

Exit Strategies

Preparing the Company for Sale: What Buyers Want to See

by Daniel R. Siburg, CPA, CVA & Howard Fisher

Potential buyers for a company generally look hard at certain aspects of it, and vanish if they do not like what they find. Fortunately, the same practices that will help you run the business more efficiently and effectively on a daily basis will also help you position it for an advantageous sale.

Revenues and Sales Programs

Buyers want to purchase – and are willing to pay more for – companies whose revenues have been increasing year after year because continually improving sales indicate that a company is well run, both operationally and financially. In other words, revenue growth shows a buyer that the company’s products are selling and that there is a high probability of recouping the purchase price.

Buyers are not willing to pay for a business with flat or decreasing year-to-year revenues, poorly run operations, and weak financial information and infrastructure.

Accordingly, a strong sales program is key. It should include maintaining or growing sales throughout negotiations with a serious prospective buyer to ensure that sales do not fall before the deal is final. And, it should involve concentrating on increasing revenues in every sales channel you use – domestic, foreign, special, and licensing-related – both before you put the company on the market and during negotiations with potential buyers, a process which might take 18 months or more.

Keep in mind that concentration issues related to customers, products, accounts receivable, inventory, or sales channels increase the buyer’s risk factors and reduce the value of a business.

Financial Information

The business should pay as much attention to producing good financial information as it does to producing good products. Proper financial practices and statements will help the business

run on a daily basis while they validate its value for potential buyers. Sloppy financial practices will cost your business money every day, up to and including the day it is sold.

Buyers want to see financial information that is meaningful, accurate and timely. It must be up-to-date and easily accessible. Audited statements are the gold standard here. Audited financials give buyers a high comfort level. When outside accountants have verified the account balances, financial due diligence for the sale of the company can often be streamlined.

Specifically, buyers want to see that the company they are considering has a budget as well as financial and operating metrics that it is using to help manage and direct its business. This means that you should review all accounts on the profit and loss statement and balance sheet with an eye toward what can be improved – paying special attention to accounts receivable and inventory. And, you should ensure that payroll and business taxes are always current.

Properly-run operations provide measurements of key operating data and help a buyer understand the costs of running the business. Buyers can use this data to determine how much additional margin they might obtain under various scenarios and will factor that calculation into the purchase price they offer.

Accounts Receivable

Most sales of small to mid-sized companies are structured as asset purchases rather than stock purchases. Buyers choose specific assets to purchase and generally do not purchase the seller's accounts receivable. But, good accounts receivable balances still add value and help sell the company because they give the buyer a great deal of information on how the company has been operated. Properly-managed accounts receivable show a buyer that the company's revenues are good, that product returns are normal, that the customer base is diverse, and that customer return surprises are unlikely after the purchase of the company.

Properly-managed accounts receivable also help you collect quickly after the sale. This is important as those cash receipts are generally considered to be part of the purchase price you are getting for your business.

Inventory Levels

Buyers want to know that your inventory levels are high enough so that fast-moving products will not be out of stock when they acquire the company. At the same time, they do not want to purchase slow-moving, old, or obsolete inventory.

This means that you should strive to keep inventory levels in balance with sales, letting prospects see that they would be able to recoup their investment in a timely manner and not have to invest more cash into the company immediately after the purchase.

Intellectual Property

For some companies their main assets are its various contracts, trademarks, or patents. For buyers, a key to the value in a company's intellectual property is often the ability to assign these contracts, trademarks, or patents. Without proper assignment clauses in these agreements, as the owner you cannot transfer your rights in the intellectual property to the buyer.

Forward-Looking Business Plans

A company sometimes neglects to look forward with a business plan and a budget when putting the company up for sale. What buyers want to see is that the company is still being run for the future. A strong forward-looking business plan and budget will give a potential buyer more reasons to believe in the business and its future revenue.

Businesses that are for sale and keep an eye on the future business environment and issues, such as interest rates or legislative matters, can react quickly and take action to enhance the company's value.

The next article in this series will focus on ways companies are valued.

The Siburg Company is a boutique consulting firm specializing in financial and operational consulting with an emphasis on mergers and acquisitions.

Daniel R. Siburg, CPA, CVA
Managing Director

Dan is the Managing Director of The Siburg Company, LLC and has experience as both a President and Chief Financial Officer. He helps companies improve operational functions to manage costs and increase profitability. Dan specializes in merger and acquisition strategies.

We invite you to call us to discuss your current business needs or to schedule a future appointment.

The Siburg Company, LLC
6347 E. Windstone Trail
Cave Creek, AZ 85331
Phone 480.502.2800
Fax 480.502.2804
www.TheSiburgCompany.com