Selling Takes Time and Preparation

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Based on my years of experience in business acquisition financing for various industries, as well as assisting association management companies for decades, there are important considerations before you put your business up for sale and the items listed below can impact the value of your business:

What can impact the value of your company?

- Level of Earnings
- Level of Revenues
- Length and Strength of Contracts
- Historical Trends of Growth
- Your Team and Management Quality
- New Business Pipeline
- Reputation in the Market
- Revenue per Contract
- Client Retention Makes for Satisfied Clients

Every business owner should have an exit plan and should be considered as early as when you start your business. Below are items to consider before you start to market your business:

- Who are potential buyers?
- What am I selling?
- What is my business worth today and can I improve that number?
- Can I reduce operational costs to maximize profits without sacrificing the quality of service? (this may take one to two years)
- Estate Planning? Do I have a financial and estate planner?
- Financial and tax consequences?
- Do I want to stay engaged in the business after the sale?
- Am I willing to take back a seller’s note to facilitate the transaction?
- Do I really want to sell now?
- Do I have an attorney with corporate/business law experience?
- Do I have a consultant to help me through the process?

When you sell your business what are you selling? Assets or Stock?

A majority of acquisitions in the association management industry are asset purchases and not stock, so look closely at your assets. Consult your attorney on which type of transaction is best for your situation. For the vast number of clients, the most valuable assets are the service/management contracts.

Strong contracts provide a higher degree of reliability in a recurring revenue stream which brings a higher value in your business.

In addition, annually **renewable** contracts that are cancellable within a certain number of days prior to renewal are stronger than a month-to-month contract. Month-to-month may be the industry norm in your market but the stronger the contract, the better value.

As a banker for many years, your desk may never move but the name on the door changes; therefore, I always recommend having **assignability** language in your contracts.

Valuations.

There are two basic approaches that are the basis for all traditional valuations: the valuation of assets and the return on investment. A popular return on investment valuation method is capitalization of current net earnings (CAP).

Earnings is a key component of the valuation of your business. Ensure your company has strong historical growth, plus as efficient and profitable as possible. The buyer is looking for future available cash flow which provides a return of investment.

In our industry, a common measurement of value to cash earnings is calculating earnings before interest, taxes, depreciation and amortization commonly referred to as "EBITDA". Adjustments may be made to the calculation, i.e. expenses not included in the sale or abnormal compensation. Once EBITDA is derived, the valuation becomes a multiple based on different components and adjustments. The size of the firm is a common factor of the multiple. For example, a firm with less than $1 million in revenues may value at 3 – 4 times EBITDA and a large firm with greater than $10 million in revenue may value at 6 times or more EBITDA. The adjustment factors are listed in the section "What can impact the value of your company".

Strong historical growth is attractive to a buyer and provides confidence and expectation for continued growth.

Tips to prepare for a sale.

Review all the expenses running through your business and clean up your financials. For example, remove all personal items and salaries for family members not active in the business that are currently expensed on your profit and loss statement.

Are your accounts receivables collectable? Your goal is to have all current receivables. If not, sell off or write off overdue account receivables.

Your accounting records must be accurate and conform to industry and generally accepted accounting standards. Consider having your financial statements audited as it provides an added level of confidence for the buyer that the financial records are true and accurate as well as the company is following good business practices.

Take a good look at your operation.

- Are you taking advantage of the industry specific accounting software?
- Evaluate the latest technology on the market for your industry.
- Refresh your website and marketing material.

- Clean up your office.
- Do you have the right people in the right jobs?

Summary.

Selling your business can be an emotional roller coaster so prepare yourself. People sell their business for multiple reasons…retirement, burn-out, business or partner problems, or health reasons…just to name a few. Finding the right buyer with experience, integrity and capital is important to you as you want your clients and the buyer to have a smooth transition. Having the right team to help you through the process is critical.

CINC Capital is available to provide the intellectual ("How To") and financial (lending) capital to assist with the transition to your next season in life.