

# **Business Owner's Guide to Selling Your Business**



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## Reasons to Sell Your Business

- ⇒ Retirement
- ⇒ Other business interests
- ⇒ Illness or family illness
- ⇒ More time to devote to family or community
- ⇒ Divorce or partnership dissolution
- ⇒ Desire to sell on the upswing
- ⇒ Burned out
- ⇒ Diversification
- ⇒ Need for cash infusion for operating capital
- ⇒ Planning for a key employee to eventually own the business
- ⇒ Planned exit strategy

## Skills Needed to Sell Your Business

- ⇒ Confidentiality
- ⇒ Knowledgeable in the areas of law, accounting, taxes and marketing of a business
- ⇒ Negotiation skills
- ⇒ Knowledge in financing and escrow
- ⇒ Networking and confidential buyer qualification
- ⇒ Identify good match of prospective buyer to your business
- ⇒ Time to devote to preparation of marketing materials, advertising, updating Company information and working with qualified prospects

If you identify with any of the reasons for selling your business above, it may be time to explore whether now is the right time to sell your business. You can have the confidence that we are experienced business brokers and ready to help you achieve your goals.



# What Value Does a Business Broker Bring to You?

Buying and selling a business demands a level of expertise that seasoned Business Brokers can offer. The intricate details of a sale can cause a transaction to fall through if you're not experienced in all phases of the process, even if you're a savvy business owner.

There are over 28,800,000 businesses in the US today with 40% of business owners expected to list their businesses for sale within the next three years. Below are some interesting statics.

We can help you minimize your risk through our experience, expertise and vast attention to detail.

Only about 20 to 35 percent of private companies manage to find a buyer.

The reasons cited:

- Sellers did not have all the information that prospective buyers needed in order to make a decision.
- Sellers failed to have up-to-date and accurate financial information.
- Acceptance of reality.

## What Are The Odds Of Sale?

Sales < \$750,000	1:5.5 = 18%
Sales \$750,000 to \$2 million	1:4 = 25%
Sales \$2 to \$6 million	1:3.5 = 29%
Sales \$30 million	1:3 = 33%

## There Are Two Types of Buyers

### Financial

Financial buyers make up an enormous segment of the market. They look for businesses they can buy using that debt financing for 50% to 75% of the price, and that have sufficient cash flow to service the debt.

### Strategic

Strategic buyers expect synergies with their other holdings. They can afford to pay a premium, but they may not need to because they know the market.

We are qualified to work with both Financial and Strategic Buyers. We can bring vital components to the table that other professionals, such as CPA's, attorney's, investment bankers and property focused realtors, are unable to bring that will increase the odds of a sale and maximize the amount of money you walk away with in your pocket.



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# What You Should Know Before Selling Your Business

1. **Validating A Realistic Sales Price.** Realistic pricing is perhaps the most important factor in selling from a point of strength. The pricing of a business, different from the simpler means of valuing based on goods or services, depends on industry-tested valuation techniques, with tangibles and intangibles incorporated to ensure that the business will not be under priced.

The price of a business is arrived at by a variety of factors; It is more of an art than an exact science. A Broker is an expert in placing a realistic price on the business incorporating both intangibles and tangibles.

You must realize, a Broker is not a magician who can sell an overpriced business. There are some Brokers who just can't bring themselves to tell you that your price is too high. The bottom line is your business needs to be priced realistically.

A Broker has extensive experience and knowledge to accurately price a business at a level that is achievable. While Brokers substantiate the true value of the business, more importantly, they help prospective buyers understand the reasons for such value and structure a sale for the maximum benefit of the buyer and seller. Nothing can be worse than putting a business on the market that does not attract buyers because it's priced too high or too low. It can not be said enough, a fair market value pricing is key to the successful sale of a business.

2. **Current Knowledge Of The Marketplace.** Brokers surround themselves with databases, search tools, industry reports, business contacts around the world and maintain an extensive network of brokers that are similarly connected. Brokers are connected to a vast network of thousands of other brokers, purchasers and sellers all at a given time .

3. **Confidentiality Is Essential.** It is imperative that an owner understand why confidentiality is important to the successful sale of the business and what can happen if a sale is pre-maturely announced. Confidentiality is important for a number of reasons. Customers, competitors, employees, vendors and creditors all will have different reactions to finding out that your business is for sale.

Prospective buyers often react negatively to a business opportunity that has not been kept confidential.

Realize, the sale of your business will be held in strict confidence by your Broker, not only because he owes you a fiduciary duty to do so, but also to maximize the sale potential. That protects your company from competitors, employees, customers, suppliers and bankers from learning of your intentions. Any premature indication of a possible change in ownership could disrupt these relations and weaken the company's competitive position. For these reasons, confidentiality is critical and vital at all stages of the sale process from listing through turn over.



# What You Should Know Before Selling Your Business

4. **Expertise In Attracting And Securing Serious Potential Buyers.** 80% of prospective buyers are individuals who want to control their own future. Many of them will be moving into the area from other states and countries. A Broker is in continuous contact with all categories of buyers using efficient and effective search procedures to find and screen those that are best qualified to buy.

“Blind” ads and listings are used. A “blind ad” is an advertisement that camouflages the identity of the business. A “blind listing” is a camouflaged description of the business in a multiple listing database. The goal of any business opportunity ad is to attract buyer prospects.

The Broker typically has many businesses for sale which attract prospective buyers. Prospective buyers respond strongly to ads which indicate that the Broker has a wide variety of business opportunities, even if the individual business descriptions are vaguely worded. The Broker is experienced at mixing and matching prospective buyers and listings. A Broker will determine and match up the right buyer for the right business focusing on prospects that are financially qualified and are genuinely interested in your type of business.

Brokers conduct a “Pre Qualification Process” on prospect buyers to weed out “tire kickers” and bring those serious buyers to you for consideration. During the early stages, while a buyer is still considering making an offer, the Broker is the ideal person to follow-up and keep the deal running smoothly.

5. **Pre-Arrange Lender Financing.** Surveys have shown that sellers who ask for cash receive, on average, only 75% of their asking price, while sellers who accept terms typically receive 86% of their asking price.

In many other cases, businesses that are listed for all cash just don’t sell. With reasonable terms that a Broker and lender resolve before locating a potential buyer, the chances of sale increase dramatically, and the time period from listing to sale, greatly decreases. Most sellers are unaware of how much interest they can generate by financing the sale of their business. What’s more, seller financing tells the buyer that the seller is confident about the ability of the business to pay for itself.

6. **Untangle The Red Tape.** A Broker is an expert at alleviating any and all potential pitfalls an owner may not even think about prior to selling a business. For example some potential pitfalls may include but are not limited to: permits, licenses, financing, blemishes, agreements, leases, etc. When a buyer has interest in your business, before the Broker shares any information with an interested buyer, they secure a signed confidentiality agreement, interview and determine if there is a match of that individual’s background, goals, objectives and financials.



# What You Should Know Before Selling Your Business

**7. *Expert Negotiator.*** The Broker is equipped with negotiation experience that increases your chances of a sale. A Broker will uncover the bargaining power of the buyer and discovers at the outset how that individual plans to finance the purchase of your business. Steeped in knowledge about negotiating price, terms and other vital aspects of the sale, the Broker will guide you each step of the way.

A Broker acts as the “middle man” and works to achieve your ultimate strategic and tactical financial goals without any hassles.

Now that you’ve learned briefly about the steps you need to know before selling your business, what other information should you know before you take the step? You need to know about valuations and lender pre-approval and why they are both important.

Comprehensive documentation from a buyer’s perspective is essential today for a successful sale. That means, a convincing and solid financial package to present your business. Prospective buyers expect that business owners that are selling will have accurate and current financial reports that will provide a detailed analysis of the business and the markets that it serves. In addition, today’s buyers also expect the owner to be able to justify the price and terms of sale based upon an understanding of normal investment returns.

Most business owners use tax returns or financial statements prepared for tax purposes as the only financial presentation of their business. As a result, the market value of assets

are not reflected due to depreciation or other acceptable deductions that are written off for tax purposes.

While this may be good for tax purposes, the business tax return financials do not reflect years of hard work and assets. The business goodwill, or intangible value, which represents a major component of what a business is worth, is not a consideration for tax purposes and, therefore only serves as a financial statement for tax purposes.

Too often a business will use financial statements prepared for tax purposes in the day-to-day operations of their business. Assets are written off rather than capitalized. Profits are minimized to avoid taxes. That gives a negative view of operations from a tax standpoint.

The value of a typical business should be greater than the total values of its hard assets. For a buyer, the key factor is that an ongoing business has everything necessary such as equipment, location, and inventory, if applicable, not to mention experienced employees, suppliers, business processes, and a customer list – all in one place, in the right amounts, for successful operation of the business.

But how do you put a price on this intangible asset, which is frequently referred to as goodwill or going-concern value? And, how do you determine the true market value of the hard assets used in your business? The answer is, you make a Business Broker the key player on your selling team.



# What is a Business Valuation?

A Business valuation is a mix of art and science. The bottom line is, of course, that a business is worth what a buyer will pay for it. However, there are ways of estimating a fair price. There are variations of these and there are other methods that apply to specific situations. It is not uncommon to value a business by a number of different approaches and use an average (or more likely a weighted average that gives more weight to some approaches than to others) of the various approaches used.

How is a business valued? There are up to three different ways to value a business; and it's the job of the Broker and the third party independent evaluator to decide which approach or combination of approaches is most appropriate to value the business. One of the most important guides widely used is Revenue Ruling 59-60, promulgated back in 1959. Briefly, the three approaches are:

**Market Approach** – Comparing the entity being valued to counterparts engaged in the same or similar lines of business.

**Income Approach** – Company's value is based on its ability to generate income.

**Asset Approach** – Sometimes referred to as the Replacement Cost Approach. Values tangible assets such as an office building or drilling equipment.

There are a number of reasons for valuing a business, other than buying or selling it. Businesses are valued for estate and tax purposes, divorce settlements, and for raising capital.

Once you decide to have your business valued, the first person you may think to call is your CPA. Your CPA may be a great choice if

he or she has business valuation training, does a large number of them and their schedules permit. It's important for you to know that most CPA's don't do valuations. There are approximately 128,000 members of the American Institute of Certified Public Accountants (AICPA) in public practice. Less than 3% have earned either the ABV or the CVA designations conferred by those who have undergone its valuation training program. Of course, a CPA without a designation may be entirely capable of doing a first-rate valuation but this statistic suggests valuations are not something most CPA's do as a core part of their practice.

Pre-approval and pre-qualifying sets Business Brokers apart from other professionals. To be effective in marketing your business for sale and qualifying prospective buyers, it is imperative that guidance from a lender is secured. Without lender involvement from the beginning, a closing may be plagued by hurdles and result in an unnecessary lost deal. A Business Broker's expertise in preparing and submitting the documents to the lender is paramount in obtaining favorable terms to achieve your ultimate financial goals.

"Fair Market Value" is defined as the price at which the property would change hands between a willing buyer and a willing seller and both parties have reasonable knowledge of the relevant facts. Do you really know what your business is worth?

**A professional valuation reflects the "Fair Market Value" of a business based on re-casted assets and conditions in today's market. This presents the true economic value of your business.**



# Steps for a Successful Business Transfer

We specialize in the sale of businesses. We have the knowledge, experience and connections needed for a successful sale worldwide.

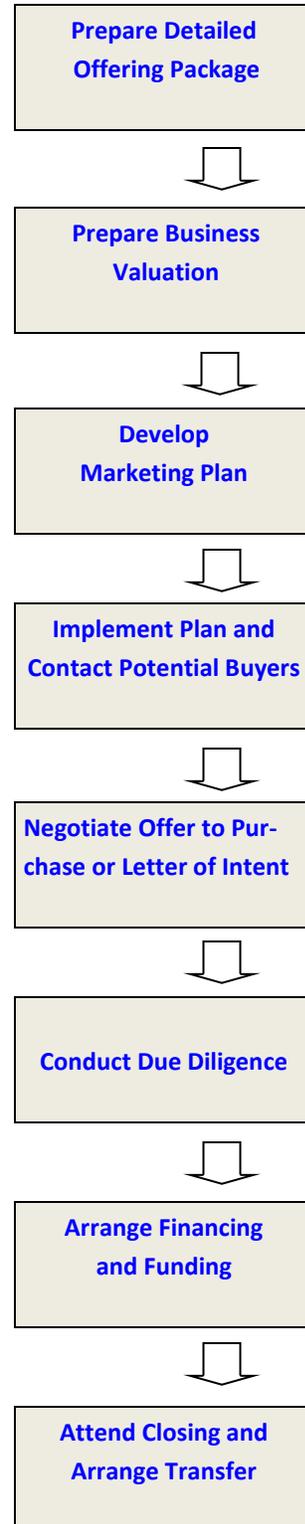
For a faster sale, we prepare a professional business value estimate to determine your company's fair market value and ensure that it is priced appropriately.

We prepare a complete and thorough Offering Package that gives a qualified buyer in-depth information about your business. We provide detailed information that a registered, qualified buyer wants to know to help them make an informed decision. Spending more time and attention preparing for the sale results in a smoother sale process.

We design a custom marketing plan to promote your business to likely buyers. We directly market your business through our global networks and on multiple websites which means that you have a powerful network of brokers working with us to find the perfect buyer.

We understand the importance of maintaining confidentiality, so information about your business is shared with potential buyers in stages only as their level of interest heightens. We disclose no confidential information without signed Confidentiality Agreements, and work toward full disclosure with either an Offer to Purchase or a Letter of Intent.

That's not all, we use our banking contacts to assist the buyer to arrange financing. This includes traditional financing or SBA small business loans. By doing this, we can also help to minimize the amount of seller financing, if any.



# Step By Step Process

**1. Initial Meeting:** We'll execute Confidentiality Agreements which validates our reliability and integrity of keeping your business information in strict confidence. We'll want to hear all about your business, discuss goals, and strategies. Together, we'll review your last three years of tax returns and balance sheets and prepare a preliminary listing price based on the financial information you provide.

**2. Listing Your Business For Sale:** We collect your company's historical information to prepare a Business Value Estimate and meet with you again to determine if you are ready to sell your business. We will then review the Listing Agreement with you and mutually agree to the terms. Next, we will create an Offering Portfolio that will provide a buyer with a historical overview, an in-depth presentation of the business with a financial overview of the economic performance of the business. Based on the information we receive from you, we'll prepare a detailed comprehensive presentation package about your company which includes:

- Confidential Memorandum
- Third Party Independent "Fair Market" Business Valuation or Appraisal (If required)
- Step-By-Step Marketing Plan For Your Business

**3. Marketing Your Business For Sale:** The next step in the process is aggressively marketing for serious and qualified buyers for your business. Our network of contacts is vast, stretching locally and across the United States and internationally. Being a member of numerous powerful organizations our unique network allows us to attract qualified serious buyers quickly. We'll review with you the Offering Portfolio that is prepared to market your business.

**4. Marketing & Qualifying Buyers:** We will place "blind ads" in local and national newspapers such as the Wall Street Journal, USA Today, appropriate trade journals, internet profiles, letters, emails, phone calls, and networking. We aggressively market your business. Qualification of serious buyers is a delicate task we don't take lightly. We'll determine a potential buyer's financial capabilities, experience, time frame, along with seriousness and commitment. We are experienced at matching buyers and sellers together by recasting your business financials to meet a prospective buyer's goals, objectives and terms.

**5. Presenting To A Qualified Buyer:** We remain in constant contact keeping you apprised of buyer interest. When a buyer meets our criteria and executes a Confidentiality Agreement, a presentation will be made to the buyer.

**6. Conduct A Buyer/Seller Meeting:** The serious buyer has passed our criteria and is ready to proceed to the next step. A meeting with you and the buyer is scheduled. The buyer will discuss and present his financial capabilities, business stature and you'll discover his style, attitude and personality. At this point, the buyer will want to hear from you about the business, your employees and your responsibility.

**7. Presenting The Sale Offer And Closing:** We assist the buyer in making an offer to you. We'll present the offer to you, facilitate any counter offers and present a complete package to escrow. In addition, we assist the buyer with due diligence and work to remove any contingencies. We review closing documents with you, the escrow company, and buyer. Finally, we attend the closing with you to ensure all documents are in place and it runs smoothly without a hitch.

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# Documents Needed to Sell Your Business

Note: When you are interested in selling your business, questions relating to the sale of your business must be answered. This is necessary in order to determine the "Fair Market Value" or range of values for your company. The following documents may be needed or will need to be available for a buyer and a lender if the buyer is using outside financing (some documents may not apply).

## Historical Financial Statements (For the most recent three years)

- Profit and loss statements, balance sheet
- Bank statements

## Federal Tax Returns (For the most recent three tax reporting years)

- Corporate Tax Returns (Form 1120 or 1120s)
- Schedule C (Form 1040)
- Partnership Return (Form 1065)
- Sales Tax Return
- Payroll Tax Return

## Business Financials

- Interim Financial Statements (For the most recent reporting period)
- Schedule of all indebtedness of the business
- Accounts receivable aging report
- Inventory information
- Summary of jobs in progress report

## Company Assets and Real Estate

- List of Assets to be included in the sale (to be included in purchase agreement as Schedule "A")
- List of Assets to be excluded from the sale (to be included in purchase agreement as Schedule "B")
- Lists of Assets not appearing on balance sheet
- Copies of leases for real estate and equipment
- Legal description of any real property included in sale (Broker will obtain)
- Appraisals on real estate and/or equipment
- Environmental reports/surveys

## Employee Related

- Any employment contracts, representative agreements, consulting agreements, etc.
- Organizational Chart (job descriptions and rates of compensation)
- Copies of any pension and/or profit sharing plans
- Buy/sell and/or shareholder agreements
- Employee benefits, group health insurance, etc.

## Contracts, Policies, Marketing

- Copies of all insurance policies
- Brochures, advertisements, yellow page ads, internet address, articles, maps, etc.
- List of any contracts for services
- Copies of any patents, copyrights, trademarks or contracts of value



# Notes & Questions



## Contact Us



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