When is the right time to sell?

How should you prepare your business for a potential sale?

As a business owner, deciding when to sell your business takes careful planning, and must take your long-term succession plans into account. Planning for the sale well in advance allows you to prepare your business so that you're in a position of strength to negotiate and maximize the proceeds of the sale.

Have a clearly defined strategy

In order to maximize the sale proceeds, pre-sale planning is key. Business owners often decide to sell for very specific reasons or in response to particular events, which too often may be negative. Major problems—known only to the owner—such as large capital expenditure requirements, changing market conditions, increased competition, working capital shortages, or age and health issues are around the corner and are prompting the business owner to sell. As a result, a high level of anxiety may exist during the sale process if the owner is anxious to sell before these concerns become reality, and full value potential will not be realized as buyers uncover these issues. In contrast to this all-too-common scenario, the decision to sell should be a long-term strategic decision, not a short-term reaction to negative developments.

Ideally, you should start to plan the sale of your business well in advance of actually selling. Once you have an effective plan in place, you can fine-tune it when the timing is right to sell. In this way, you will be better able to negotiate from a position of strength and to maximize the proceeds of the sale.

Before committing to a sale, it is very important that you understand the implications of selling. These questions can help clarify your motivations and ensure you have fully considered the implications:

- What is your motivation for selling at this particular time?
- What do you have planned as your encore?
- Are there alternatives to selling that may accomplish your objectives?
- Is the timing appropriate in terms of general economic conditions and your business's strategic position?
- Have you considered the personal and business tax implications?
- How will the net proceeds of the sale be invested and what return do you anticipate?
- Are you going to remain in a management position after the sale?
- Are you genuinely committed to the sale of the business?

After thoroughly exploring these questions, you can more effectively plan for the sale of your business. Remember that once a sale agreement is executed, the decision is likely irreversible. Before exposing your business to the market, you should clearly understand your reasons for selling, what you expect the sale to achieve, and how you will realize your objectives after the sale.

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Positioning your business for sale

Having made the decision to sell your business, ensuring it is in the optimal condition will achieve the best possible price. To do this, you'll need to carry out an assessment of your company's strengths and weaknesses. There are a number of important areas that need to be reviewed.

Information

Access to information and updated record keeping plays an important role when dealing with potential buyers for your business. Providing timely and accurate responses to requests for information gives prospective buyers confidence about the stability of your business and their potential acquisition.

Management structure

In reviewing your management structure, consider these questions:

- Is there a full complement of capable managers in place who are willing and able to manage the business themselves, or under new ownership?
- How will existing management react to a change in ownership?
- What is the reputation of your team within your respective industry? How are they rated for reliability and integrity?
- Are there individuals within the management team who are key to the successful sale of your business? If so, what incentives might be used to ensure their full cooperation?
- Do business relationships rely solely on you? If so, are you willing to remain in the business after the sale in order to engage in a transition of these relationships?

A weak management team can be a detriment, so it may be prudent to postpone a sale until appropriate adjustments have been made to the management team if there are problems in these areas.

Financial statements

Review your financial statements to confirm whether they conform to GAAP. Additionally, consider that financial restructuring can result in a higher sale price. Redundant assets should be identified and either sold, or otherwise discarded. Consideration should also be given to the separation of real estate assets from operating assets. In some instances, a lease can be put in place and desirable real estate assets can be sold in a separate transaction to maximize value.

Corporate record keeping

The company's corporate records, such as its incorporating documents, minute books and share register should be organized, up to date and readily accessible. Copies of major contracts, such as leases and other important business documents should also be available. In preparing your company for sale, consideration must

Who will take over your business?

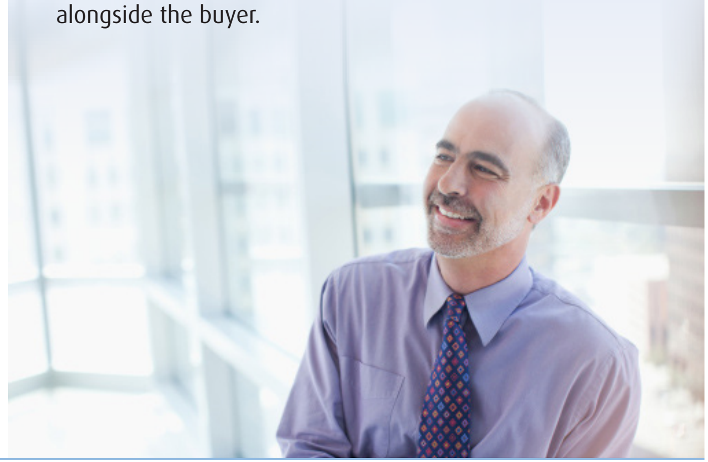
This question is an important part of the decision-making process for business owners hoping to sell their business. Every business is unique, so the right answer will vary, but there are a number of different types of potential buyers for your company.

Strategic buyers

These are buyers within the same industry, including competitors, suppliers, or even customers. They usually have strong knowledge of the industry and sales processes, such as the competitive landscape, regulatory considerations and other value drivers. Potential synergies may occur, allowing for smoother and less costly operation for the buyer. This type of buyer is more likely to be able to offer a higher price. Extra care should be exercised regarding the degree of competitive information that should be shared, and when, with these buyers.

Financial buyers

Financial buyers are generally private equity investors. With a short timeline for their investment, private equity investors usually buy a business, grow it, and then sell it at a premium. This allows their interest in enhancing business performance to align with that of the current business owner. However, financial buyers have a more conservative price range in order to reduce risk. Additionally, depending on factors including the strength of the management team, the owner may have to remain engaged in the business throughout the transition period and may be required to maintain a minority equity interest in the business alongside the buyer.



also be given to contingent liabilities and any outstanding litigation (pending or anticipated). Such legal matters should be dealt with prior to the sale, or clearly disclosed at the outset of any discussions with a potential purchaser. Similarly, the company's tax status should be reviewed to minimize the likelihood of unanticipated income tax assessments on prior years.

Operational analysis

The perception of a well-run business is an extremely valuable asset at the negotiating table. In most companies, there are some problems that may have been overlooked, or had solutions that have been deferred. Any such matters should be corrected prior to selling the business. For example, are the corporate marketing materials and digital presence up to date? Is the plant clean and tidy, and are the machinery and equipment in good working condition?

Other considerations

In addition to ensuring your business is in a marketable position, you must also understand your company's bargaining position. Analyzing your company's strengths and weaknesses allows you to better understand its position in the marketplace. Expect the purchaser to evaluate the company thoroughly, and be aware that any deficiencies will be subject to negotiation. Adequate preparation and/or disclosure at the proper time can help reduce the impact of any deficiencies that may exist.

Assess the prevailing economic conditions, such as interest rates, economic growth and industry conditions to determine the optimal timing for sale. A seller with a short-term sale horizon could find it difficult to obtain their desired price if economic conditions are not favorable at the time of negotiation.

Receiving an unsolicited offer to sell your business

At any time, a successful business owner can be approached with an unsolicited offer to buy their business. This offer can come from an industry leader looking for a strategically identified acquisition target, a broker who is working on behalf of a legitimate buyer or someone who is simply attempting to find their next business opportunity.

- When dealing with an industry insider or a broker representing a legitimate buyer, ask the following questions to help you understand the other party's motivation before sharing any information about your business or your potential interest in selling.
- Why has your business been identified as a potential candidate for acquisition? The response should reveal how much the purchaser knows about your business.
- What is their capacity to finance a transaction?
- What would be their sources of funding?

Who will take over your business, *continued*

Internal buyers

These are people within the company, such as management or employees. The benefits of this type of buyer for the business owner are a smoother transition, less disruption in operations and more confidence in the ongoing leadership of the business. However, internal buyers will often provide payments over time as opposed to full payment of the purchase price.

Family buyers

Selling to family helps continue the legacy of the family enterprise and transfer shares to the next generation. The payment transaction can be less direct than for other types of buyer, and may be payments over time, estate freeze structures or funding through a mix of sweat equity and bank debt. However family dynamics may come into play, leading to disputes over the distribution of parents' estates to children and disagreements about business decisions between the older and younger generations. Open communication is especially crucial with this option to maintain family harmony and business health.

The type of buyer a business owner chooses depends on the size and competitive strength of their business, and their personal situation including the need for asset liquidity, hopes for the future of the business, and if they want to continue to be involved in business operations. To find the best strategy for exiting your business, talk to a BMO financial professional.

- What is their acquisition strategy? Some purchasers are simply looking for a business that can accelerate their growth in a specific industry, while others may be shopping for intellectual property or product lines.
- Do they want to maintain your management team and staff? Most business owners feel a strong sense of loyalty to their staff and want to ensure that they will be taken care of by a new owner.
- Would they want you to continue running the business during a transition period? Generally, a relatively short transition period works best for both parties.

How do they typically value the businesses they acquire? The purchaser may not tell you how much they are willing to pay for your business up front. But if you understand their valuation methodology, you can apply that knowledge to your situation without divulging confidential financial information.

If other companies have been acquired by the prospective buyer previously, what has been their experience? Contacts within those businesses can tell you what worked well with the transactions and why.

Are they considering other potential acquisitions at this time? This will give you a good indication of where you stand on their priority list. Serial acquirers usually have several deals in the works at any given time, and it could take a while before senior management is able to focus on your acquisition.

Taking the next step

If you're feeling comfortable with the prospect of selling your business after your initial conversations, a confidentiality or non-disclosure agreement should always be signed with the potential buyer before sharing any confidential information about your business. This will ensure that financial information and employee details are not made public.

Seek professional advice

If you are a business owner contemplating the sale of your business, setting your goals, visions and your exit plan early is critical for success. Once you decide to proceed with the sale of your business, consider engaging a professional advisor to assist you in the preparation and negotiations. Unlike purchasers, who may acquire a number of companies over time to fulfill a longer-term corporate strategy, most business owners have never sold a business and, consequently, may have difficulty separating the pragmatic decision-making role from the emotional aspects of the sale.

If you're considering selling your business, contact your BMO financial professional who can refer you to the appropriate professionals for assistance and advice.

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