

## A Buyer is Knocking at Your Door: What's Next?

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**T**he acceleration of economic change caused in large part by the increase in global competition, the shortening of technology lifecycles and demographic changes such as the ongoing retirement of baby-boomers in the U.S. are changing the way businesses plan strategically. Management teams of businesses of all sizes are realizing



that to survive and thrive in their respective markets they must design and implement strategies that combine organic growth with targeted acquisitions. This in turn, is fueling mergers and acquisitions (M&A) activity both in the U.S. and abroad and forcing participants to compete for the best deals.

Thus, if you are running a successful business, it is highly likely that you will eventually be approached by a potential buyer. The question is, are you ready?

It is a fact of life that sooner or later you will exit your business. Consequently, it is good business practice that you begin to prepare as soon as possible for the sale of what is likely to be your most valuable asset. But, if you are being approached right now by a potential buyer there are a number of steps that you can take to prepare yourself and your business for the process that is about to unfold.

The most important step you should take when approached by a potential buyer is to safeguard the ongoing operations of your business. As conversations with prospective buyers move from simple inquiries to serious negotiations, your focus is likely to shift from the operations of the business to discussions about terms and conditions, meeting due diligence requirements, reviewing multiple documents and attending countless meetings in order to complete the deal.

You must realize that most buyers are interested in purchasing your business, not for its historical performance, but for its future potential. In fact, when it comes to determining the attractiveness of the transaction—including how much the buyer is willing to pay—the historical performance of the business just serves as anecdotal evidence that the future return on the investment is likely to be obtained. And, since completing an M&A transactions takes on average from nine to twelve months, the time spent away from the business—perhaps at what it could be the most critical time—is likely to have serious effects in its ongoing operations, financial results, and consequently, on the value that you will realize.

Also, you must take steps to maintain strict confidentiality during the process. You should say nothing until a confidentially agreement, prepared by a competent intermediary or an experienced transaction lawyers, is signed by the prospective buyer. The confidentiality agreement can be strengthened by including a non-interference pro-

vision to protect your employees, customer, suppliers and proprietary processes and procedures. Keep in mind that the prospective “buyer” may be simply looking for information. A non-interfere provision prevents the other party from disrupting any of the company’s key relationships with strategic partners, customers or employees. In addition, do not provide customer lists, employee names, supplier lists or detailed financial information until you are comfortable that the buyer is sincere in completing the transaction. At the very least, there should be a Letter of Intent in place and most of the conditions to closing should have been removed.

Do not hesitate to ask questions. Why are they interested in the business? How do they plan to run it and integrate it with their existing operations? Will your current employees remain with the business after the transaction closes? How does your business fit within their long-term plans? How are they valuing your business? What financing are they planning to use? The answers to these questions will provide you with valuable information to negotiate a deal that addresses the concerns and needs of both you and the prospective buyer.

Also, be prepared for an in-depth scrutiny of your business. Buyers in general never take a seller’s financial results at face value, but instead use the “due diligence” process before closing on the transaction to verify that the offered figures and other representations previously made are indeed accurate. All too often, business owners are surprised at the “skeletons” prospective buyers can find in the closet. These issues can reduce the value of your business, and in some cases, kill any chance at closing a sale. Beyond financial results, prospective buyers will ask

questions about your work force, customer loyalty, condition of the company’s facilities and equipment, contracts with vendors, corporate documents, and potential litigation among others. The important point to remember at this stage is to keep the process to a tight agenda and firmly under your control.

Given that your business most likely represents the largest portion of your net worth, it is highly advisable that you prepare in advance for the day you will sell your business. If you can do that, chances are good that you’ll maximize your opportunity to get full market value for your business. At the very minimum, your preparation plan should include the following:

- Determine how much your business is worth and what are the factors that enhance and impair its value.
- Clean up and update your financial statements so that they reflect the true operating assets of the business as well as its true profitability and discretionary cash flow.
- Secure your key employees with employment contracts and establish a bonus program that rewards them for staying with the company for some period.
- Codify unwritten policies.
- Determine the tax implications of a potential sale to establish the most advantageous way to structure the sale for tax purposes.
- Take care of potential “deal killers” such as expiring leases, obsolete inventory, equipment that needs to be maintained/replaced, customer concentration issues, pending litigation and so forth.
- Organize a professional team that will help you obtain the highest value for your business. This team should include

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an accountant, a transaction attorney, a wealth manager, a business valuation expert and an investment banker.

- Clean up any compliance issues related to tax, industry, OSHA, EPA or zoning.
- Organize and keep records available [such as](#) sales contracts, bank statements, payroll, lease agreements, other legal documents, manuals, certifications, etc.

You can increase your wealth by knowing a few simple ground rules for successfully selling your business. Spending the time and money to discover and fix your company's problems now will pay large dividends in the form of increased company value—which is exactly what you want when it's time to sell.

You know how to operate your business on a day to day basis, but most likely this experience has not prepared you to know how to sell your business. The information provided here, although not all-inclusive, should help you get started in preparing your business for a successful sale—no matter when the business might be sold.

**About the Author:** Enrique C. Brito is a partner and senior managing director of The Mclean Group, a national investment bank providing merger and acquisition, valuation and private equity financing services. He has over 17 years of corporate finance and investment banking experience and lectures nationally on the subjects of M&A and business valuation. He can be reached via e-mail at [ebrito@mcleanllc.com](mailto:ebrito@mcleanllc.com) or call 703-827-5093.