A Time To Sell
Preparing Your Business For A Potential Sale

As a business owner, the decision of when to sell your business must be carefully planned, and included as part of a long-term succession planning strategy. Planning for the sale well in advance allows you to prepare your business to ensure you're in a position of strength to negotiate and maximize the proceeds of the sale.

Positioning your business for sale

Having made the decision to sell your business, you'll want to ensure it's in optimal condition to maximize its salability in order to receive the best price possible. To do this, you'll need to carry out an assessment of your company's strengths and weaknesses, which should include a review of the following areas:

1. Information

Access to information and updated record keeping plays an important role when dealing with potential buyers for your business. Providing timely and accurate responses to requests for information gives prospective buyers confidence about the stability of your business and their potential acquisition.

2. Management structure

In reviewing your management structure consider the following:

- Is there a full complement of capable managers in place who are willing and able to manage the business themselves, or under new ownership?
- How will existing management react to a change in ownership?
- What is the reputation of your team within your respective industry; including their reliability and their integrity?
- Are there individuals within the management team who could jeopardize the successful sale of your business? If so, what concessions might be used to bring them on side?
- Do business relationships lie solely with you? If so, are you willing to remain in the business after the sale in order to engage in a transition of these relationships?

A weak management team can be a detriment, so it may be prudent to postpone a sale until appropriate adjustments have been made to the management team.

3. Financial statements

Review your financial statements to confirm whether the company's financial position should be restructured. Frequently, a financial restructuring can result in a higher sale price than would have otherwise been received. Redundant assets should be identified and either sold, or removed. Consideration should also be given to the separation of real estate assets from operating assets. The return on real estate may be less than the business' return, and therefore not fully taken into account in the pricing of the business.

4. Corporate record keeping

The company's corporate records, such as its incorporating documents, minute books, and share register should be organized, up-to-date, and readily accessible. Copies of major contracts, such as leases and other important business documents should also be available. In preparing your company for sale, consideration must also be given to contingent liabilities and outstanding litigious matters (pending or anticipated). To the extent possible, such legal matters should be dealt with prior to the sale, or clearly disclosed at the outset of any discussions with a potential purchaser. Similarly, the company's tax status should be reviewed to minimize the likelihood of unanticipated income tax reassessments from prior years.

5. Operational analysis

The perception of a well-run business is an extremely valuable asset at the negotiating table. In most companies there are details of the business that may have been overlooked, or for which modifications have been deferred. Any such matters should be corrected prior to selling the business. For example, are the corporate marketing materials and digital presence up to date? Is the plant clean and tidy, and is the machinery and equipment in good working condition?

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Other considerations

In addition to ensuring your business is in a marketable position, business owners must also understand their company's bargaining position. Analyzing your company's strengths and weaknesses allows you to better understand it's position in the marketplace. Expect the purchaser to evaluate the company thoroughly, and be aware that any deficiencies will be subject to negotiation. Adequate preparation and/or disclosure at the proper time can help reduce the impact of any deficiencies that may exist.

Assess the prevailing economic conditions, such as interest rates, economic growth, and industry conditions to determine the optimal timing for sale. A seller with a short-term sale horizon could find that they are not be able to obtain the desired price if economic conditions are not favourable at the time of negotiation.

Receiving an unsolicited offer to sell your business

At any time a successful business owner can be approached with an unsolicited offer to buy their business. The offer can come from an industry leader looking for a strategically identified acquisition target, a broker who is working on behalf of a legitimate buyer, or someone who is simply attempting to find their next business opportunity.

When dealing with an industry insider or a broker representing a legitimate buyer, ask the following questions to help you understand the other party's motivation before sharing any information about your business or your interest in selling.

- **Why has your business been identified as a potential acquisition candidate?** The response will tell you a lot about how much the purchaser knows about your business.
- **What is their acquisition strategy?** Some purchasers are simply looking for a business that can accelerate their growth in a specific industry, while others may be shopping for intellectual property or product lines.
- **Do they want to maintain your management team and staff?** Most business owners feel a strong sense of loyalty to their staff and want to ensure that they will be taken care of by the new owner.
- **Would they want you to continue running the business during a transition period?** Generally, a relatively short transition period works best for both parties.
- **How do they typically value the businesses they acquire?** The purchaser may not tell you how much they are willing to pay for your business up front. But, if you understand their valuation methodology, you can apply that knowledge to your situation without divulging confidential financial information.
- **What has been their experience with other companies they've acquired?** They can tell you what worked well with the transaction(s) and why.
- **Are they considering other potential acquisitions at this time?** This will give you a good indication of where you stand on their priority list. Serial acquirers usually have several deals in the works at any given time, and it could take a while before senior management is able to focus on your acquisition.

Taking the next step

If you're feeling comfortable with the prospect of selling your business after your initial conversation, a Confidentiality or Non-Disclosure Agreement with the potential buyer should be signed before sharing any confidential information about your business. This will ensure that financial information and employee details are not made public should the deal fail.

Seek professional advice

If you are a business owner contemplating the sale of your business, setting your goals, visions, and your exit plan early is critical for success. Once you decide to proceed with the sale of your business, consider engaging a professional advisor to assist you in the negotiations. Unlike purchasers, who may acquire a number of companies over time to fulfill a longer-term corporate strategy, most business owners have never sold a business and, consequently, may have difficulty separating the pragmatic decision-making role from the emotional aspects of the sale.

! If you're considering selling your business, please contact your BMO financial professional who can refer you to the appropriate professionals for assistance and advice.

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ID1347 (09/17)