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Are You Ready to Sell Your Business?

If you have gone this far, then selling your business has aroused enough curiosity that you are taking the first step. You don't have to make a commitment at this point; you are just getting informed about what is necessary to successfully sell your business. After all, when you do make the decision you want to know all of the facts. This Workbook should answer a lot of your questions and help you through the maze of the process itself.

Question 1

The first question almost every seller asks is: "What is my business worth?" Quite frankly, if we were selling our business that is the first thing we would want to know. However, we're going to put this very important issue off for a bit and cover some of the things you need to know before you get to that point. And, as we mentioned in the introduction to the Workbook, before you ask that question you have to be ready to sell for what the market is willing to pay. If money is the only reason you want to sell, then you're not really ready to sell.

Insider Tip

It doesn't make any difference what you think your business is worth, or what you want for it. It also doesn't make any difference what your accountant, banker, attorney, or best friend thinks your business is worth. Only the marketplace can decide what its value is!

Question 2

The second question you have to consider is: Do you really want to sell this business? If you're really serious and have a solid reason(s) why you want to sell, it will most likely happen. You can increase your chances of selling if you can answer yes to the second question: Do you have reasonable expectations? The yes answer to these two questions means you are serious about selling.

The First Steps

Okay, let's assume that you have decided to at least take the first few steps to actually selling your business. Before you even think about placing your business for sale there are some things you should do first.

The first thing you have to do is to gather information about the business. Here's a checklist of the items you should get together:

- Three years' profit and loss statements
- Federal Income tax returns for the business
- List of fixtures and equipment
- The lease and lease-related documents
- A list of the loans, if any, against the business, with amounts and payment schedule
- Copies of any equipment leases
- A copy of the franchise agreement, if applicable
- An approximate amount of the inventory on hand, if applicable
- The names of any outside advisors



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If you're like many small business owners you'll have to search for some of these items. After you gather all of the above items, you should spend some time updating the information and filling in the blanks. You most likely have forgotten much of this information, so it's a good idea to really take a hard look at all of this. Have all of the above put in a neat, orderly format as if you were going to present it to a prospective purchaser. Everything starts with this information.

Make sure the financial statements of the business are current and as accurate as you can get them. If you're half way through the current year, make sure you have last year's figures, and tax returns, and also year-to-date figures. Make all of your financial statements presentable. It will pay in the long run to get outside professional help, if necessary, to put the statements in order. You want to present the business well "on paper". As you will see later, pricing a small business usually is based on cash flow. This includes the profit of the business, but also, the owner's salary and benefits, the depreciation, and other non-cash items. So don't panic because the bottom line isn't what you think it should be. By the time all of the appropriate figures are added to the bottom line, the cash flow may look pretty good.

Prospective buyers eventually want to review your financial figures. A Balance Sheet is not normally necessary unless the sale price of your business would be well over the \$1 million figure. Buyers want to see income and expenses. They want to know if they can make the payments on the business (more on this later), and still make a living. Let's face it, if your business is not making a living wage for someone, it probably can't be sold. You may be able to find a buyer who is willing to take the risk, or an experienced industry professional who only looks for location, etc., and feels that he or she can increase business.

Insider Tip

The big question is not really how much your business will sell for, but how much of it can you keep. The Federal Tax Laws do determine how much money you will actually be able to put in the bank. How your business is legally formed can be important in determining your tax status when selling your business. For example: Is your business a corporation, partnership or proprietorship? If you are incorporated is the business a C corporation or a sub-chapter S corporation? There are some new tax rules, effective January 1, 2016, that impact certain businesses on seller financing. The point of all of this is that before you consider price or even selling your business it is important that you discuss the tax implications of a sale of your business with a tax advisor. You don't want to be in the middle of a transaction with a solid buyer and discover that the tax implications of the sale are going to net you much less than you had figured.

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