



So, You Think You Are Ready to Sell Your Company?

When the smoke clears after the sale or merger of your company, you will probably look back at the process and say, “I wish I would have considered this” or “I wish someone would have warned me about that.” The purpose of this article is to describe, at a high level, several primary issues to consider in determining if your company is ready to be put on the market. We will discuss what you need to prepare in order to make the process as painless and effective as possible.

We will touch on four primary areas for you to consider:

1. The importance of due diligence preparation for the seller and the buyer.
2. The owner’s perspective of their future role and employment package after the sale is consummated.
3. Deal valuation.
4. Guidance during the transaction.

The Importance of Due Diligence Preparation

Many company founders tend to discount the importance of due diligence, which could easily lead to a discount in the valuation of their business in the eyes of a potential buyer. That is not what you want to happen! The preparation and proper organization of your company’s financial, client and corporate information is an ongoing process and one that can start today, whether your company is contemplating a sale or merger, or not.

Diligence is paying careful attention to your business and putting painstaking effort into accomplishing whatever is undertaken by your company. A potential buyer wants to see if you are on top of your business and that your information is in order and organized. They want to uncover any possible negligence that may be buried under the carpet, which could surface down the line and hinder their ability to get a handsome return on their investment in your company.

Each potential buyer has specific types of due diligence items that will be important to them as they go about the process of evaluating your business. Generally speaking, the due diligence lists of most potential buyers are similar.

Below is a sample list of primary due diligence categories (many lists can have over twenty-five (25) items):

- Corporate Data and History
- Contracts
- Liabilities
- Properties
- Personnel and Labor Relations
- Litigation Matters
- Government Regulation
- Insurance
- Technology
- Intellectual Property
- Accounting, Tax and Financial Information
- Competition
- References
- Environmental





Due Diligence Tips:

Be sure that all parties have signed tight confidentiality and non-disclosure agreements prior to sharing any information.

Prepare a preliminary due diligence package ahead of time that would cover most, if not all, of the items on the list above. This allows you to expedite and be in control of the process.

Prepare a summary or PowerPoint presentation on your business that could be given to those coming in to perform the due diligence. This will give them an ideal level set of your business and help put everything into context.

Keep in mind that these lists should simply be picking lists for you to work your way through your organization, accumulating the packet of information to prepare for a potential buyer. If you take too long to gather up this information, or it is not readily available, a red flag may go up that your company is not very organized or on top of its business, which ultimately could affect the valuation of your business. We know of more than one company who has had an offer pulled from the table due to their inability to get timely and accurate information to their potential buyer as they were conducting their due diligence.

Remember, a potential buyer has to factor in future costs of organizing, or straightening out, your business if they do not see it as properly setup before they get there. That cost goes into any figure they have in mind to offer your business, but that does not necessarily go into you or your shareholder's bank account. So, an investment in time and diligence today-- making sure your company can easily produce the items from a due diligence list-- can pay handsome dividends in the future.

The Owner's Perspective of their Future Role and Employment Package After the Sale is Consummated

This area is what we affectionately call "Gut Check" time. Many times, owners spend so much of their time and effort building their companies and taking care of their customers and employees that they forget to think about themselves. Now is the time to start thinking about what you want for YOUR future employment after someone buys your company. Odds are, the company will no longer be "your baby," and you will need to mentally prepare for that fact, no matter what the buyer says prior to the sale.

You will need to look inside and realistically ask yourself what will be important to you going forward. Will it be to continue to run the company? Will it be to semi-retire and phase yourself out after a transition period? Will it be to take your money and immediately flee to the Bahamas in a new sailboat? Where do you see yourself? How will you react to someone else owning the company you shed blood, sweat and tears to build to where it is today? How will you react to someone one else calling the shots about your organization's direction and funding?

You need to think through these and many other questions as you formulate what type of role and package you will negotiate for yourself as part of the sale of the company. Do NOT underestimate the importance of





Owner's Perspective Tips:

Over 75% of all business combinations fail within the first three (3) years. Failure is defined as the inability to meet organizational and financial goals within a specified period of time. (Source: HR Magazine)

Always keep in mind that once you are bought, you are bought. When they pay good money for your company, you need to respect them. The reality of it is that YOU probably negotiated the deal and need to live with it.

Be prepared to leave the company after you have sold it and completed the transition.

this thought process. It will be very valuable to you financially and mentally down the line, no matter what happens after the sale closes. If things go as planned, everyone is happy. If things do not go as planned (which often happens), you want to make sure your plan B is structured in a way that will still make you happy.

Many sellers make the fatal mistake of being too optimistic about how a new deal will go and never consider the option that things might not go as planned. Therefore, they could be the “odd person out” from the power and financial standpoints, if and when organizational changes are made due to lack of performance, funding or expected results. So, remember to think deeply about yourself (for once) and what you want to see in your package in both a best case and, more importantly, worst case scenario.

Deal Valuation

Valuation is the act or process of assessing value or price. You will learn that although the process of valuation will look on the surface as a fairly exact science, in reality, it is a game. The game is played like this: The potential buyer says we only pay x times trailing revenue for companies like yours in that industry. You counter with what a preposterous and low-ball figure they would pay for a company of your caliber and potential. Then the dancing begins: You trying to prove your case for a higher valuation, and they try to knock it down, saying that the company is not worth such a deviation from their standard.

As with most games, ego, emotions and competitiveness can get in the way of structuring a win-win situation for all parties. As with most games, someone usually wins and someone loses. The balancing act involved with keeping your emotions in check while undergoing this grueling process will test your will and desire to sell your company. Many companies have called off negotiations solely due to the hard feelings that were caused by the back and forth, and give and take, of the negotiating process.

This process can take weeks if not months to complete. It can be extremely distracting to your business and focus. At some point in the process, you start making decisions about running your company based on how you think the potential buyer would want to see that decision made. This would be a crucial mistake. Until the deal is closed, it is still your company, and you need to continue to make decisions about your business as you normally would.





Deal Valuation Tips:

Remember to not let the process of negotiating with potential buyers slow or stop your trek up the hill with your load full of bricks.

There are nine (9) different ways in which to value your company and structure a deal. Do not get trapped into only one option when a creative approach can add much value and peace of mind to your deal.

Remember that everything is subject to change and negotiation until the final documents are signed.

Guidance Tips:

You cannot let your business slip while you are courting suitors. In fact, you will need to concentrate and focus on making that period of time your best production ever. It will pay handsomely in your confidence level and valuation.

Do not EVER let your lawyers take charge of the business negotiations. Make sure you have a lawyer who is "deal maker" instead of "deal breaker."

Remember, everyone has an agenda.

Building and managing a business is like running up a hill with a wheelbarrow full of bricks. You get that head start and you trudge up the hill with the momentum that has been built up through your hard work and effort. Then, you decide to stop and lower the wheelbarrow to the ground to take a look at the scenery of the hillside. Guess what happens when you decide to lift up the wheelbarrow and continue on up the hill? If you are not careful, you could easily be heading backwards down the hill with the strong possibility of having bricks on top of your head.

Guidance Through the Transaction

Ideally, it would be wonderful if we all had the knowledge, skill sets and experience to sell our own companies. If we had the time and the resources, it would be great to go through the process of finding and qualifying potential buyers, analyzing comparable deals in the industry, setting up site visits, as well as managing all the negotiations and closing documents. All of this is to be done while we are STILL running our business! In the real world that option is not realistic, and therefore we need to have professional and experienced assistance in this transaction.

There are many qualified companies who are more than willing and able to help you sell your company. When searching for a partner in that quest, look for the following attributes:

- Experience in selling companies of your size (i.e. some companies only do larger deals, some only smaller deals, etc.).
- Experience and numerous contacts in your industry (i.e. imaging, document management, knowledge management, etc.).
- Experience in providing sound advice and guidance through the process.
- Experience in being sounding boards to flesh out real issues and concerns.
- Experience in handling extreme challenges and balancing the emotional roller coaster.
- A proven record as a trusted advisor.

Interview your potential partners and ask for references. Call those references and verify the capabilities and follow through of the company. You need to feel comfortable with the key principals of the partner you select to sell your company. They will be offering very frank and sound advice throughout the entire process, and you will need to be comfortable





with their judgment and ability to read people and deals. In deals, all the interested parties have agendas including buyers, lawyers and so on. The seller needs an unbiased advisor for a sounding board and “confidant” to talk to whenever they are concerned about something that does not sound right or they do not like what they hear.

Conclusion

So, are you still ready to sell your company? Has this article helped you think through some of the issues to consider? Has it helped you start planning and organizing today for the due diligence that could happen tomorrow? Has it helped you understand the importance of finding the right partner to help you in this sales process? It was our goal for you to say yes to any or all of the above questions, and if you have, then our mission was accomplished.

In follow-up articles, we will discuss in more detail about deal structures and how to financially structure them (cash versus stock), tax ramifications and earn outs, both pros and cons in order to help you further on your way to a satisfying deal.

About the Author

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