

# The Ten Commandments of Selling Your Privately Held Business

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**1. Thou shall not wait too long.** Have you ever heard, "I sold my business too early?" Compare that with the number of times you've heard somebody say, "I should have sold my business two years ago." Unfortunately, waiting too long is probably the single biggest factor in reducing the proceeds from the sale of a privately held business. Exit your business from a position of strength, not from weakness or of necessity.

**2. Thou shall be prepared personally.** Create a plan on how you want to enjoy the rewards of your labor. Travel? Hobbies? Charitable work? Where do you want to live? What job would you do if money were not an issue? You need to mentally establish an identity for yourself outside of your business.

**3. Thou shall prepare your business for sale.** Engage a professional CPA firm to prepare your financial statements. Buyers fear risk. Audited or reviewed financial statements reduce the perception of risk. If you find that a large percentage of your business comes from a very few customers, embark on a program immediately to reduce customer concentration. Start delegating management activities and grooming successors immediately. Buyers also have keen interest in growth opportunities, so analyze and identify those that are available to your business.

**4. Thou shall keep your eye on the ball.** A major mistake business owners make in exiting their business is to

focus their time and attention on selling the business as opposed to running the business. Buyers always explore how the business has been performing "lately." Your time is most valuably spent smoothing out operations and driving positive results. Rely on professionals to handle the selling process.

**5. Thou shall get multiple buyers interested in your business.** If a competitor initiates *your* sales process, he typically is trying to buy your business at a discount. He will try to limit the sales process to a negotiation of one. The owner often approaches our firm after an unsolicited offer, saying, "I have a buyer" when the fact is, *he's got you!* What we have found is the unsolicited buyer is generally not the ultimate purchaser, or if he is, the final purchase price is, on average, 20 percent higher than the original offer.

**6. Thou shall engage a Merger and Acquisition firm to sell your business.** You improve your odds of maximizing your proceeds while reducing the risk of business erosion by hiring a firm that specializes in selling businesses. The buyer of our last client had previously purchased 25 companies. This was our seller's first and probably last business sale. By engaging a professional M&A firm, they helped balance the M&A scales.

**7. Thou shall engage other professionals that have experience in business sale transactions.** Consider engaging a CPA firm and law firm to advise you on important tax and legal issues that can result in swings of thousands of dollars. Each element of deal structure that is favorable to the buyer for tax or risk purposes is generally unfavorable to the seller, and vice versa.

**8. Thou shall be reasonable in your expectations on sales price and terms.** The days of irrational exuberance are over. If the sales price range for a business in your industry is between 4 and 5.5 times EBITDA, your objective is to sell your business at the top end of the range. If your business had an EBITDA for the last fiscal year of \$1.0 million, your gross transaction proceeds could range from \$4.0 million to \$5.5 million. If your business is a strong producer, a skilled M&A firm with a proven process can move you to the top of your industry's range.

**9. Thou shall disclose, disclose, disclose, and do it early.** A seemingly insignificant minor negative revealed early in the process is an inconvenience or a point to negotiate around. That same negative revealed during negotiations or due diligence, becomes, at best, a catalyst for reexamining the validity of every piece of data or, at worse, a deal breaker.

**10. Thou shall be flexible and open to creative deal structure.** Everything is a negotiation. You may have in mind that you want a gross purchase price of \$6 million and all cash at close. You may have to get creative in order to reach that purchase price target by agreeing to carry a seller note for \$1.5 million with \$4.5 million cash at close.

*You may have spent your life's work building your business to provide you income and wealth. You prepared and were competitive and tireless in your approach. Exit on purpose and do it from a position of strength and receive the highest and best deal the market has to offer.*