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Thinking of Selling a Business in 2017?

Improving Market Allows More Owners to Cash Out

The small-business market has gained momentum over the last couple of years. In fact, the number of small businesses that changed hands during the first half of 2016 surpassed the same period in 2015 and the previous record set in the first half of 2014.

This is good news for business owners who need a thriving market to sell their businesses, especially those who have a large chunk of their personal wealth at stake.

One survey found that nearly half of small-business owners intend to sell their businesses in the next five years. If you are one of them, you might keep a close eye on the value of your business.

Fair Market Value

Lenders generally require a professional valuation before extending credit to interested buyers. An accountant or business appraiser may employ one or more of the following methods, depending on the nature of the business and other relevant factors.

Asset-based approach (also known as cost approach). Considers the fair market value of fixed assets and equipment and the wholesale value of current inventory, minus any liabilities.

Market approach. Compares the business to similar enterprises that have sold recently, adjusting for differences in size, risk, market position, and other characteristics.

Income approach. Calculates a value based on the company’s ability to earn income. Basically, the average earnings over a certain period of time are divided by a capitalization rate that typically applies to the specific industry.

The value is often expressed as a multiple of net income or revenue. An element of subjectivity means a seller and a potential buyer could draw very different conclusions when assessing a firm’s value, so competing figures might become the starting point for negotiations.

To help sell your business at a better price, spend some time cleaning up the books and the facilities. Because it often takes many months to find a qualified buyer and finalize the transaction, it might be wise to research the market and plan for a potential sale long before you intend to make your exit.

Tips on How to Sell Your Company

Small business is the core of this country It's the engine that drives economic growth. There's certainly some consolidation and pressure being applied by corporate big-box stores, but there's still tons of opportunity for your buyer.

Find the Best Time to Sell. A lot of small-business owners don't think about their exit strategy. They sometimes sell too late. Plan your exit. Get your books in order and make sure your business is in great shape so it's fully saleable. Make sure you've done the necessary capital improvements so it will sell. You want to know market conditions, and the supply that is on the market. Is there a glut of supply or not enough demand? That would indicate whether it's a good time to sell. What are you going to do next? Are you really ready to sell or retire? What are your personal motivations?

Understand a Broker's Fees. Typically, the standard rule of thumb for the business sales broker is 10 percent of the sale. There are certain minimums that might cost more than 10 percent, and for bigger deals, you will pay less than that. It's on a brokerage-by-brokerage, firm-by-firm basis.

Make a Plan. Create a Sales Package. The package consists of the various documents you will need during the process. You will a need an NDA [non-disclosure agreement] from the buyer. You don't want critical information getting out to your competitors or suppliers or employees who could get skittish. You'll want to prequalify the buyer; you'll need their financial statement so you know this person is a serious candidate. You'll want an executive summary or review of your business.

Financial Evaluation. A professional appraiser creates an evaluation of your business; brokers do that as well, Main-street-type businesses typically sell for one to four times their earnings. To get a ballpark of your business's worth, [compare] your cash flow and your revenue. Estimate your company's worth a professional appraiser will compile the most accurate info."

Minimize Taxes. By offering seller financing and spreading payments out over multiple years, it's possible to at least deflect the tax impact. By offering a payout arrangement, you can spread your sales price over multiple years and minimize the tax impact in any given year versus taking a lump-sum payout.

Avoid Deal-Breakers. Financing is always a deal-breaker, including the ability of the buyer to secure financing or the insistence of the seller to not offer buyer financing. Most sellers want to get out and get their money, but very rarely does that happen. Buyers want the seller to have some skin in the game. The seller should provide training and support to create a good transition with the buyer, who will then feel confident that this is an ongoing business that will endure.

Banks often want to see a note that says the seller agrees to finance a portion of the purchase price. It could be an earn-out that pays a percentage of profits or a straight loan with a set interest rate. If you insist on all cash, you won't maximize your return. You'll actually get a higher return and a better sale price by offering financing.

Funds generated from a business sale can be reinvested in a diversified portfolio of liquid assets generating a nice return to help fund a retirement.

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