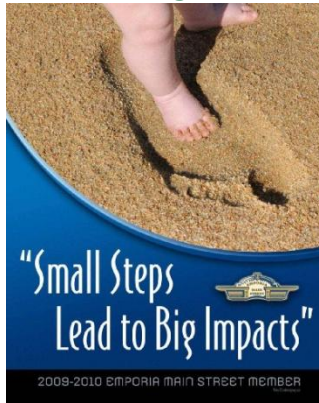


Selling a Business

Getting what YOU want while providing what a buyer NEEDS.



All businesses have a life cycle. Market changes, buying habits, passion for your business and a host of other factors change over time. When your business reaches the "transition" phase of its life cycle, what is your plan?

During last week's Kansas Main Street quarterly training in Phillipsburg, we learned from Tim Skarda, CBI from Allied Business Group, Inc. in Overland Park Kansas. Mr. Skarda specializes in the appraisal and sale of businesses, either internally (to a family member or employee) or externally (to an outside buyer). The following is a brief synopsis of Mr. Skarda's presentation. For more information, feel free to contact the Emporia Main Street office or visit the web site of Allied Business Group at www.AlliedBizGroup.com

What types of information are required to perform a valuation of a business?- According to Mr. Skarda, **3-5 years of profit and loss statements, tax returns and balance sheets, along with interim financials are important.** The "cleaner" the financial data (*meaning: multiple expenses are not included to create a "on-paper" loss*) the more attractive a business will be. Legal information like **shareholder agreements, lease agreements and other relevant data** are also required. **Management interviews, marketing materials and other on-site information** are typically packaged to showcase a business.



What factors influence the value of a business?- **Number one is cash flow.** If a business isn't profitable, it will be harder to sell. Key people in place that allow for a "turn key" situation with little inefficiency during transition is also important. Assets available in the sale, risk, ability to self-finance the sale, timing and location are also important value factors.

How can you increase the value of a company for sale?- Focus hard on the bottom line profit, both before the sale and in the interim of a sale. Decrease the reliance on the owner. If the business cannot succeed without you, the value of the business will be diminished. Improve your infrastructure. Things like technology, building issues and other infrastructure assets must be remedied prior to a sale to improve value. An individual purchasing a new business typically does not want to spend a lot on initial upgrades, and if a buyer thinks they must make those investments, their value perception of your business will decrease.



Businesses can be appraised using three basic methods.- **The Market Approach** (looking at the sale of similar businesses in similar markets), the **Income Approach** (present value and future benefits of a business's income, generally valued through a Net Cash Flow and/or Capitalization of Earnings Method) and the **Asset Approach** (generally only used during liquidation sales. Assets are adjusted to a market value and liabilities are subtracted from the asset number leaving an equity remainder).

Trademarks of a successful sale- **NET proceeds are maximized.** Remember, taxes can play a significant role in the sale of a business, so seeking a higher price isn't always in your NET best interest. **Risks are minimized-** Generally some cash payment up front minimizes risk incurred, but you should always do your due diligence on potential buyers. **A TEAM is assembled to cover all of your needs,** and the team should typically include the business owner(s), an investment advisor, accountant, attorney and a business broker. It generally takes 6-12 months to sell a business, and your team is vital

in the sales process. **REMEMBER- Brokers like Allied Business Group typically get paid on the BACK END of the sale.**

When should you sell? The best time to sell a business is when: The business is performing well, buyers are seeking purchase opportunities, interest rates and lender practices are favorable, capital gains taxes are low and the business owner is ready to make a change.

We have A LOT more information on this topic in the Emporia Main Street office if you are interested. Or, you can contact Tim Skarda at www.AlliedBizGroup.com for more information.

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Tim Skarda of Allied Business Group addresses Kansas Main Street.