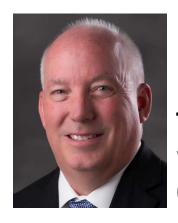


10 Steps To Prepare Your Business For A Sale

September 7, 2017

The webinar will start at 1:00 p.m. CT



Todd Richardson
Vice President,
Corporate Finance



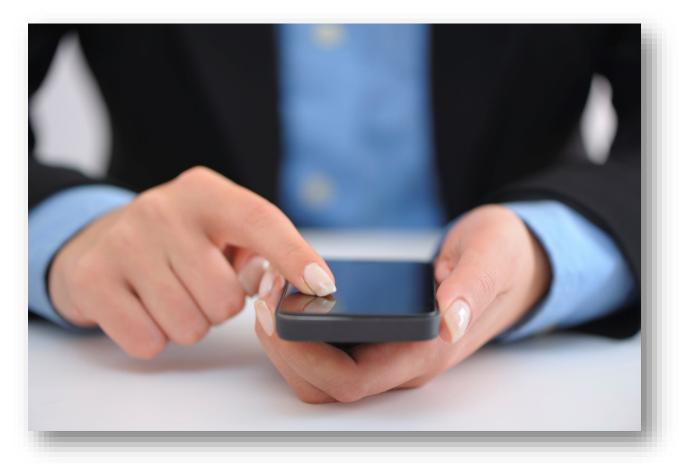
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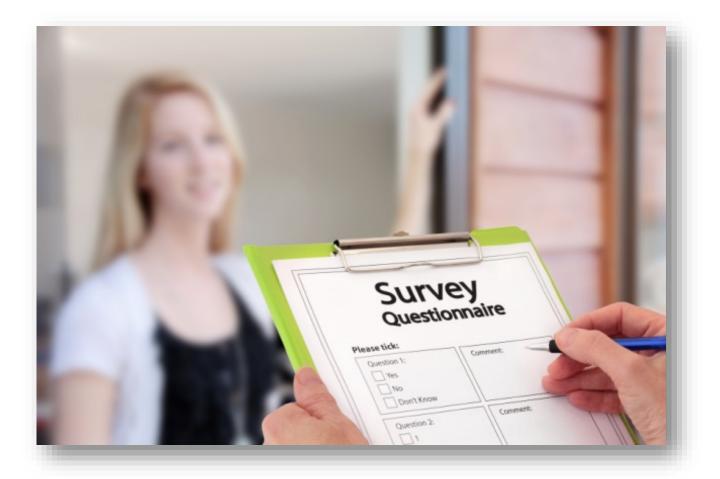
For best quality, call in by phone instead of using your computer speakers.





To ask questions during the presentation, use the questions box on the right side of your screen.





Please provide your feedback at the end of today's presentation.



About the Speaker



Todd Richardson Vice President, Corporate Finance

A certified public accountant with more than 25 years of accounting and finance experience

Works with family-owned and closely held entrepreneurial businesses which are developing exit strategies and undergoing ownership transitions



Learning Objectives

Identify the questions you need to have answers for, to streamline the process and eliminate uncertainty.

Evaluate the factors that can make a business more or less valuable to a buyer.



Q: How do you maximize the value of your business to a third-party buyer?

A: By being prepared







Play Keep-Away From the Government

Do you have the most tax-efficient strategy and business structure?

Are you a "C" or "S" corporation?

Be mindful of 5-year holding period to avoid built-in gains tax on converted S Corps.



Polling Question #1







Have a compelling reason as to WHY you are selling the business.

Put forth a genuine response.

A non-genuine response will dog you throughout the transaction.



Create a powerful narrative and story of growth, profit and performance.

It's time to brag!

Lead the buyer to water and make him drink.





Identify barriers to entry. Build a moat around your business.

Proprietary product / patents? Industry connections? Capital investment? Logistics?





Have a management succession plan in place.

- Make yourself replaceable.
- Facilitate transfer of knowledge through employment agreements and "golden handcuffs" incentive plans.



Identify industry and business opportunities.

- OK to have not pursued, but why?
- Highlight your industry connections.
- If maintaining a minority ownership interest, set yourself up for a "second payday."



What is your reason for selling?







- Consider an audit and financial statement preparation in accordance with GAAP.
 - Eliminate uncertainty.
 - Flush out any issues which may appear.
 - Shorten the due diligence process.





- The longer the process, the more vulnerable you are to:
 - Buyer re-consideration and re-pricing
 - Compromises to the non-disclosure agreement
 - Susceptibility to your employees finding out





- Aids in negotiations with buyer
 - Mitigates escrow requirements
 - Strengthens position in negotiating a fair and firm timeline for due diligence and closing





- AGH assistance
 - Pricing analysis
 - Sell-side due diligence assistance
 - IT assessment services
 - HR compliance reviews
 - State and local tax assessments for nexus





Is all of your value captured in your financial statements?







Evaluate the Business from a Larger Perspective

- Identify seasonality.
 - Provide trailing 12-month comparisons.
 - Know what's in the data.
- Perform benchmark comparisons.
 - Favorable comparisons to benchmarks yield additional price premiums.
- Identify and construct a narrative regarding any customer and supplier concentration issues.

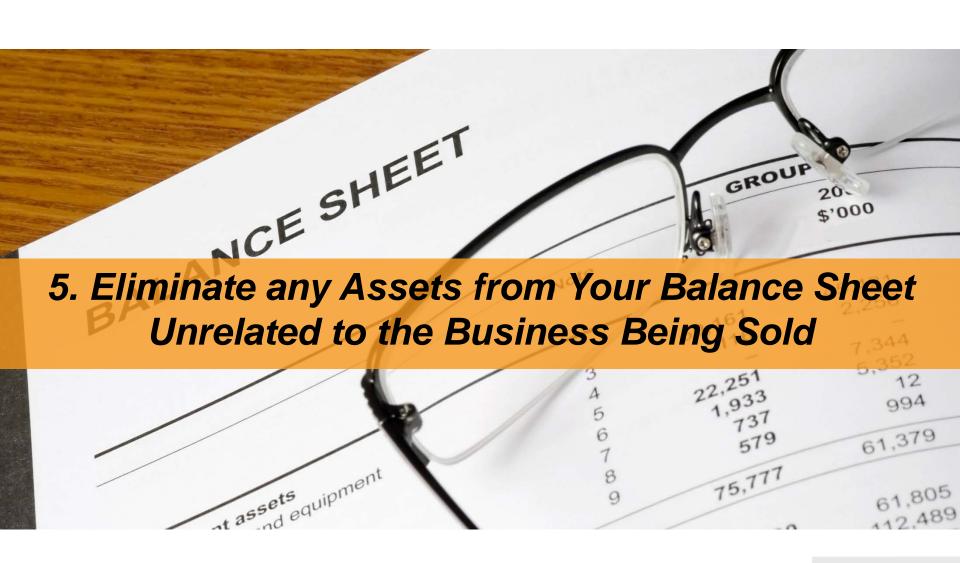




Evaluate the Business from a Larger Perspective

Do you know what your data is saying about your company?





Eliminate any Assets from your Balance Sheet Unrelated to the Business Being Sold

Keep what is yours.

 Present clean financial statements.

 Prevent transfer of assets not intended to be part of a sale.





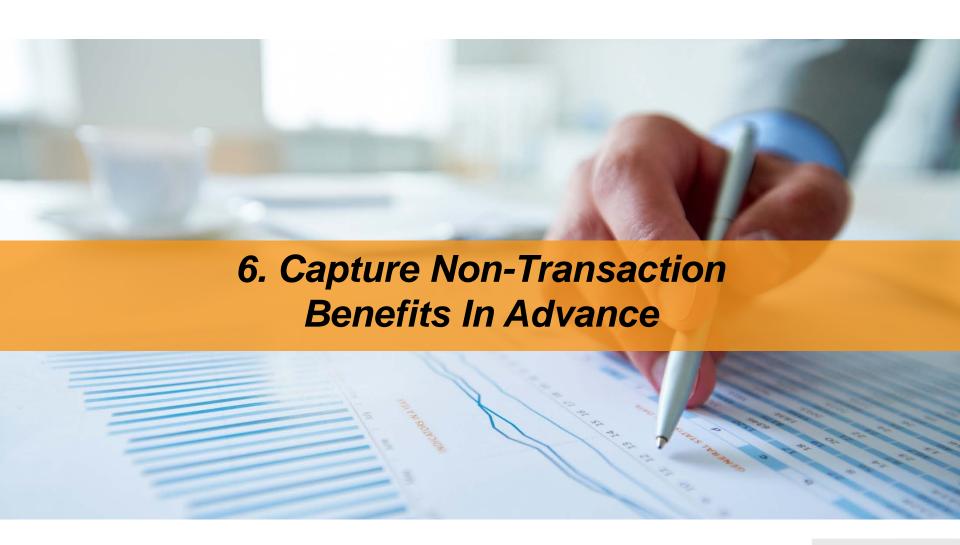
Eliminate any Assets from your Balance Sheet Unrelated to the Business Being Sold

Is there anything on your balance sheet that is not a part of the sale?



Polling Question #2







- Most business sale transactions are cash-free / debt-free transactions.
 - You keep the cash.
 - You keep the longterm debt.
 - Buyer is providing his own financing and basing price on earnings.





- Convert excess assets to cash.
 - Aggressively collect excess and past-due A/R.
 - Negotiate discounts with past-due accounts.
 - Buyers will not pay full price for past-due receivables.





- Identify obsolete or slow-moving inventory.
 - Create a sales and marketing strategy to get it out the door.
- Identify idle assets (equipment that has been replaced by newer equipment).





Are you maximizing the cash available to you prior to a sale?







- Review debt financing arrangements.
 - Is debt assignable?
 - Prepayment penalties
 - Burn-down provision
 - Exclusion for change of control





- Review vendor / customer contracts and lease agreements.
 - Are they assignable?
 - Consent not to be unreasonably withheld provision
 - Are they cancellable?





- Proactively address any EPA concerns.
 - Part of transaction cost of the sale
 - Include in cost an assignment of the report to avoid duplicate cost going forward.





- Address upcoming events and identify backup measures in place.
 - Union contract expiration
 - Renewal of office leases





How easily is your business transitioned to a buyer?



Polling Question #3







Showcase Your Employees

- Highlight the capabilities and longevity of your employees.
- Promote the company's culture.
 - What makes people stay?
 - Benefits?
 - Competitive pay?
 - Flexible schedule?





Showcase Your Employees.

What are you doing to retain employees and create intellectual capital?







Pass the "Eye" Test

- Clean your offices / perform minor maintenance.
- Create wide, uncluttered lanes on plant and warehouse floors.
- Organize and label product.
- Have governmental notices posted.





Pass the "Eye" Test

What do your office and facilities say about your company?







Put out the Welcome Mat

- Don't let your first impression sour the deal.
- Prepare your staff in advance.





Put out the Welcome Mat

What signals are your employees sending prospective buyers?







Sample Timeline for a Sale

- Research, identify and evaluate an experienced M&A advisor. 1 month
- Prepare marketing materials. 2 months
 - Teaser and non-disclosure agreements
 - Confidential Information Document
- Market the business. 5 months
- Negotiate Letter of Intent (LOI). 1 month
- Due diligence and closing 3 months
- Total estimated cycle 12 months





Make Time Your Ally

You can't prepare overnight.

Focus

On

Your Company

Until

A Sale occurs



Make Time Your Ally

 Stuff happens, and it will. Don't "go to sleep" on your business.

 Implementing the items discussed will go a long way toward creating a price premium for your business.





10 Questions for You to Consider

Do you have the most tax-efficient strategy and business structure?

What is your reason for selling?

Is all of your value captured in your financial statements?

Do you know what your data is saying about your company?

Is there anything on your balance sheet that is not a part of the sale?



10 Questions for You to Consider

Are you maximizing the cash available to you prior to a sale?

How easily is your company transitioned to a buyer?

What are you doing to retain employees and create intellectual capital?

What do your office and facilities say about your company?

What signals are your employees sending prospective buyers?



Polling Question #4



Thank you!



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Questions **NOT** related to today's content? <u>mike.ditch@aghlc.com</u>

