Five Tips for Business Owners When Selling

Corporate News: A Legal Update

By Danielle Fadel on September 5, 2023

If you are a business owner, with the mergers and acquisitions market continuing to be active, you may have decided it could be the right time to sell your most valuable asset – the company that you've spent years building.

Now that you have decided to sell your business, it is important to consider five things in order to receive the maximum value in this market.

1 – Understand Your Goals for Selling the Business

You have spent decades building a business. Take time to understand your personal and professional goals before going to market. By understanding your goals, including things like valuation expectation, personal role post-closing, optimal transaction structure, and impact on employees and customers, you will be in a better position to evaluate transaction options.

2 – Prepare for the Diligence Process in Advance

To be "transaction ready" you need to actively prepare your business for sale.

Organize your records. You want to make sure all of your corporate record books are up-to-date, lists of assets are accurate, intellectual property is properly identified, registered and protected, and financials are cleaned up.

Get your advisors involved. It is critical not only to conduct an internal financial and legal review of your business to identify potential issues and address them proactively, but to bring in the appropriate outside advisors to assist in this review.

Hire an accounting firm to run a sell-side "quality of earnings" report to review the company's financial information with a particular emphasis on Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA).

Hire an investment banker to capitalize on their knowledge of the market and experience with selling businesses and coordinate the deal process. Hire an M&A lawyer to conduct "reverse" legal due diligence, since a good legal team can spot and highlight issues in advance and help you to solve problem before a buyer is involved.

3 – Understand Your Valuation

This goes hand-in-hand with pre-transaction financial diligence. Understand your business' EBITDA and how that will impact its valuation. Understand your business selling points, competitive advantages and growth opportunities.

Look beyond the financials to the non-financial implications of value to key success indicators such as a strong management team, low turnover, protected intellectual property, diverse customer base, strong growth potential, and the like.

4 – Continue to Run Your Business

Don't let the future exit distract you from the present conduct of business. It takes a lot of work to prepare a business to be transaction-ready, but you have to continue to operate and grow the business in order to maximize value and potential transaction opportunities.

5 – Remember, Deals Take Time

Deals take time. This is often a once-in-a lifetime event, and you do not want to rush it. By proactively weighing your goals, undertaking sell-side diligence and getting the right advisory team in place, you are putting yourself in the best position to market, negotiate, document and close on the transaction you want.

Read More: Five Common Mistakes Business Owners Make When Selling Their Business