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A GUIDE TO SELLING A SMALL BUSINESS

4 Pillars to a Successful Sale

We have known for a long time now that a major shift was going to take place in the small to mid-size space as owners sell the businesses they started and grew.

Many assume that they will get their asking price and that the timing of an eventual sale will meet their targets. Unfortunately, this is not the case. A significant amount of planning must go into the selling of a business long before the business "goes up for sale".

This guide to selling a small business will take you through the steps and considerations you need to make in order to sell your small business to the right buyer at the best value.

4 pillars to a successful sale of your business

A great start to selling your family business is to follow these four main pillars:

PREPARE

Is your business ready to be put on the market?

INFORM

When and how do you share the news with your family?

SELL

What exactly is the merger and aquisition process?

PLAN

What do you do after the sale?

Selling your business might be one of the most difficult decisions you will make.

Let us guide you through it.

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1.

Is your business ready to be put on the market?

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The first step to selling a business is preparing it to be put on the market.

These are the three most important steps to take in order to ensure your business will be sold at the best value:

Fair Market Value (FMV) can only be determined in the open market, but it helps immensely if owners are proactive in understanding their company's worth, that they have reasonable deal expectations and collectively the team is aligned.

1. Goal Setting

It takes time and reflection to see all the potential choices you can make with your business.

In order to make the right decision, you must first fully understand your goals. This will shape how and to whom you may ultimately sell your business.

Three questions you should ask yourself:

- **a. When is the ideal time to sell?**
- **b. What is my ideal outcome?** Is it a full or partial sale, management buyout, or am I looking for a financial partner such as a Private Equity firm?
- **c. What is the ideal outcome for all the other stakeholders** (employees, spouse, shareholders, etc.)?

2. House Cleaning

What steps are required to make sure the business is sellable for the highest price?

The most important thing a you can do to maximize the value of you business is to clean house. In a business, you have things set in a way that works for you, but not necessarily for a buyer. You become so accustomed to the way things are that you can't see them as a problem. Not addressing those issues before going to market is the equivalent of doing a home renovation while hosting an open house.

A few areas to address:

- employee contracts
- customer concentration, *i.e. do you have one customer that represents 50% of the revenue?*
- reporting processes
- outdated corporate records
- old inventory

3. Financial Planning

Planning an exit is challenging if you are in the dark about the value that you might achieve from the sale. It is important that shareholders distinguish what a business may sell for from what they may need or want for retirement.

Therefore, we suggest that business owners seek professional help from their accountant, tax advisor, a business valuator or M&A advisor, and a wealth advisor to determine if your financial goals can be satisfied.

There is so much to consider, so do not wait until you are forced to sell – sell on your terms and on your agenda if you can!

2.

When and how do you share the news with your family?

Very often, the family business has played a big part in the lives of family members. We can help navigate the essential discussions with your family.

How and when do you share the news?

Your family members are partners in the business. The more the family member is involved in the business the more important it is to discuss the plans sooner. Will there be a role for them in the business after the sale? If so, for how long? If not, what is their next gig?

Legal experts and certified family business facilitators can help with the conversations. They get involved both as an advisor to help fashion a strategy for communicating with the family and as a facilitator of family discussions.

Open communication is key in preserving family relations.
Have the tough conversations, make decisions together, and consider everyone's futures after the sale. Major stakeholders in the business should be part of the decision-making process, feel respected and heard.

How do you let go?

Selling your family business may be one of the toughest things you will go through. You may want to hold on to the business for just a little bit longer. If so, prepare yourself beforehand. Paint yourself a picture of what life will be like after your business is sold to ensure there are no surprises down the road.

- Do you have outside interests and hobbies?
- What will it be like spending more time at home with your spouse?
- Will you assist in the transition after the sale? What will you do afterwards?
- If a younger generation in your family is taking over, will you be tempted to continue to call the shots?

With more free time post-transition, you may want to involve yourself in the management of the business. Regardless of the benefits to the business, remember that this decision must be made together with the new owners of the business.

Can you assist in the business post-sale?

It is often difficult to stay after the sale in much the same way that it is difficult for people selling their homes to visit later on when many parts of the home are changed.

If the new owner insists on you staying for transition purposes, that is fine. Just limit your stay and leave as soon as possible. Usually, that is what works best both for the seller and for the buyer, including members of the next generation.

The healthiest of scenarios is where the next generation wants you to stay on to provide advice and have a place to "hang your hat". The new owners benefit from sage advice and you feel respected and valued in making a continuing ongoing contribution to the business and to the family. Truly a win-win!

How do you develop the estate plan and share with your family?

Whenever a business is sold, it is critical to have tax and estate planning advisors involved from the outset to structure the transaction in the most tax-efficient manner. This is also often a great opportunity to discuss estate planning and succession planning with the whole family.

This planning is definitely easier if the design is to leave your assets equally among your children. However, if you intend to leave one or two children, but not all, in charge of the business, you will require far more in-depth planning.

Remember, what seems fair to you might not seem fair to all of your children.

If that is the case, it is important for you to communicate clearly the estate plan to all of your children. Initially, it might not be received well by one or more of the children, but it is always better to address the issue now than having them find out after you are gone. That is when family bitterness, discord and litigation ensue – the worst of all possible worlds for the family.

The key is proper communications within the family, and no surprises down the road.

Legal experts and certified family business facilitators can help with the communication between the family.

In real estate, the key to success is “location, location, location”.
In business families, it is “communication, communication, communication”.

3.

What exactly is the merger & acquisition process?

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You've made the decision to sell your company, but what does a sell-side process look like?

1. Who is handling the process

The first thing a business owner needs to do is to decide whether you want to manage the process on your own.

For most business owners, selling your company is a once in a lifetime event and you want to ensure you manage it right. If you choose to engage a professional advisor, they can help you:

- Manage the sell-side (or buy-side) process
- Understand the complexities of a deal
- Add value in the competitive process
- Negotiate and structure deals
- Allow you to continue to focus on the business

An M&A advisor will work closely with you, in a well-defined process.

1. **Get to know the seller.**
   a. Why do you want to exit?
   b. What would constitute a good exit (i.e. what is the result you want to see for yourself, the company and its employees, share vs asset deal)?

2. **Gain an understanding of the business's valuation for planning purposes.**
   a. Understand the financial health and value of the business
   b. Determine operational and growth opportunities

3. **Prepare marketing materials.**
   a. Teaser (one-page "highlights" of the company)Pitch deck or Confidential Information Memorandum (CIM)
   b. Data rooms established for future due diligence

4. **Identify who will form part of the buyer pool.**
   a. Strategic vs financial buyers
   b. Manage timing of going to market (bring multiple offers to the table simultaneously)
   c. Do a targeted reach out

5. **Select an offer, complete due diligence and ensure the purchase agreement is in line with the agreed terms of the deal.**

6. **Close the deal.**

2. When to share the news with employees.

Share the news with a few key employees, but timing is important. If you need your CFO or accountant to help gather financial information for the sale, bring them in sooner.

If your business is larger, bring in the senior leadership team when a letter of intent (LOI) is signed. Realistically a lot of the deal negotiation and structure is done before or at the LOI stage, as you are addressing valuation, possible earn-outs or financing arrangements, working capital adjustments and timing.

You and your team simply need to support the due diligence. As the current owner, you need to consider who will be the champions for the business pre-sale and post-exit.

What if you have been approached to sell?

There are companies looking to grow via acquisition, or financial buyers, such as private equity firms, looking to invest their capital. If you are have been approached to sell, that is fantastic!

Before you sell, be sure to know your options and do your homework with your advisors to understand if it is in fact a good deal. Determine that the offer is fair and at market. Figure out if you should create a competitive process. Finding a buyer is not the hard part of a sale, it is everything in between, and getting the deal to the finish line.

It takes approximately 6-9 months to close a deal, assuming your house is in order, and you've done the necessary tax planning well in advance, such as understanding if you can use your lifetime capital gains exemption.

4.

What do you do after the sale of the business?

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Now that you've sold your business and have completed the transition, what do you do with your finances? Here are three steps to follow to prepare your financial future.

1. Establish your retirement goals.

When thinking about retirement, setting goals is an important first step. Why is goal-setting so important? The short answer is Purpose. Purpose has driven you to get where you are now, but the drive is not over. Many retirees, especially ex-business owners, struggle with the idea of letting go of their baby, having less responsibility, and more time on their hands.

Think about what your overall retirement vision is, set some goals, both short-term and long-term, and decide what activities you will do to replace the things you're going to miss about going to work. If you're going to miss seeing people and interacting with colleagues, maybe you join a country club or a board of directors, if you're going to miss being challenged professionally then you do some consulting, tutoring, mentoring.

A common goal in retirement is to travel, but if you're travelling, say, 12 weeks out of the year, it's important to have an idea of how you'll spend your time for the other 40.

Your advisors will tie your vision and your goals into a financial roadmap so there's peace of mind that not only will your retirement be funded, but there's clarity in the resiliency and flexibility in the options available to you.

2. Build your investment portfolio.

Your advisors should spend a lot of time with you, uncovering your personal and corporate financial and tax needs. This is important to determine your risk tolerance, capacity to take on risk, and required investment returns.

Your goals and your risk tolerance are used to design the investment portfolio most suitable to your personal accounts, corporations, trusts, and even RESP's for children/grandchildren.

3. Consider Longevity and Mobility.

In other words, you do not want to outlive your money, but you also do not want to miss out on enjoying the wealth that you've created. A good plan will contemplate your estate and legacy intentions and be robust enough to preserve those wishes despite any short-term market volatility.

Ask youself: "will I have enough to live the lifestyle I want but to also support myself financially if I live to be 105 years old?"

A comprehensive plan will certainly address that. Having a good comprehensive plan, one that's stress tested and updated regularly, can set the goal posts and allow you to make informed financial decisions.

What exactly is a Comprehensive Plan?

Think of comprehensive planning as a building that has six foundational pillars:

- RETIREMENT
- CASH FLOW MANAGEMENT
- RISK MANAGEMENT
- INVESTMENT MANAGEMENT
- TAX PLANNING
- ESTATE PLANNING

As your plan evolves over time, you will lean on some of these pillars more heavily, but you will always need the six pillars to maintain a strong foundation and hold you up throughout your life.

For example, take an ex-business owner either approaching retirement or in the early non-working year. Cash flow Management remains important, but the goal has probably shifted from a question of debt reduction and savings plans to the liquidation order of assets. Estate Planning becomes important as you outline what their legacy looks like.

When getting a comprehensive plan in place, be sure to take a current financial snapshot, understand your future goals and constraints, analyze your tax situation, build a proper forecast, and outline the options available so you can make informed financial decisions. Jeffrey Logan and the team at Harness Investments have the architecture to implement the strategies outlined.

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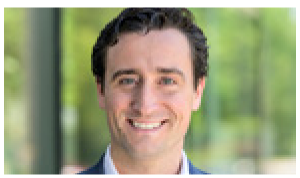

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