

Yikes! You've been approached by a great potential buyer....now what?

As a private business owner you are often contacted by people interested in buying your business. Most of these inquiries are from unqualified buyers, bottom fishers or people who don't know your business or industry. But what if you get approached by an intriguing suitor such as a leader in your industry or a company who has financial resources you could only dream of? How should you proceed? Here are some do's and don'ts that you will want to consider.

Being approached by an attractive buyer is a flattering experience. Someone sees the value of the business and your life's work. Perhaps... it could yield the pay day that you have been dreaming of. The timing of the approach may also be right. You may be reaching retirement age or have been in the business so long that it has lost its excitement. Industry consolidation may be forcing you to look for ways to add more products or services or reduce costs to remain competitive. Whatever the reason, you decide to play out this particular situation. What next?

A majority of owners will try to handle this type of situation alone. They don't want to spend money on professional assistance. They think a couple of discreet conversations along with providing some recent financials will certainly "seal the deal" with a willing buyer. After all, the buyer has approached you and you know your business better than anyone else. If things get complicated or sticky, you can always bring in advisors at a later date to smooth things over... Right? Wrong! This casual perspective is one of the reasons the vast majority of these sale discussions never result in a completed transaction.

Preparation and presentation is one of the keys to successfully selling your company at the highest price and on favorable terms. Being approached by a buyer does not change the fact that you are the seller. You have been invited to the dance and now need to put your best foot forward. It is probably the most significant financial transaction of your career and not handling it properly can leave money on the table or worse, scuttle the deal. How should you prepare?

- Get your financials in order. Historical financials don't necessarily give an accurate view of your company's worth. Restating the financials to eliminate discretionary owner perks and non-recurring expenses, and writing up your assets to fair market value will help uncover the real value of the business. Providing your numbers too early and in raw form can hurt your position as they anchor the buyer's perspective on a lower price.
- Identify your 5-8 key selling points. You need to clearly understand and then articulate what makes your organization great and desirable to the buyer. It is often helpful to have an outsider view your business through the lens of the buyer. They can provide honest feedback on your strengths and weaknesses and sharpen your message. Similar to any sale, you need to accentuate the positives and be ready to address any negatives.
- Get your story together. Owners are often not prepared to review and explain past performance and future opportunities. This is understandable since you are rarely

accountable in this way. Yet it is not acceptable when trying to maximize your company value. Buyers want to know that you have a good grasp of the business and can explain anomalies. All companies have some warts. Be prepared to discuss them when asked. Most importantly, be able to excite the buyer about your future business prospects. Remember, “buyers like to pay for the past but they buy for the future”.

- Get ready to negotiate. The sale of a business is complex and loaded with details and various moving parts. Introductory meetings are usually a love fest, but quickly thereafter you need to be prepared to negotiate the basic terms of an offer. In many cases the balance of power lies with the purchaser, often a larger company with more experience negotiating transactions. Having an advisor on your side of the table can increase your chances of receiving favorable terms. An advisor can also provide a buffer between you and the seller as well as maintain deal momentum. An agreed upon letter of intent (LOI) is just the beginning of the sale process and negotiations. After the LOI is agreed upon, a deluge of information requests will be made and questions asked. This due diligence process will likely involve a few key members of your team. Make sure they are educated about the process.
- Consider the roles of professional advisors. Consider the use of professional advisors at early stages of your discussions. Yes, they may cost some money but the benefits are typically a multiple of the cost. You have one time to make a good first impression and advisors can help you prepare. Your lawyer prepares and reviews all important documentation and protects your interests. Accountants add credibility to your numbers and can pull out unusual expenses. Sale advisors are your deal advocates and can identify elements that increase price. They quarterback the entire sale process and ensure deal momentum is maintained as long as you remain interested.
- Focus on your business during courtship. Psychologically, once you entertain the thought of a sale there is an inclination to slow down or spend too much time on the selling process to the detriment of the business. Many company sales fall apart due to business performance falling off during this critical time period.

In working with business owners for over 30 years, we have seen a wide range of outcomes when companies have been approached by great potential buyers. Those who put forth the time necessary to prepare properly or hired experts to assist them were the happiest with their results. Those who casually approached the situation often missed out on a great opportunity. Some sellers repeat this mistake time and time again. This not only wastes precious time, it also eliminates top potential buyers when owners truly want to market their business.

When approached by a great potential buyer prepare for the discussions like you are trying to make the biggest sale of your life. You are! At a minimum, the buyer will be impressed with your professionalism and you will gain additional perspective about your business. At best, you may achieve that big pay day and leave an enduring legacy.