

SELLING THE BUSINESS, WHAT THE SELLER NEEDS TO KNOW

A seller decides whether to undergo a transaction that increases its price, or a garage sale, by action or inaction. “At some point, every owner leaves his or her business – voluntarily or otherwise. . .”¹

STRATEGY

Once you decide to sell, you need to assess your strategy. Be prepared to supply a lot of information, including a summary of the history and description of the business, description of management, Business Plan, and historical and projected financials.

Gather an excellent team and determine to what extent it will involve advisers. Your business lawyer and accountant can be terrific about day-to-day operations, but when it comes to selling your business, it takes a special knowledge.

Legal issues include review letters of intent, employment agreements, non-competition clauses, leases and loan agreements, purchase and sales agreements, legal due diligence, negotiation representations, and warranties.

As with lawyers, there are accounting specialists experts in mergers and acquisitions. They help analyze the financials, assist in structuring the deal with attention to the tax consequences, pricing and increase value, and conduct financial due diligence before, during and after the sale.

The team needs to understand the paranoia of unfavorable reaction when the owner’s intention to sell is known. The team can help in assembling the information, structuring the deal, finding the right deal, establishing a price range, screening buyers before releasing information to ascertain sincere interest, financial capacity and authority, obtaining and analyzing offers, orchestrating negotiations, driving to a successful closing, and promoting that owner and management not be distracted from day-to-day management.

Valuation Assessment

The true value of a business is the amount that a buyer is finally willing to pay. For the small and middle market, the multiple of earnings (EBITDA) most used is between five to seven times. Historically, a five-year payback has been a de facto standard.

Motivated by paying less taxes there are non-business related expenses that have to be adjusted to understand the real earning power of the business.

¹ John Brown, author – “How to Run Your Business So You Can Leave It In Style”.

A quick and dirty valuation: to the business net income add non-business expenses, interest expense and income taxes, to determine the adjusted EBITDA. Multiply by a “times earnings multiplier” to arrive at a valuation. In Puerto Rico, typical multipliers might range from five to seven times the adjusted EBITDA.

For example;

Net income after taxes	\$1,800,000
Non Business related expenses	200,000
Interest	200,500
Income taxes	525,000
Depreciation & Amortization	<u>75,000</u>
EBITDA	<u><u>\$2,800,500</u></u>

EBITDA	\$ 2,800,500
Multiplier	<u> X 6</u>
Business Value	<u><u>\$16,803,000</u></u>

Although the historical performance and the future earnings are an important factor, there are others to consider, such as quality and depth of management, human resources, labor relations, continuation of contracts, environmental situation, and pending and potential litigation.

Negotiation

When selling, the seller sets the price and the buyer sets the terms. A letter of intent should be written after serious discussion about price, terms, conditions and schedule of the proposed transaction.

Knowing the non-monetary issues helps understand what concessions to give up reaching the monetary goal, assess issues and how important each is, which are negotiable, possible tradeoffs, and alternatives before negotiations.

Be well-prepared, communicate face-to-face, calm, think of alternate ways to solve differences, if at an impasse, break off and reconvene later. Perseverance is the key to successful negotiation.

The heaviest negotiations involve the representations and warranties. The most important are financial authenticity, asset title and condition, taxes liability and

liens, employee contracts, benefits, compliance with laws, environmental problems, pending and potential litigations, and authorization to sell.

Torres CPA Group is a certified Merger and Acquisitions Expert. Our firm has worked as advisors, for buyers and sellers, for over fifteen years, taking part of the process from the conception of the idea to sell, to final closing. Transactions range from \$100,000 to over \$100,000,000.

Before a seller goes to the market, he needs to do his homework, a self-performed business financial and operational due diligence. First, learn the operation to increase earnings, structure senior management at its best, and clean up the employee, environmental and legal issues.

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