

# BIG IDEA

SUCCESS BUSINESS SERVICES

## Maximize the Net Proceeds from the Sale of Your Privately Held Business

Many business owners ask me, "When should I start planning and preparing for the sale of my business to maximize the net proceeds?" I tell them that the best time to start planning is prior to establishing the company. However, if the owner of an established business does not have an exit strategy in place and they are interested in selling in the near future, there are still many things the business owner can do. Below, I have listed six measures a business owner can take to maximize the net proceeds from the sale of their business.

### SELECT AND ENGAGE A MERGER & ACQUISITION ADVISOR

The M&A Advisor will perform (at a minimum) the following necessary functions: 1) Coordinate with the professional team needed to complete the transaction and act as the team leader for the sale of the business. This will allow the business owner to focus on what they do best – running their business – so that it looks as attractive as possible; 2) Determine the fair market value of the business that is being sold by having market knowledge of other similar businesses that have recently been sold and the methodologies used to value those businesses; 3) Recommend actions that can be taken to increase the salability of the business; 4) Prepare the necessary marketing and financial information regarding the business; 5) Identify and target prospective acquirers; 6) Negotiate with prospective acquirers to obtain the best offer for the business; 7) Arrange for the financing of the transaction and; 8) Manage all the details to ensure the transaction closes.

### CREATE COMPETITION THROUGH AN AUCTION PROCESS

The goal of obtaining the highest sale price and best terms for the sale of a business is realized by creating competition for the purchase of the business. Competition drives prices up – just watch people at an auction for property or art. This holds true when a business owner wants to sell his or her business. If a prospective purchaser wants to buy a business at a discount, he will go directly to the owner of that business and make an offer. However, the M&A Advisor will create competition for the purchase of the business, which may allow the owner to obtain a premium for their business. Establishing this auction process can make a substantial difference in the ultimate sale price and terms a business owner receives for their business.

### PROPERLY MARKET THE SALE OF YOUR BUSINESS

In order to make this auction process as effective as possible, it is best to have prospective purchasers competing for your business within a specific time frame. The ideal time frame in which the business owner entertains offers is typically a few months, but could be longer depending on the attractiveness of the business. Properly marketing the sale of your business is the key to obtaining multiple offers within a specific time frame from prospective purchasers that are

capable of buying your business. The marketing of your business should be done in a confidential manner, for reasons listed below. M&A Advisors should have a database of targeted buyers to approach immediately about a specific type of business. The business can also be confidentially marketed online and in relevant publications. The more qualified interested parties making offers to acquire a business, the higher the sale price and better the terms a seller can receive.

### KEEP THE SALE OF YOUR BUSINESS CONFIDENTIAL

It is imperative to keep the sale of your business confidential. The uncertainty of a prospective sale has a negative influence on the three most important constituents of all privately held businesses: the customers, the employees, and the suppliers. Unfortunately, most employees fear the loss of their job when they hear of an impending sale. In actuality, most buyers of small to medium sized businesses want to retain the employees, as they are the most valuable asset of the business. If the employees are aware of an impending sale, they may exit the business, making the business less attractive to buyers. Customers are less likely to conduct

business with companies that they know are for sale because of the uncertainty as to who the new owner will be and the type of service they will receive from this new owner. Suppliers may worry about being paid by the exiting owner and the creditworthiness of the new owner.

### PLAN TO MINIMIZE TAXES RELATED TO THE SALE

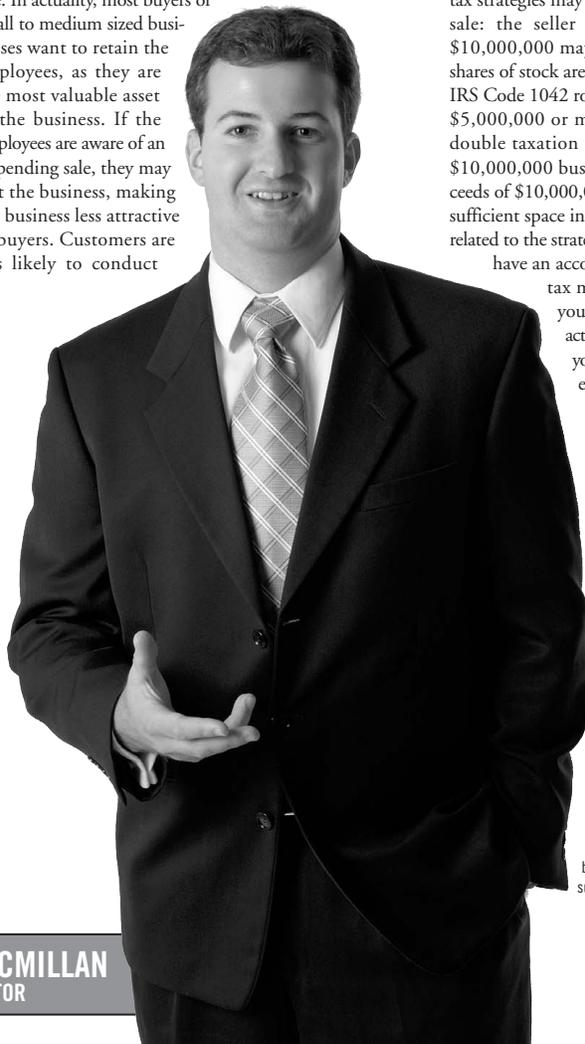
One of the most important parts of planning for a sale is understanding the strategies for mitigating the taxes related to the sale. The very first step should be to select the correct legal entity when establishing the business. Many times, business owners are shocked to learn about the tax impact of their particular corporate status when it comes to selling their business. If your business is already established and your time horizon is such that you will not sell the business in the near future, you may want to investigate whether changing the corporate status may mitigate taxes when you do sell the business. As an example of the huge impact that tax strategies may play in determining the net proceeds of a sale: the seller of a "C" corporation that sells for \$10,000,000 may pay no taxes on the sale if the owner's shares of stock are sold to an ESOP and the owner elects an IRS Code 1042 roll over, whereas that same owner may pay \$5,000,000 or more in taxes in an asset sale due to the double taxation of a "C" corporation. If you sold your \$10,000,000 business, would you rather receive net proceeds of \$10,000,000 or \$5,000,000? Although there is not sufficient space in this one page article to go into any detail related to the strategies to mitigate tax, it is very important to

have an accountant that has expertise in transactional tax mitigation assist in the sales planning. If your current accountant does not have transactional tax mitigation expertise, make sure that your M&A Advisor does have a CPA with this experience that can be part of the sales team.

In the end, virtually every business owner dreams of benefiting from the hard work that has gone into running their business. No matter how far off retirement might be for you, deciding to take actions now to maximize the net proceeds from the sale of your business could be the most important business decision you will ever make.

Brian MacMillan is Managing Director of Success Business Services. Success Business Services is a Merger and Acquisition Advisory firm located in Bel Air, Maryland. To find out how to maximize the net proceeds from the sale of your privately held business, please call Brian at (443) 512-8991, email Brian at [Brian@SuccessBusinessServices.com](mailto:Brian@SuccessBusinessServices.com), or visit [www.SuccessBusinessServices.com](http://www.SuccessBusinessServices.com).

The information contained in this article provides an overview of matters of interest concerning financial and business issues. This article should not be used as a substitute for professional financial and business advice.



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