

Planning Ahead Means a Better Value When It's Time to Sell

The sale of a company is a frequent trigger for a valuation. Once that valuation has started, however, it is too late to do much to affect the result. For the business owner, then, the question is, what steps should be taken prior to putting a business on the block to try to maximize the return when the sale is closed?

First, start planning. A business owner can take a number of steps, given time, to enhance the value of a business. Start by looking at your business the way a buyer will. Are your financial records clear, credible and up to date? Does your business include assets, such as real estate or equipment, for which an appraisal likely will be needed?

Gather Your Records

Getting all necessary information together in advance will help you more accurately set an asking price and will make potential buyers more comfortable in negotiations. It also helps the transaction proceed more quickly and prevents potential buyers from using missing or incomplete data to drive down the price.

Business owners also may want to upgrade their accounting practices to enhance the credibility of their financial statements. Accountants prepare financial statements as the result of an audit, a review or a compilation.

Audits are the most comprehensive — and most expensive — option. In an audit, the accountant tests the financial information in a company's records and takes other investigative steps to deliver an opinion that the financial statements accurately present the company's position as of the date of the audit. An audit also confirms that the company's accounting practices comply with generally accepted accounting principles.

While public companies are required to undergo audits each year, many private companies view them as too expensive and too intrusive. If you are looking to sell your business, however, audited financial statements provide the buyer with the highest possible assurance that your financial statements are accurate.

The next most comprehensive option is a review. In a review, the accountant asks management questions regarding its financial information and accounting practices and conducts limited analytical reviews.

The least comprehensive option is a compilation, in which the accountant compiles the financial statements from information provided by the company. While this offers no assurance as to the accuracy of that information, it does ensure that the financial statements are properly formatted and that glaring errors are eliminated.

Businesses need to weigh the time, effort and expense of each accounting option with the value and credibility of the resulting financial statements. Many companies that have traditionally used a compilation opt for a review or audit when it comes time to sell.

Improving Operations

Of course, the value of a business is driven by the results presented in the financial statements, not by the statements themselves. Therefore, business owners looking to sell should do what they can to improve results.

Many entrepreneurs structure compensation and benefit programs in ways that

minimize profit and maximize benefits to owners and key players, thus holding down taxes. Yet, higher profits may translate into a higher sales price.

Prior to a sale, owners may want to consider cutting back various "perks," such as travel and entertainment expenses, company cars, bonuses and other items that drive down profits. Prior to taking these steps, however, owners should discuss the tax ramifications with their tax advisors.

Look at Expenses

This is also a good time for an overall review of your expenses. Are you overstaffed? Small business owners sometimes avoid staff cuts because of their close relationships with their workers or because of family members on the payroll.

Yet, if you have more people than you need, you can be sure that a buyer will not hesitate to swing the ax once the deal closes. By making those cuts yourself, at least you can realize some benefit and can be the one to choose who goes.

What about other overhead items like utility expenses, materials or vendors? Review all your costs and cut anything possible. Do not, however, avoid making necessary investments in your business.

After all, a sale is not guaranteed. Throughout the process, you should always run your business like you mean to keep it.

This is also a good time to review your borrowing. See if you can pay down or restructure any of your debt.

Take a look at your collections. If you traditionally have allowed slow-paying accounts, this is a good time to stop. Keeping all your accounts current also enhances your cash-flow picture.

Spend More, Make More?

In some areas, spending a little more may be in order. Is your location attractive and well maintained? Just as in selling a house, curb appeal counts. Does any of your equipment need maintenance or repairs? Buyers will want evidence that buildings and equipment have been well-maintained.

Have you done sufficient marketing to build and maintain a persuasive image in your industry, with your market and among likely buyers? If so, this is no time to cut back. If not, this may be a good time to start.

Boosting the top line helps, as well. Work to add new clients or customers — especially if this can diversify your customer base. If key contracts are up in the near future, try to negotiate extensions now. Take steps to solidify and, if possible, formalize key relationships. Anything you can do to enhance, protect or stabilize revenue will pay off at sale.

Reduce Risks

Buyers also will look at key risk factors, like the depth and stability of your management team, adequate protection of intellectual property and insulation from the risk of competition within the company.

Take a close look at management issues. Are key people happy and will they be likely to stay on if needed after the sale? Are you planning to stay with the company and, if not, who will take over your responsibilities?

If your company has proprietary products, services or processes, have you secured patents, copyrights, licenses or other protections to protect their value? Review these items with your attorney before selling, as appropriate protection of such assets builds the value of your company.

A significant risk for buyers is that key members of your team may defect to start a competing enterprise. Do you have non-compete agreements in place for key personnel? If so, are you sure they are enforceable? Again, check with your legal counsel. Such protections have value.

If you are planning to sell your business, there likely is a valuation in your future. By planning ahead and taking proactive steps to improve your business, you can drive up the results of that valuation.



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