

PREPARING THE BUSINESS FOR SALE

For sellers to receive top dollar for their businesses, planning is critical! It is not something to put off just prior to the decision to sell. Following are some factors to consider, both long-term and short-term.

Long-Term Considerations

Ideally, the seller will start planning a full year in advance of a sale, because numerous elements will take considerable time and expense to execute. Most small private companies, for example, have their financial documents “reviewed” or “compiled” but rarely audited. Auditing statements involves conducting an actual physical inventory, with each accounts receivable and all other financial details verified in the process. While audited statements are mandatory for public companies, many private companies opt not to pay the extra cost of auditing, which can range from \$10,000 to \$40,000. However, an audited statement, which is a verification of the reported numbers in the financials, may result in a higher offer by the buyer.

Other items to address in preparation for selling a company include cleaning up the balance sheet of old debts and writing off uncollectable accounts receivable and old inventory. This ensures that the buyer is not deterred by a less than pristine financial statement.



Settle outstanding lawsuits and engage top management in non-competitive and stay agreements.

Further, make sure the plant is in excellent physical shape; spruce it up if need be. If the facility does not show well, it will very quickly turn off buyers.

Short-Term Considerations

In addition to the long-term issues discussed above, certain elements need to be considered in the short term. Prior to going to market with the sale of a company, sellers need to allocate about two to four months for organization purposes. A critical element in organizing a business sale is to assemble a team of advisors, including a mergers and acquisition (M&A) intermediary. This representative will partner with the seller during the entire selling process and will probably be in contact with the seller almost daily for the next six to twelve months. The intermediary will also orchestrate the process and act as “quarterback” for the team of advisors. A transaction attorney, an accountant, and most likely a tax attorney who will be knowledgeable about the company’s personal affairs should also be by the seller’s side.

Next, it is advisable to have a valuation of the business that not only determines the “anchor” price but also supports the seller’s reasoning in the negotiating process. Along with the business appraisal, sellers should

consider obtaining a machinery/equipment appraisal and a real estate appraisal. The buyer will need these separate appraisals to know what will be required in order to finance some of the hard assets.

Finally, the preparation of the selling memorandum by the intermediary is the major selling tool in the entire process. This document describes in detail the industry, the company, the financials, and investment considerations.

Along with this document, a seller should have a “war room” of various documents pertaining to the business: lease agreements, bank agreements, a sales representative agreement, and corporate minutes. The war room would be the single place where all of the necessary secured files are kept. These files contain all the pertinent facts of the company, which buyers will want to review as part of their due diligence process.

There is an old saying that the right time to prepare to sell your company is the day you start or purchase it.

Alamo Corporate Group and its advisors have specialized in ownership transfers of closely held companies since the late 1980's. We offer a range of intermediary services including mergers, acquisitions, divestitures, buyer identification, management buyouts, debt restructuring and in very limited instances, acquisition searches for high-net-worth individuals and private equity groups.

Alamo's primary purpose is to provide an extremely confidential national service that brings buyers and sellers together through our extensive contacts in the financial and intermediary communities.

Our process is very structured, as experience has shown us that while each buyer and seller is somewhat unique, there are enough similarities that specific steps must be followed in order for transactions to close. Confidentiality is guarded throughout each step of the process.

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