THE GRAY RIDER REAL ESTATE COMPANY LLC
143 Longview Drive
Chatham, NY 12037
Tel: 518-392-7062

BUSINESS SELLER TIPS

Step #1 - Thinking of Selling Your Business?

Do thoughts of selling your business cross your mind a little more frequently now? You probably have a pretty good idea of what you believe your business is worth, but do you know what it will really bring on the open market? Is now the best time to sell? As you think about selling your company, additional questions will usually arise: Can I receive an all cash price for my business or will I have to offer terms? How do I maintain confidentiality while marketing the company? Should I sell it myself or use a broker?

Obtain Answers and Information

You'll need answers to these and other marketplace related questions before you can make an intelligent decision. Although personal considerations usually motivate thoughts of selling, the money involved is also important. Most business owners have a significant portion of their net worth tied up in their businesses. It is, therefore, very important to "look before you leap." Your first step should be to contact an experienced business intermediary to gain answers to any questions you may have. Their experience and knowledge of current marketplace conditions is critically important to you as you consider your decision to sell.

Buyer Identification -- "Fit and Opportunity"

Ask the Business Broker to develop a comprehensive business profile and buyer identification summary. The report will allow you to view your company from the "outside in," and understand what the business will be worth to the array of buyers currently active in the marketplace. The principal benefit of this step is to

allow the business owner to evaluate the probability of attaining personal goals via the sale of the business (or other options) without exposure in the marketplace. The report also allows a view of the business through the eyes of the various buyer/investor types in order to identify who will recognize the most opportunity.

The "fit" and opportunity the investor and his advisors identify in the business are most important. A business may be seen as worthless by one buyer, yet be worth millions to another. The difference is the "fit" and opportunities recognized by the buyer. The person who perceives the most opportunity pays the best price. When the decision to proceed with a sale has been ratified, the profile of the best candidate(s), the buyer most likely to purchase the business at the optimum price, has already been identified by the intermediary's report.

Identifying the right buyer is important because if a business is over exposed in the marketplace through exposure to the wrong buyers, it tends to lose value. Therefore, it is essential that the "Right Buyer's" profile be correctly identified before going to market. If the probable results from a potential sale are deemed inadequate, then the intermediary's work becomes an important management tool. A plan to "prepare the company for sale" or to achieve other alternative objectives can be constructed using the report as a base line.

Marketing Realities

What can happen when a sale is attempted without first preparing for the sale? Without prior preparation, marketing efforts may begin prematurely and proceed without proper focus. Perhaps the wrong buyers will be approached. For example, competitors and suppliers are usually poor candidates. They generally will not attribute a great deal of worth to key value elements such as: consulting and training agreements and may not perceive much value in a covenant not to compete, and focus solely on the value of assets (equipment and inventory).

If a sale is attempted without proper preparation, marketplace realities are learned the hard way. The business usually becomes overexposed resulting in lowered perceived value. Or a breach of confidentiality results in the loss of customers, credit or key employees which actually lowers or destroys value. Many times the right buyer rejects the opportunity based upon incorrect, incomplete or misapplied information. The price may have been set too high resulting in no offers or "low ball" offers. The price may have been set too low resulting in loss of dollars representing years of hard work.

Should You Sell It Yourself?

There have been many books written on buying, selling and valuing businesses so an owner, with the help of his accountant and attorney, might feel he could sell the business without additional support. However, experience suggests that the business owner and his or her advisors need the marketplace savvy that an experienced intermediary can provide in preparing the company for sale and obtaining its optimum value. It may not be easy to find an individual or firm

experienced in providing this sophisticated preparation service. Historically this advantage has been reserved for large or public companies and was only provided by Wall Street investment bankers. However, *The Gray Rider Real Estate Company* is capable of providing this service to smaller private and family businesses.

Step #2 - Identify The Buyers in Today's Marketplace

The current marketplace for private companies is made up, essentially, of four types of acquirers. An outline description of each is as follows:

The Strategic Acquirer

- **typically a large firm, usually a Public Company**
- **accustomed to long term planning**
- **economic considerations are evaluated, however, reason for**
- **acquisition is not always purely economic.**
- **acquisition prompted by factors such as establishing new markets.**

The Corporate or Sophisticated Acquirer

- **typically comes from a large company background**
- **employs "schooled" approach when determining value**
- **usually a high net worth individual, a group of individuals, an investor group, or a small Corporation**
- **focuses on current and future, rather than past**
- **places primary emphasis on capitalization of earnings, and on the ability to finance and leverage a purchase.**

The Financial Buyer

- **usually an individual**
- **primary focus on income replacement and the opportunity to build equity**
- **major emphasis placed on historic and current conditions.**
- **case for case, the perception of risk is likely to be higher than that of the strategic or corporate style acquirer.**

The Industry Buyer

- **usually from within the same, or affiliated, field as the company.**
- **primary focus is on a business' fixed assets.**
- **presumes that they will bring virtually all other value to the enterprise.**

Step #3 - Pricing the Business Correctly!

Transaction structure and financial requirements will vary depending upon the size and type company involved. Businesses can be divided into four classes. Definition of Earnings, usual Price/Earnings ratios and Terms of Sale vary by classification.

WALL STREET: Usually Public or very large Companies

- **EARNINGS: Measured in millions of dollars**
- **EARNINGS DEFINITION: After Tax earnings**
- **PRICE/EARNINGS RATIO: 10x to OMG (Oh My God!)**
- **USUAL TERMS: Cash or Equivalents**

MIDDLE MARKET: Generally private companies with well-defined Corporate structure.

- **EARNINGS: $500,000. to low Millions**
- **EARNINGS DEFINITION: EBIT, EBIT-D, EBIT-DA to after tax earnings.**
- **PRICE/EARNINGS RATIO: 3X to 15X**
- **USUAL TERMS:**

  Down Payment: 1X to 2X Earnings to all Cash

  Plus: Bank Note(s) and/or Owner financing.

NOTE: Companies that represent a "Strategic Fit" usually will be valued and sold using "Wall Street" protocol. When a strategic reason for purchase is lacking, "Upper Main Street" methods are generally employed.

UPPER MAIN STREET: Private companies with Corporate structure developing. Owner has delegated many functions to others.

- **EARNINGS: Usually under $500,000.**
- **EARNINGS DEFINITION: Adjusted EBIT or EBIT-DA. Sometimes EBIT or EBIT-D are used.**
- **PRICE/EARNINGS RATIO: 3X to 7X**
- **USUAL TERMS:**

  Down Payment: Equity of 1X to 2X Earnings

  Plus: Bank Note(s) and/or Owner financing.

MAIN STREET: Commonly referred to as "Mom and Pop" businesses. Owner wears all the hats.

- **EARNINGS: Usually under $100,000.**
- **EARNINGS DEFINITION: Discretionary Earnings**
- **PRICE/EARNINGS RATIO: 1X to 4X**
- **USUAL TERMS:**

  Down Payment: 80% to 120% of Earnings

  Plus: Owner financing - Bank Financing is rare.

Definition of Terms:

EBIT = Earnings Before Interest and Taxes
EBITD = Above plus Depreciation
EBIT-DA = Above plus non-recurring and discretionary expenses
Discretionary Earnings = EBIT-DA plus Owner's Compensation

Note: Down payments or equity investments may exceed the levels indicated when inventories and other current asset values are high.

Step #4 - One Minute Quiz For Business Owners

This One Minute Quiz will help you answer the most difficult question a business owner ever has to face. Count your Yes answers to the following questions, then Click on "How did you score" to see how you did.

---

1. Is your business less enjoyable now than before?
Y N

2. Does your business challenge and excite you less than earlier?
Y N

3. Do you think of selling your business more often now than you did previously?
Y N

4. Do you find yourself complaining more lately?
Y N

5. Has the business come between you and your loved ones?
Y N

6. Has you business begun to level off or decline?
Y N

7. Are you concerned you no longer have the stamina your business requires?
Y N

8. Do you ask yourself "what would I do if I sold?"
Y N

9. Do you often wonder "What is my business worth?"
Y N

10. Would you be hesitant to personally guarantee a sizable loan in order to grow your business?

Answers To The One Minute Quiz For Business Owners

The Question: Should you begin preparing your succession plan or perhaps begin preparing to sell your business?

0 -3 Yes

Congratulations! You are happy and probably quite prosperous in your business. Keep it up.

4-6 Yes

Pay attention to your "early warning" signals!" It is best not to make the mistake of staying too long! Go out on top. Sell while you are still having fun. Best to start the planning process early. The actual succession or sale process can take a long time.

7-10 Yes

Don't let time spoil the fruits of your labor. Most great men and women in history have had more than one career. Time for you to decide that you want a change. Choose what you want to do next, then act.

Step #5 - Mistakes To Avoid When Selling a Company

- **Negotiating with the Wrong Buyer**
- **Inadequate preparation**
- **Failing to Identify Best Buyer**
- **Inability to Defend Value**
- **Failing to Understand Buyer's Motivation's**
- **Structuring Deal Incorrectly**
- **Failing to Obtain Full Value**
- **Waiting too Long or Selling too Soon**

Step #6 – Sell Your Business Quietly!

Family and private businesses are sold in an environment that is unlike the selling environment of anything else you can imagine! Sound surprising? After you review the following ten reasons that make selling a business different, perhaps you will agree.

#1 - Confidentiality

Making the decision to sell one's business is a difficult enough task in itself. However, once the decision is made how do you sell it without anyone knowing it's for sale? Adverse things can and do occur when people know, or think they know, a business is for sale. Confidentiality must be maintained. Here's why.

a) Employees get nervous and may leave for more stable employment. They believe that the "new broom will sweep clean." That may be true in public company acquisitions but is generally not true in private company sales. Your staff represents a significant portion of your company's value. Should your key employees leave, most buyers of private companies will not buy.

b) Competitors may take advantage by using the information as a way to gain an advantage and pirate customers. After a recent seminar on buying, selling and pricing businesses, a businessman said to me, "I wish you had given this seminar last year. Your information would have saved me $150,000." He had decided to sell and had sent information to his competitors and others within his industry offering his company for sale.

Shortly thereafter many customers stopped coming in. Apparently his competition was using the information to undermine customer confidence by saying, "I know you have done business with Joe for years but - he's selling out you know and . . ." Twelve months' later business is almost back to normal. Many companies have not survived this mistake.

c) Suppliers extend credit to your business because of your good payment record over the years. Now they hear you are "on the block". Might they put you on COD? What impact might that have on your business?

d) Bankers have a healthy skepticism of small business. They want your business but they have been burned in the past by others. They know that a very high percentage of small businesses fail. What's that? Who's trying to sell his business? Might the bank decide not to renew your line of credit? Call your note(s)?

e) Customers may lose confidence and decide to trade elsewhere. Where are you without your customers?

In summary, sell it but don't let anyone know it's for sale. What else must be sold under that condition?

#2 - Business owners do not know what the business is worth

Essentially every business person we have worked for has confided that they really did not know what their business was worth. They admitted that although they didn't know what the business was worth, they knew what they wanted for it."

What seller of any other item being sold doesn't know the item's worth?

#3 - Buyers don't know what they want to buy

An overwhelming majority of buyers come to us and profess to be in search of either a light manufacturing opportunity or perhaps a distribution company. This is code for "I really don't know what I want to buy but I'd feel silly telling you that." Later, virtually all admit they really didn't know what they wanted. The odds of a person buying the business that attracted them to our offices are 1 in 500! The odds of buying a company within the industry for which they initially stated a preference, 1 in 50!

We reviewed thirty-five Dry Cleaning Plant sales to determine how many were sold to persons who had responded to an advertisement for a dry cleaner. We were not surprised to find only one. The other thirty-four had come to us in search of something else.

What else has to be sold to someone who doesn't know they want to buy it?

#4 - The major selling point is intentionally concealed

A business owner's desire to minimize taxes overrides the desire to show bottom line profits. You have to look between the lines in order to determine the real earnings of a private company.

Can you think of any other situation where a seller intentionally conceals a major reason to purchase?

Everyone, yet no one, knows the value

Ask twelve buyers what a business is worth and you will get at least twelve answers. One of the twelve will offer more than the rest. Why? More on this later. Buyers, as with sellers, don't really know what a business is worth. Unlike virtually every other commodity sold, there is no public record of sale prices for private business. As a result, we have seen more than three hundred different valuation methods used by buyers, sellers and advisors to estimate a business's value.

What else has to be sold under conditions where nobody knows the real value but everyone has an opinion?

#5 - Future value of the purchase is dependent upon who buys it

You own a business and a home. So do I. We both have profitable businesses and nice homes. Let's swap homes and businesses just for the change and variety.

It's now a year later. The value of our homes is basically the same. What about our businesses? Might one of us be in trouble, perhaps both of us? What do I know about your business? What do you know of mine?

A business is a vehicle. How fast and far it has been driven is of interest but does not predict how a new driver might fare. Will a new operator drive the business to new heights, or drive it into the ground?

What else is sold where the future value of the purchase is so dependent upon who buys it?

#6 - Third parties refuse to ratify the wisdom of the purchase

We can buy virtually anything and a third party will participate in the purchase by providing the financing. This participation essentially ratifies the wisdom of our purchase. An excellent example is the purchase of real estate. The bank appraises the property, ratifies we are not paying too much and gives us a mortgage.

Banks cannot lend on goodwill. They need solid assets that can be converted readily to cash. Business equipment and inventories are not favorite collateral with bankers. What percentage of the asset value would they lend anyway? Which asset value would they use? Liquidation Value, Book Value, Replacement Value, Value in Place, Net Book Value - and what equity or loan to value percentage would they apply - 60%, 50%, 40%? What part of a business' value is attributable to the value of assets? Usually less than half. How much will your banker lend you on your business' assets today?

What other major purchase can you make where a third party will refuse to participate in the financing to any degree of significance?

#7 - Conflict between personal desires and financial considerations

Financial considerations are important but do not drive the decision to sell. Business owners sell their businesses to gain a life-style change. They want to sell in order that they and their business can each move on to different levels. The decision is a combination of personal and financial considerations. Nothing a business owner will ever sell will have the personal attachment the business represents. Only you, the business owner, are capable of making the decision.

Buying a business is a personal and life-style decision also, not purely a financial one. Buyers are seeking independence, freedom to express themselves and their ideas, the ability to take control and not have to put up with "corporate group think" any longer. Obviously, the financial aspects of a purchase are important but financial considerations do not drive the decision to purchase. Nothing will

have as great an impact on a buyer's way of life than buying a business. Only the buyer is capable of making the decision.

Both buyer and seller have to balance the imagined personal gain against uncertain financial prospects. A business opportunity, not a business guarantee, is involved. What other purchase or sale can you imagine that involves such a high degree of personal involvement and financial uncertainty?

#8 - Too many customers

Those who sell businesses are inundated with buyers. It seems everyone is either professing to be a buyer or knows one. Buyers are everywhere. Finding the right buyer is another story. It's always a seller's market for viable businesses. A down economy intensifies this as usually layoffs from down-sizing bring more than the usual number of buyers into the market.

Can you think of any other business where people complain of too many customers?

#9 - Extremely emotional atmosphere

A business is to its owner as a child is to its parents. Your business is an extension and a reflection of you. It's your baby and you do not have to sell. You have sacrificed yourself, your family life. There have been times when you didn't take anything out, rather you put everything back into the business. All those long hours, your hopes, your dreams. . . now you are thinking of selling? Put the business up for adoption?

What else is bought and sold in such an emotionally charged atmosphere?

#10 Unique Selling Environment

The environment in which a business must be sold is unique. Therefore, the methods used to sell a business should be unique also. Although the sale of a business is different than the sale of essentially anything else, what occurs is straightforward. It all makes perfectly good sense and is quite logical once you understand the uniqueness of what is occurring.

For an understanding of the process, assume the value of your business contains seven zeros, and your firm is a public company. Before attempting to attract a suitor your board of directors would first engage an investment banker to identify appropriate acquisition candidates (buyers) and determine the company's worth. The investment bankers would provide the board with information as to the best acquirers and what values or strategic advantage might be achieved through a sale or merger of the firm. The board of directors would then decide if sale or merger of the company was in the best interest of the stockholders.

Many times the investment bankers report and research forms the basis of a course of action not previously considered. Assuming the decision to sell was ratified, the investment bankers would then package your company so as to be

most attractive to the appropriate acquirer(s). Only those with a strategic reason to purchase and the ability to pay would be approached.

Essentially the same process should be used by family and private companies considering sale. Identify the characteristics of your ideal acquirer. Only the best buyer will pay the best price. Determine what makes your company of valuable, to whom and how much. Then decide to sell the company or take other actions that might be deemed more appropriate, such as make the company more attractive and valuable or perhaps consider some alternative to selling.

When the decision is to sell, then only those who will recognize the firm's optimum value will be approached. You will know everything about them before they know you are for sale. Your company will be sold on your terms and at your price without anyone knowing it was for sale.

Step #7 - The Savvy Seller!

The selling of a business is not an everyday event for an entrepreneur. For most it is a once in a life time experience. The consequences are generally greater and have longer lasting impact than any business decisions previously made. The result of the sale can be either traumatic or rewarding - financially and emotionally. Given the stakes, the business owner owes it to himself, his family and employees to take steps calculated to maximize success - success not only in obtaining the highest value but also in the continued viability of the company after the sale.

To achieve this objective, savvy sellers approach the process with the planning discipline they impose on important day to day operations and strategy decisions. What follows is an overview of the winning strategies.

- **Plan ahead in order that you might present your company to an acquirer in the best light**
- **Is selling now timely? Obtain the information you need to make an informed decision**
- **Identify the ideal candidate. A company that would be worthless to one might be worth millions to another.**
- **Position your company. Package the information the acquirer will need in the decision making process**
- **Set price and terms for your company that you can defend with confidence and credibility.**
- **Apply attitudinal and negotiating techniques to enhance your ability to obtain the best price and terms.**

Following this procedure will eliminate many problems before they can occur thus saving extravagant expenditures of time, money and energy.

Plan Ahead

Preplanning is one way the savvy seller maximizes his profit when selling. He understands that when it comes to selling, his company is a product. Its financial and operational record will result in its being deemed either a prize or a distress item to be acquired only at a bargain price. Explanations, financial reconstructions, or contingent earn-outs will not completely eliminate lack luster historic performance.

Here are some of the things you can do:

Have professionally prepared statements if you don't already have them. If the size of your company warrants, have audited statements prepared. While buyers generally conduct their own verification as part of their pre-purchase investigation, their level of concern will be materially reduced if you have complete and professionally prepared statements.

Review your lease, if you are in leased space. Make sure you have 5 to 10 years remaining. If not, negotiate with the landlord for the additional time before you find the buyer. If you own your real estate, consider having it appraised now as part of your preparation and decision making. You may find your building alone is worth more, (with another use), than if the business and real estate were sold together.

The understandable desire to maximize personal wealth by understating earnings may have to be replaced with the desire to increase the value of the company. Items may be capitalized rather than expensed. Salaries, bonuses and redundant personnel may be trimmed. Inventory "cushions", travel and entertainment, charitable donations etc. might be reduced. Discretionary expenses should be curtailed or made clearly identifiable.

Is Now the Right Time to Sell?

Only you can answer this question. However, in order to do so, you need information upon which to make an informed decision. You need answers to several questions. What is the company worth? What might it be worth later? What steps could be taken to increase its value?

Given the stakes, the business owner owes it to himself, his family and employees to take steps calculated to maximize success. Look in the mirror. How do you appear to others that may be involved in decision? To frankly assess our own strengths, weaknesses and appearances is extremely difficult, if not impossible. Seldom are we able to distance ourselves sufficiently to be objective. Additionally, we usually lack the "Market Place Perspective" required to understand how and why others will perceive us.

What to do as in any situation of major importance, you should engage a professional. In this case you need a firm or person actively engaged as business brokers or intermediaries. They interact daily with bankers, buyers and private money sources. They understand the market place, the perspective of the various investor types and their advisors.

The firm you choose should have market place experience in dealing with buyers, sellers and bankers. They should be large enough to bring a team of diverse talents to your project. Make sure they have experience working with private companies. There is a world of difference between private and public companies. The report you receive should review both the objective data and subjective environment that surrounds your business through the eyes of those involved in your decision, (bankers, buyers, investors, etc.).

Appropriate accounting, statistical and subjective approaches are then applied to develop a range of Bench Mark Values for your business. "Bench Mark" Values include, but are not limited to, Market Value, and Cash Flow benefits to you (present and future). A comparison of the values allows you and your advisors to objectively determine the course of action that represents your best interests. You are now in charge.

Attracting the "Right Buyer"

Value, like beauty, is "in the eye of the beholder" and beauty is very subjective. The savvy seller instinctively understands that the uniqueness of his firm represents its highest value only to a unique buyer. The buyer will have the specific combination of skills, interests, talents and resources the company requires to prosper and grow. In other words, the buyer will "fit" the opportunity the company represents.

During the Business Profile and Buyer Identification portion of the first step, a portrait of the ideal acquirer was developed. You know "what he will look like". You also know where to find him. You understand how he thinks and why he will pay the highest price. As they say in tennis, "Advantage, Savvy Seller.

Positioning Your Company

One might define positioning as "Not what you see but how you see it". During the prior step we corrected several items to enhance the value of the company. Positioning allows those things that either we couldn't or didn't want to change to be viewed in a positive light. "All the right things are wrong with the company." The savvy seller is aware of this and either learns how to accomplish it or engages a professional, usually a business intermediary, for assistance in this all important phase. Purchasers have become much more sophisticated and will insist on substantial amounts of information for even the smallest of companies.

In recognition of this an attractive, persuasive- yet frank selling document is prepared. This document, or business profile, should contain the information necessary for an investor and his advisors to make intelligent decisions. The

profile serves as a track that leads to a successful transfer. Financial information, although important, represents a minor portion of the document.

Price and Terms

The savvy seller understands how different buyers value and price companies and positions his accordingly. The first three steps, (business profile and buyer identification, preparation and positioning) are designed to identify, obtain and defend the best price. You are in control. Your company is viewed as a prize representing exciting opportunities. You are viewed as a serious, reasonable and astute business person. Your price and terms can be defended with confidence and credibility.

Negotiations

Negotiating in the emotional atmosphere that surrounds every business transfer requires skill and experience. The Savvy Seller generally engages an experienced business intermediary to handle this important function. Emotion and ego prevent an individual from negotiating as effectively for himself as he would for others. Know what form or mix of purchase price consideration is best for you. Be familiar with tax, legal and accounting implications. Determine the items that are important to you and be prepared to trade off the less essential ones.

Preparation and planning pay handsome dividends during the negotiation process. Your position is supported by comprehensive documentation. You understand the buyer's motivations. The transaction progresses smoothly. You obtain your price. The buyer is satisfied; he and the business are destined to prosper.

Summary

The seller who takes a casual approach to selling, or is waiting for a suitor who will make an offer that "just can't be refused", usually loses. Generally, the sale is not made or is made at less than optimum value. Very often word leaks out that the company is being sold. Possible results? Loss of employees, business, credit, etc. that could prove fatal to the firm. It is no accident that the savvy seller sells his business at a premium price quickly and quietly. Preparation and planning result in a sale that is rewarding financially and emotionally.

Remember, we are well trained professionals who know how to buy a business. Please utilize our talents and call us whenever you need assistance or have questions about the process.

If you have any questions concerning the material presented on the previous pages, please contact:

JOHN W. WALLACE
Licensed Real Estate Broker

THE GRAY RIDER REAL ESTATE COMPANY LLC
143 Longview Drive
Chatham, NY 12037 USA

Telephone: 518-392-7062
Fax: 1-877-875-5704

Email: john@grayrider.com
Website: www.GrayRiderCommerfcial.com
International Website: www.GrayRider-International.com