SHOW ME THE EXIT

DON'T SELL YOUR BUSINESS THIS YEAR!

Unless you worked all year to prepare.

By **Bill Pearsall**

Preparing your business for sale is like painting a house. The hard work is filling the cracks, sanding down the rough spots and protecting areas that don't need paint. Once prepared, applying the paint is easy and the results add value far beyond the effort and expense. Any business can significantly increase value with preparation. So take the time to fill the cracks or smooth out the rough spots.

As a typical example, and sign of the times, Sharon Granite and her husband Slab grew their construction engineering practice over two decades. For many years annual sales were $2.5 Million. By 2010 sales had eroded and $1.0 Million was a stretch.

With painful staff cuts and a smaller space with heavy traffic noise the business still had a $200K profit. Beat-up and tired they didn't want to rebuild. They just wanted to retire with their savings and whatever they could get for the business. Starting to sound familiar?

They read an engineering industry article saying the current business value would be between 30% & 40% of annual revenue. Therefore a $300K to $400K expectation was in their mind and they decided to sell and retire within 6 months or if it didn't sell, keep it a couple more years until construction increased. Still sound familiar?

Their Accountant called to engage our intermediary services.

Upon review we advised Sharon and Slab not to sell but take 6-months to build value. Our goal would be a sale between $650K & $700K or more.

How does a Business Broker do that?

Business Brokers Discard Industry Value Estimates.

Every business is different. There are niches and specialties in every industry. Each with a different value. Ten Buyers will have ten different perceptions of value. It's the Broker's job to set and justify value and find and qualify the

> **Any business can increase value with a little preparation.**

ten Buyers. The sale must pencil for all concerned.

Business Brokers recast and adjust the financials.

True cash flow and earnings are determined and used in a supportable valuation. This process concurrently identifies the detailed areas for adding value and improving the price. The goal is to maximize value with little or no capital expense. An Intermediary focuses on increasing value by 100%. This can involve a 1% improvement on 100 items.

The Broker's team helps to determine if the Client CAN retire.

Intermediaries assist in the design and implementation of the financial planning component. Will their savings along with the sale of the business meet their goals? Also, for tax purposes many transaction design elements can and should be set in place prior to the sale. This step is a huge benefit and eliminates surprises. The goal is peace of mind.

Business Brokers go to market and make the sale.

When ready, target lists of candidates are developed and target specific presentation materials are prepared. In this case we needed to replace Slab Granite with another engineer with the same discipline or an engineering firm looking to add Slab's client base. Marketing should be designed to attract a broad group of candidates. The cream raises to the top and those at the top are the only ones the Sellers meet.

Brokers are transaction designers and coordinators.

The Client runs their business and the Broker rides herd over the transaction through the close and post close transition.

And Business Brokers usually don't get paid until the close.

PS: Our client merged with another firm and Slab has a 2-year transition Employment Agreement. The total transaction benefit for Slab & Sharon = $840,000.

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William E. Pearsall, is Founder and Principal of Transition360, LLC an Exit Strategy Planning & Business Brokerage Company that focuses on exit and retirement planning for small business owners with sales revenue from $500K to over $20 million. Pearsall can be reached at billpearsall@transition360.com or 425-865-9802.

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