business value. Having a professional appraise your company not only shows you where you stand, but also where you can drive value in anticipation of a sale.

04

Keep it Under Your Hat

It is **imperative** to retain anonymity when you begin the path to sell your business. If competitors catch wind that you are selling, it's common for them to call & attempt to poach your biggest customers and best employees. In some industries convincing people to jump ship in this situation is not challenging.

It goes without saying that losing your top customers and top employees can be devastating. At the end of the day, these relationships comprise a major portion of most businesses' value. If they leave, it's not a stretch to envision your selling price deteriorate.

Many deals have crumbled for this reason. Best practice is to keep a potential sale under your hat from employees, customers, and especially competitors.



05 **Devise a Timeline**

Once you know what you need from a potential sale, it's time to start mapping out a timeline.

Just remember that selling a business properly takes time. Once your business is actually ready to go to market, you'll need to position it for sale, evaluate bidders & begin preliminary negotiations before even getting to a signed letter of intent. Then there's the mountain of due diligence and financing hurdles to pass before closing.

Most business brokers, M&A advisors, and other experts will suggest beginning this process 2-3 years before you'd like a sale to close. Best to start early, with the end in mind.

06

Select Your Team

If there's anything you take away from this checklist, I hope it's this: **the best outcome when selling your business is only reached with a team of professionals.**

Many business owners assume that all accountants and attorneys have experience in business sales and purchases, and that they'll simply use the professionals they have long standing relationships with. When they're ready to begin the process, they'll add a business broker to the group and be ready to proceed.

It may be the case that your accountant and your attorney have experience buying and selling businesses. But most don't. Same with financial planners.

Retaining a team of professionals with the right experience is often the difference between a successful outcome and an unsuccessful outcome. There's no reason you can't continue working with professionals you have a relationship with for ordinary matters. But selling your business is a major milestone that should not be left to chance.

07 **Develop Selling Strategy**

Simply put, businesses should be sold strategically. Since your business may be worth more to one party than it is to another, savvy business brokers and M&A advisors usually prefer to offer businesses anonymously to specific parties.

For example, let's say you have a successful ice cream shop in a local downtown area. Another shop in town is looking to expand, and may be interested in buying your store. This could be a reasonable fit.

On the other hand, there's a national ice cream manufacturer that's interested in opening up direct to consumer locations in areas like yours.

While the local shop could be a good fit, the national company has more resources. And since a store like yours would help them move into a new market, they may be willing to pay more in a purchase.

The selling strategy for your business should depend on your personal needs and objectives. Perhaps you want the store to remain locally owned, even though the national company would offer more.

At any rate, this type of strategy and the right advice will help lead you to the best outcome. You can always put the business up for sale on an online marketplace – usually for less cost. But doing so often circumvents optimal selling strategy.





Disclaimer

While this checklist should not be interpreted as a comprehensive way to sell your business, it is a great start and includes several important core concepts.

This process is sound business planning too. Many owners begin the path to selling their business, only to realize that it's not worth as much as they need for personal reasons, it's not yet sellable, or they're simply not ready.

Regardless where you are in the life cycle of your business, checking off the items in this list will help to align your business with your personal goals and keep you nimble if the right opportunity presents itself.

