Title: Anatomy of a Sale
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If you are considering the sale of your business, you need to know up front that there is no easy way to do it. There is no “secret formula” that will allow you to glide through a sale with little or no effort. From start to finish, the process of selling a business is detailed and time consuming. But, there are several things you can do to help navigate your way through the process.

First, be prepared to answer a lot of questions. Why are you selling? Are you ready to retire? Assuming that you are ready to retire, are you ready to let go of the income, control and relationships you have worked hard to maintain? How will your employees handle the transition? Will a new owner keep your employees? Will the new owner be a good fit with your customers? Will the new owner maintain your reputation in the community? What is the accurate value of your business? Who should you get to value your business? Can you get enough from the sale to meet your needs? Who can you trust to negotiate with potential buyers? How many potential buyers will have to visit your business for you to find the right one? How much is selling your business actually going to cost you? How long will the selling process take? Have you prepared for the sale? Are your records maintained and organized properly? Can confidentiality be maintained during the process? These questions are common examples. Since every business is unique, count on answering many more questions specific to your business.

Second, be ready to prepare your records. The “Due Diligence” checklist of a buyer can be very long and detailed. As a seller, you will be required to provide the buyer with full access to your records, financials and tax returns. During the buyer’s review, the buyer will want to review your revenues and expenses by examining the supporting documents for the numbers listed on your financials and tax returns. Your copier will be busy as you will need to provide copies of things like tax returns, financials, receivables, liabilities, signed contracts with customers, suppliers, employees, inventory listings, asset listings, tax bills, appraisals, surveys, operating licenses, insurance policies, benefit plans, advertising programs, price lists, payment policies, and vehicle titles just to name a few.

Third, find out how much debt your business can pay for. There are a number of ways to do this but the safest bet is to have your CPA prepare an analysis of your cash flow to determine how much cash is available to pay debt service on an annual basis. Once you know how much cash is available to pay debt service you can then estimate how much debt the buyer will be able to

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service. Most lenders calculate a minimum debt coverage ratio. This ratio is basically the cushion required by the lender for a given transaction. For example, your CPA says your business annually produces approximately $125,000 of cash flow that would be available to service debt. Now let us say the buyer's lender requires a minimum debt coverage ratio of 1.25. In this example, the buyer's lender would only finance debt with annual payments up to $100,000. Any debt payments above this level would not meet the lenders minimum debt coverage requirement.

Fourth, find out how much your business is worth. Since valuing your business too high or too low can be a costly mistake, using a rule of thumb or multiple to guess at your business value is not a good plan. Many business owners opt to have a formal business appraisal or "valuation" done to help determine their asking price. But what happens if the appraisal is not accurate? This happens quite often and the business owner is stuck with an expensive appraisal that cannot be used. Business owners beware, there are a lot of companies out there selling expensive business appraisals that may not produce an accurate estimate of value. In addition, most lenders that require a business appraisal will not accept appraisals or valuations ordered by another party – the lender has to engage the appraisal or valuation company.

A safer bet than ordering an expensive appraisal is to estimate the amount of debt the buyer can afford to pay for. Using the cash flow available for debt service along with a reasonable term, interest rate and down payment, you should be able to reasonably estimate the amount of debt the buyer can afford. This debt amount plus a reasonable down payment should be pretty close to the estimated value of your business. After all, if your business is going to survive the transition, the buyer has to be able to pay for it.

Finally, now that you have answered all the questions, prepared your records, estimated your cash flow available to pay debt and have a good idea of what your business may be worth, check yourself again. Are you really ready to let go of your business? Are you truly ready to turn the reins over to a new owner? If the answer is still yes, you are probably ready to sell.

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