87 Things an Owner Needs to Know About Selling Their Business

Tennessee Valley Group Inc
Business Brokerage & Transfer Mediation

Sell Your Business with Confidence

1. Your closet competitor might be your best buyer, but it will be an awkward negotiation.

2. Your valuation is a function of your cash flow.

3. Talk about "potential" doesn't move a buyer to buy, much less pay more. You have to prove that potential is real.

4. Buyers think with both the left (logical) side and the right (emotional) side of their brain.

5. You shouldn't go through the selling process without the counsel of a certified financial planner. How you manage the money after the sale might be more important than how much you made from the sale, and how you manage the money after the sale starts before the sale.

6. A publicly-traded company has valuation metrics different from any other kind of buyer.

7. If your legacy really matters to you, never sell your company. Even well intended, a buyer never preserves a legacy perfectly consistent with the seller's expectation.

8. Broker fees are negotiable if your business is worth more than $3 million. If your business is worth less than $3 million, expect the brokerage fee to be unreasonable.

9. The brokerage process is not regulated, it is a wild-west experience.

10. Don't expect to set your valuation based on results of just one good year.

11. Your future forecast has to have some relevance to recent results. If you show hockey stick growth projections, you'll damage your credibility.

12. Employees seldom translate into owners.

13. Selling to your children has many ways it can go wrong.

14. Quality financial records are not an expense, they are an investment. Audited are best, reviewed is good, compiled leaves you exposed.

15. Buyers care a lot about the financial stability of your customer base.

16. Buyers care a lot about the financial strength of your supplier base.

17. Buyers care a lot about the concentration of your customer base. Hard to sell a business if one customer is more than 25% of your revenue, or if three customers represent more than 50% of your revenue.

18. Buyers care a lot about the diversity of your supplier base. The more suppliers to whom you have access, the better.

19. Expect to stay for a transition period after the sale.

20. Selling takes 9-15 months, if everything goes well.

21. You will want a capable wealth planner, lawyer and accountant working with you through the process to sell your business.

22. The more general the LOI, the more room you have for contention during due diligence, and contentious due diligence often (usually) leads to the deal falling apart.

23. Between signing the LOI and closing, you will think the deal is dead at least three times.

24. Working capital is always, always a hotly debated topic near the end of the deal. Best way to avoid that is to have the working capital formula clearly spelled out in the LOI.

25. Being able to reliably forecast growth is critical to valuation.

26. Selling before you have to likely gets you more money.

27. A buyer will always question your motivation for selling because they are instinctively afraid you are selling before something bad is about to happen.

28. The size of your business will dictat who your potential buyers will be.

29. Don't forget to include CAPEX requirements in your financial forecast.

30. Your valuation is a triangulation of recent revenue growth rate and EBITDA margin, and buyer confidence in the future.

31. If your customers buy on need versus want, your business will drive a stronger valuation.

32. If you are important to your business' success, selling will be difficult.

33. Sad reality: many businesses just aren't sellable. Often the best strategy is to make as much as you can as long as you can, then close the doors for good one day.

34. You shouldn't let anyone see confidential info on your business without them first signing an NDA. Having said that, the NDA doesn't actually protect you much, it's really meant to intimidate the other party into not being reckless with your sensitive data.

35. The Executive Summary should be specific enough to generate interest yet general enough to not identify your company.

36. Set a reasonable price for your business. Don't expect a "greater fool" buyer to come along and overpay.

37. Reps & warranties are a big deal in the purchase agreement, but you are not having to guarantee the business will be a success.

38. Earn outs are logical in theory, but difficult in practice.

39. Private equity represents a big pile of money, but they are very conservative in how they deploy it.

40. Don't base your valuation expectation on what you heard about someone else's business (there is always an outlier, or sometimes it's an outright lie).

41. Recognize that a lot (most) of unsolicited buyer interest are just tire kickers.

42. Before you give a potential buyer any financial information, make sure they have financial capacity to buy your company. Asking for specifics to prove that (e.g. personal financial statement) is not an insult, it's an astute business practice.

43. When a buyer says "I can raise money for the right opportunity," you can assume they don't have the money.

44. Banks will only make an acquisition loan to an individual buyer that is highly collateralized, even more so if it's an SBA loan.

45. Decide if you want an asset sale or a stock sale before you take your company to market.

46. You can sell a business without an intermediary, but it's seldom to your advantage to do so.

47. Just because your broker has "sold his own company" doesn't mean he/she knows how to sell yours.

48. Your ability to prove scalability will be a huge factor in your valuation. Scalability meaning, your next dollar of revenue is more profitable than your last dollar of revenue.

49. When a buyer says they will preserve your legacy, you can assume they mean well, but not that they will actually do it.

50. What your business was able to achieve several years ago does not provide assurance of what it can do in the future.

51. The quality of team left behind speaks volumes about you as a manager, and how much you can get for your business.

52. The buyer will always assume they are smarter than you. Use that to your advantage.

53. Predicting future revenue is everything.

54. The private equity formula is quite simple: they need to see a 3 to 4 times return on their invested equity over a 5 to 6 year period.

55. Recurring revenue will generate a higher valuation. It's perceived as less risky.

56. Buyers like to know how your business uses technology. Being tech-enabled is a big selling point.

57. The best way to achieve an over-market valuation is to sell to a strategic buyer.

58. The second best way to achieve an over-market valuation is to have competitive bidders.

59. Business valuation is part art, part science, and part timing.

60. Due diligence is painful and costly, but it's a valuable process, even if you end up not selling your business. You will be shocked to learn how much you didn't know about your business.

61. You may not want your employees to know you are selling your company, but if you are at or past normal retirement age, they are already talking about it behind your back.

62. Business valuation bears little resemblance to real estate valuation. Conflate the two at your peril.

63. If you are under the age of 60 and live on 80% or more of your business' profits, you cannot afford to sell your business unless you have a backup plan for future economic support (working spouse, wealthy parent, rich uncle, etc.).

64. If a buyer is assuming you will carry a note for some of the purchase price, you can assume that buyer doesn't have sufficient cash to make a deal. Proceed at your own risk.

65. Buyers care a lot about how you think about the next couple of years, so before going to market, take time to develop a reasonable and believable forecast of revenue and profit.

66. During the selling process, you will seriously second guess your decision several times. So before you even start the process, be sure that is really what you want to do.

67. Putting your company on the market to see if you get "a good price" is fool's gold. Buyers can sense when you are just fishing, so you'll likely never get a quality offer and just end up confused and frustrated.

68. Selling your business to your employees is a noble idea, but seldom works and usually creates problems.

69. Don't assume your exit will come at the exact time of your choosing (80% of all exits are stimulated by an unplanned external event).

70. Buyers may appear confident, but deep down inside they are scared of making a mistake. Your sensitivity to that fear will strengthen your position.

71. Every owner wants to know, how long will it take to sell my business? Expect the process to take longer than you think.

72. If you identified today who you think the best buyer for your company might be, then run it like you're preparing for them to buy it, you'll be better off even if they don't.

73. You'll have minimal problems in due diligence as long as your financial records, tax records and bank records are in sync.

74. Sell your business before you have to.

75. When hiring a broker and lawyer to handle your transaction, think about who the buyer will have on their side of the table. Your team has to be at least as strong as their's or you'll be exposed.

76. If you sell your company to private equity, despite what they say, they become your boss, not your partner.

77. If you get an unsolicited offer to buy your company, and even if it's a great offer, bring in an intermediary to help you through the process.

78. You can negotiate your investment banker /broker fee based on their current workload and their perception of how quickly your business will sell.

79. The strength of your team and their ability to carry on without you will positively affect your valuation.

80. If you tell a potential buyer your business has a lot of growth potential, they will only believe you if you have a history of successfully investing in growth.

81. An earn out is likely to cause a future problem between you and the buyer, but you reduce your chances of it being a problem if it is solely based on revenue.

82. Your valuation will go up if you know the size of the market for your product/service, and better yet, if you know your share of that market.

83. Selling a business to a partner has lots of room for error. It's best to retain a professional mediator to help both parties find a win-win solution.

84. If you think your exit is your children buying, recognize that happens rarely and it working out well is even more rare.

85. Having a "quality of earnings" report prepared by a third party specialist will make everything, literally everything, run more smoothly. Get one the year before you go to market (you will thank me later).

86. Have a clear expression of your company's mission, strategy and values. It's not just fluff when it comes time to tell potential buyers your company's story. Having a clear story about why you exist can strengthen your valuation.

87. If your wait another year to sell because you think next year will be even better, talk to a business owner who thought that in 2019.

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Tennessee Supreme Court
Rule 31 Listed General Civil Mediator

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