

***Allegiance
Capital Corporation***
PRIVATE INVESTMENT BANKERS

Selling Your Business

The Comprehensive Guide to Selling with Confidence



Allegiance ***Capital Corporation***

PRIVATE INVESTMENT BANKERS

You've built a business that serves others.
Now, we're here to serve you.

As a premier private investment bank founded by entrepreneurs, we're dedicated to helping our clients transform years of hard work, dedication, and success into dreams that transform their future.

We also know that selling a business is often a once-in-a-lifetime opportunity. That's why we're here to answer your questions, along with our combined expertise based on a proven sales process and more than three decades of experience serving owners like you.

To learn more about taking the next step, reach out to us so we can learn more about how we can help you achieve your vision.

Connie Mahmood

Connie Mahmood

President
Allegiance Capital Corporation

Preparing to Sell Your Business

How do I know when it's the right time to sell?

Positioning Yourself for Success

The right time to sell is *when things are going well*.

Too many business owners, think that may sound counterintuitive. Why sell when my business is at its peak?

However, getting the highest price for your business isn't just about waiting for the right offer. In fact, finding a Buyer is only one piece of the puzzle. The most successful transactions come when several factors are in play, such as the state of the economy, current M&A activity, and how well you've painted a story of your business's value and future success.

With so many moving parts and various levels of preparation involved, many business owners do not realize that selling is a completely different than selling real estate, equivalent of any other deal they have done. Working with a team of M&A experts is key to getting all parts in motion.

How to Create Leverage and Prove Future Value

Business owners often compare selling their business to selling a home—your business is first appraised, then you hire a broker to sell, and your business goes to the highest bidder.

However, this couldn't be further from the truth.

There are far more factors considered when selling a business. As a Seller, one of your greatest strategies for success is the amount of leverage you can create for yourself. Think of it like this: as a Seller, your mission is to present your business as a compelling growth story. While the story begins with your present-day value, you'll also need to prove that your business is poised to provide and generate even more value in the future.

So how do you prove that to potential Buyers?

Here's where it gets interesting. As a Seller, creating your compelling growth story involves the following (at the very least):

- The state and future of your business's industry
- Your business's current financial state and revenue
- Your organization's processes and culture
- Any legal standing or issues
- The current and projected demand for your product or service
- Your level of expertise and desired involvement after the sale

This is just the beginning of the list! Additionally, it's crucial to consider that a Buyer will be conducting a thorough investigation of your business. Your growth story may be contested, which will be reflected in the Buyer's negotiations and offer! After all, it's their job to ensure that they're making a sound investment.

The best way to ensure you maintain your leverage is through exhaustive preparation. One of the keys to navigating with confidence and creating leverage is working with an experienced team that can help you understand the different types of buyers and their motivations. Your team will identify the optimal moves at the right time.

How You Know You're Ready to Commit

Deciding to sell is a huge decision but an exciting journey! As a Seller, you'll know that you're ready to sell once you've:

- Completed an exhaustive Corporate Cleanup (see more about this in the next section!)
- Confirmed with a team of investment bankers or M&A advisors that your company is ready for Buyer due diligence
- Identified and composed a strong position of leverage as well as a compelling growth story
- Have a strong idea of your future after you've sold your business! (It doesn't always mean a full exit!)

Once you've completed the above, you're ready to sell!

Commence Corporate Cleanup

Identify Any Issues

Many business owners underestimate the level of preparation required to acquire and maintain the leverage they need to get the maximum price on their business. Being "ready" to sell is all about positioning yourself to seize the right opportunity at the right time. Potential Buyers will be preparing their due diligence on your company's records and operations to assess the health of your business and ultimately, determine their offer.

Before you even announce the intention to sell, begin by identifying any inefficiencies, financial gaps, or legal risks within your company. Here's an example list of where your M&A team will start:

- Updating your company's Business Plan.
- Organizing your files and material agreements.
- Preparing detailed monthly management reports including financial forecasts, budgets, and sales.
- Obtaining and updating all permits, leases, insurance policies, licenses, patents, and trademarks.

Take Action to Resolve

After you've identified it's crucial to take action to resolve the identified issues. This can mean partnering with a team of experienced M&A advisors to help you update your company's business plan, prepare detailed monthly management reports, or organize your files and material agreements.

Recast Your Financials

Identify Financial Impacts

Before selling, your M&A team can help you identify opportunities to increase your value by reviewing and identifying non-recurring expenses or revenue, as well as other items that can impact your company's actual performance identified as add-backs. This is when a Seller can increase the business's value and in turn, achieve a higher offer.

Make Adjustments

After calculating the appropriate adjustments in your financial statements, be sure to add or deduct the necessary transactions to create an accurate picture of your company's performance.

Find out how much your company is worth—obtain a valuation!

Most business owners don't know what price their business could sell for. Here's where an experienced M&A advisor is crucial to helping you achieve a "baseline" value for the business. While there are many valuation models, remember that your business is a dynamic, unique enterprise and should be valued as such! Additionally, depending on the transaction and complexity, your M&A team will be crucial to gaining an accurate understanding.

Prepare for Audit

Gather and Organize the Right Documentation

Ensure that your financial statements, legal documents, and other relevant documents are updated and organized. For example, make sure you've prepared detailed monthly management reports including financial forecasts, and have obtained and updated all permits, leases, insurance policies, licenses, patents, and trademarks.

Hire an Auditor

When hiring an auditor, be sure that they have the expertise and qualifications that are specific to your industry.

Build Your Deal Team

Selecting Your Trusted Advisors

Selling your business isn't just a transactional process, but also a personal process. You've worked hard to build a business that offers value, so finding a team that understands you and your goals is crucial to success. Take the time to find a team of experienced M&A advisors—it's not unusual to assemble the deal team 12-18 months before the kickoff.

Defining Crucial Roles for Your Team

- Investment banker: Helps corporate clients secure their funds in the capital market, acts as your financial advisor, and serves as the guide through mergers and acquisitions.
- State/tax attorney: Helps clients navigate through difficult tax codes at federal, state, and local levels.
- Certified Public Accountant (CPA): Assists with tax preparation, auditing, and consulting.
- M&A attorney: Advises and facilitates legal aspects through acquisitions, ensures compliance, negotiates terms, and manages the due diligence process.

Building Your Strategy

Navigating Negotiations

Prepare for negotiations and counter-offers.

One of the greatest mistakes we see business owners make is assuming that they can easily maintain their leverage once negotiations begin! This is because business owners often draw parallels between running a successful, revenue-generating business with getting the maximum value for what they've created.

However, the two processes couldn't be more different. Here's why: Sellers have the most leverage before the due diligence process, which is when the Buyer performs in-depth investigations on the entirety of their business, which includes everything from earnings to projections to legal issues. Remember, the goal of due diligence is to use the information uncovered to renegotiate!

A well-advised Seller will understand that maintaining their leverage comes down to cleaning up their side of the street, the state of the market (as well as their approach), and how to stick to their guns.

Let the Buyer make the first offer!

While the goal is to get a deal on the table, Sellers should almost never present the first offer! Doing so sets a limit on the maximum value you could receive as the Buyer will never offer more than your asking price.

The truth is that the price will never be “right” for the Buyer—too low of a price will assume that Seller isn’t taking their value seriously and too high of a price will scare a good prospect. Sophisticated Buyers expect to present the first offer, so let them make the first move!

Handling Tough Negotiations

Every Seller should have an experienced team of M&A advisors and lawyers to aid them through the process. The sales process, at times, can get adversarial and it may be tempting to concede on issues. Thus, working closely with your advisors is key to a successful outcome.

Our advice is to stay professional, ask your team to help you understand all aspects of an issue, and rely on your advisors.

Finally, it’s important to enter into transactions with the desire to find a win-win situation. Most issues can be resolved between reasonable business people. Experienced counsel and M&A advisors should be called upon in these circumstances to figure out a way to make it work.

Deal Structure – Everything You Need to Know

Stocks

When engaging in a sales transaction with a publicly traded company, it’s not rare for them to use their stock to facilitate a transaction. This should be reviewed with your M&A advisor on a case-by-case basis. Each buyer’s stock will have to be reviewed on its own merits and how the acquisition could affect the company. Historical performance, recent board comments, and future outlook should all be taken into consideration.

Rollover Equity

Rollover equity refers to a portion of the proceeds that the Seller reinvests back into the company. For Sellers that want to stay involved with the business post-sale, this can be an amazing and effective way for Buyers to keep the Seller engaged!

Seller Financing

In these situations, the Seller frequently provides a Promissory Note to the Buyer. However, Sellers should remember that selling your business for a note involves significant risk. Consider the following:

- Is the Buyer creditworthy?
- How should the Note be collateralized?
- What’s the shortest payout that the Buyer can afford?

Accordingly, the Seller may wish to add a significant amount to compensate for this added risk.

Earn Outs

Earn-outs are typically linked to the earnings or revenue targets for the Seller's business and can be used to bridge the gap between Seller and Buyer expectations.

Earn-outs can be a way to participate in the success of the business post-closing but can also be an invitation to litigation. Our team always suggests that our clients view earn-outs for what they are: possibilities for additional purchase price, rather than certainties.

Legal Process

Both parties will have their own legal representation. As one of the final steps, the legal process involves the drafting and approval of definitive documents. The typical timeline is around 60 days, though this can vary depending on the transaction.

Reps and Warranties

In an M&A transaction, the seller makes statements of fact about their business, which are referred to as representations and warranties. These mainly refer to assets, liabilities, and can be heavily negotiated by both parties during the transaction process to allocate risk between them. Essentially, the Seller will create a policy assuring that the reps are true, and if proven to be otherwise, the Buyer is entitled to seek legal remedies.

Conclusion

Though this guide provides an overview of the selling process, no two transactions are alike. Your goals and challenges will be unique to your business, which is why it's crucial to have a team that will guide you through every question you may have through the transaction.

We're here to help you take your next step.

Our team of experts has helped countless business owners face the future with confidence. Talk to us today to learn more about how to prepare yourself for success.

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