



PREPARING A BUSINESS FOR SALE MAKES IT HEALTHY

A Checklist of Steps to Prepare a Business for Sale

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Summary: In our experience with business clients, we have observed that the thought process of preparing a business for sale results in the business being worth more to the Seller.

1. Find Out Where You Are Now.

1.1. Get a business valuation. One of the first things you should do is obtain a realistic idea of what your business is worth from an objective, outside source.

2. Human Beings Are Motivated by Super Ordinate Goals – Have A Written Sales Plan at All Times. (Document sales plan.)

2.1. Car racing results in high performance cars.

2.2. Military inspections create the incentive for the troops to excel.

2.3. Visitors to your home increase the quality of home care and maintenance.

2.4. The possibility of a sale stimulates business improvement and targets the essentials – what a Buyer looks at.

3. Gas and Gas Gauge Analysis – Prepare the Cash Aspects of the Business for Buyer Scrutiny. (Document with a notebook containing Flash Reports on cash.)

3.1. Set up a system for calculating the amount of available cash to operate the business and the number of months this will last.

3.2. Calculate average daily compensating bank balances on the operating account.

3.3. Increase cash flow. Buyers generally value businesses using a multiple of cash flow. Clean up operations prior to marketing your business with an eye toward increasing cash flow. You might consider eliminating operations or expenses that are “nice to have” but not critical to your business. Carefully evaluate new expansion plans, leases and business development expenses. If these expenses are not expected to bear fruit near-term, they may not be prudent.

3.4. Diversify your customer base and sources of revenue in order to create predictable and dependable cash flow. Buyers get cold feet when they see that a business disproportionately depends on just a few clients. In order to do this, consider offering additional services or products within the boundaries of your business. For instance, banks do not want to lend money to a business in which more than 10% of the gross revenue comes from a single client.

3.5. Set up a liquid asset management account for excess cash and invest in no load preferred stock funds and keep this at high levels with stockholders loans.

3.6. Each year, document and maintain the highest line of credit even if it is not used and maintain a financial notebook to document credit information.

3.7. Maintain optimum debt equity and current ratios by stockholder loans if necessary.

3.8. Maintain flash reports on cash availability.

3.9. Maintain Your Business’ Performance. Don’t let your business performance decline because you are too focused on the sale of your business. This will only give buyers additional negotiating power to lower their offers.

4. Instrument Panel Analysis – Prepare the Accounting Aspects of the Business for Buyer Scrutiny. (Document in your accounting books.)

4.1. Set up computerized monthly statements with comparison to budget-cash and accrual.

4.2. Maintain reviewed or audited year-end financial statements. Confidence in your financial statements and reporting is a must.

4.3. Document owner’s excess.

4.4. Document monthly critical success factors and weekly flash reports.

5. **Make a good first impression.** Will a buyer visiting your shop for the first time see order or chaos? Buyers look for companies that show well, as an orderly shop is often indicative of an orderly management team and back-room operations.

6. **Pilot and Crew – Prepare the Personnel of the Business for Buyer Scrutiny.** (Document in your personnel files.)

6.1. Maintain complete personnel files with background checks, testing information, resumes, job applications, Confidentiality and Integrity Agreement signatures, job descriptions, annual reviews, and 360E evaluations.

6.2. Document employee surveys.

6.3. Document employee compensation with written verification of pay and fringe benefit arrangements and calculations of total direct and indirect compensations.

6.4. Maintain and verify unemployment and workman's compensation ratings and fund status.

6.5. Have bonus system for key employees which covers event of a sale and encourages continuation of employment.

6.6. Have updated employee handbook with all group fringe benefits spelled out.

6.7. Have evidence of compliance of all human resources laws.

6.8. Consider management succession. Are you personally absolutely vital to your business? If so, who will a buyer be able to turn to for help running the business after you leave? You should have a succession plan in place before going to market.

6.9. Get your advisory team in place. Start interviewing attorneys and accountants who are proficient in mergers and acquisitions. Strongly consider hiring an intermediary, either a business broker or an investment banker, to represent you and help you through the selling process.

7. Structure Analysis – Prepare the Legal Documents of the Business Buyer for Scrutiny. (Document in your corporate minute book.)

7.1. Have legal audit of corporate minute books, stock records, and keep it current annually with articles, bylaws, organization minutes, annual minutes, stock records, and ratifications of all legal documents and a letter of good standing from corporate attorney.

7.2. Engage a qualified corporation attorney to serve as general counsel and insist that he selects or approves of all specialty attorneys and initials every legal document outside those used in ordinary course of business and as to those standard legal forms used in the ordinary course of business.

7.3. Written plan for resolving each lawsuit with likely outcome.

8. Flight Plan Analysis – Prepare the Planning Documents of a Business for Buyer Scrutiny. (Document in your planning notebook.)

8.1. Annually document and update these plans.

8.1.1. Image statement.

8.1.2. Vision statement.

8.1.3. 5-year strategic plan.

8.1.4. Annual business plan with annual objectives.

8.1.5. Marketing plan.

8.1.6. Safety plan.

8.1.7. Quality control plan.

8.1.8. Mission statement.

8.1.9. Value statement.

8.2. Circulate these plans within your entire business team and keep them updated.

9. Inventory Analysis – Prepare the Inventory for Buyer Scrutiny.
(Document the validated inventory notebooks.)

9.1. Must have an inventory verification system for easy-to-lose items.

9.2. Must have computer method to identify turns of inventory on each item.

9.3. Must have attractive efficient layout for inventory.

10. Receivables Analysis – Prepare the Receivables for Buyer Scrutiny.
(Document with receivables aging report and customer files.)

10.1. Must have aging information monthly.

10.2. Must drop bad paying customers.

10.3. Must turn over 120 day receivables for collection or for promissory notes.

10.4. Must have credit application and credit report for each customer.

11. Furniture and Equipment Analysis – Prepare the Furniture and Equipment for Buyer Scrutiny. (Document with notebook of equipment and furniture inventory.)

11.1. Inventory of furniture and equipment allocated by person responsible for equipment and system to maintain it.

11.2. All business property is numbered and photographed.

12. Customer Analysis – Prepare the Customers for Buyer Scrutiny.
(Documented with customers list and customer files.)

12.1. List all customers and prospective customers on computer data base with all information and with a customer file for each customer.

12.2. No one customer with more than 10% of gross sales.

13. Building Analysis – Prepare the Building for Buyer Scrutiny.
(Document with copies of building plans and leases.)

13.1. All areas of the building assigned to an employee as their primary responsibility.

13.2. Building separated from the corporation with fair rent and fair terms.

13.3. Someone assigned to inspect building and personal property regularly.

14. **Drop Excess Baggage.** Settle outstanding litigation and evaluate potential environmental liabilities. Material pending litigation with an uncertain outcome or undefined environmental risks can squelch a sale.

15. **Maintain Documentation Analysis.** Have all selling documentation documented in writing in notebooks and files ready to give to prospective Buyer under Confidentiality Agreement with penalty for failure to give back documents.

15.1. Go through the Non-Disclosure and Confidentiality Agreement on the Sale of a Business list and use that as a worksheet of what you have for the prospective Buyer. (See the attached sample Non-Disclosure and Confidentiality Agreement for the Sale of a Business.)

15.2. Prepare a draft Sale Agreement which only requires the fill-in of numbers to educate top management to what will be considered on the sale of the business.

15.3. Obtain International Standard for Organization (ISO) certification.

16. Know your reason for selling. Buyers are always curious as to why a seller wants to exit a business. (If your business is so great, why are you leaving?) Be prepared to articulate your reasons.

17. **Never Buy into a Business Unless You Have A Way Out.** If you do not have a way out, prepare a plan for selling the business.

For additional information call: (602) 252-5110

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