SUCCESSION PLANNING
SELLING YOUR BUSINESS
By
Stony Hill
BUSINESS BROKERS
Can I afford it?
Or
Is this just a dream

1. __________ ?
2. __________ ?
3. How much is my business worth?
4. __________ ?
5. __________ ?
6. __________ ?
Selling your Business

1. How much is it worth?
2. How can I increase the value?
3. What is the selling process?
How much my business worth?

Answer: It depends!

2x – 3x times Sellers Discretionary Earnings
(Standard Deviation of 0.5)
How much my business worth?

What is --- Seller’s Discretionary Earnings?

• EBITDA? – not really
• Cash-Flow? – not really
• Benefit the business provides to you as the owner.
### How much is it worth?

**Seller’s Discretionary Earnings – How do we calculate it?**

<table>
<thead>
<tr>
<th>Gross Sales</th>
<th>648,016</th>
</tr>
</thead>
<tbody>
<tr>
<td>NET PROFIT</td>
<td>11,107</td>
</tr>
<tr>
<td><strong>ADD BACK:</strong></td>
<td></td>
</tr>
<tr>
<td>Compensation of officer</td>
<td>128,000</td>
</tr>
<tr>
<td>Interest</td>
<td>2,346</td>
</tr>
<tr>
<td>Depreciation</td>
<td>2,067</td>
</tr>
<tr>
<td>Autos</td>
<td>13,241</td>
</tr>
<tr>
<td>Owners health insurance</td>
<td>9,908</td>
</tr>
<tr>
<td>[benefits]</td>
<td>41,345</td>
</tr>
<tr>
<td>[misc. cc charges]</td>
<td>5,000</td>
</tr>
<tr>
<td><strong>Total Add Backs</strong></td>
<td>201,907</td>
</tr>
<tr>
<td><strong>SDE</strong></td>
<td>213,014</td>
</tr>
</tbody>
</table>

Value at 2.5 times = $535,000
How do I Increase the Value?

Tips:

• Clean up your financial books,
• Get organized in the office,
• Show increasing sales, profits, - sell on the way up,
• Create value in the company, [not just you – train others]
• Proprietary information – Data bases, Trademarks, Copy rights, etc.
• Do your own research, check blog postings, ask questions ........
The Selling Process

You have Choices

1. You can try a “Do It Yourself” approach.
2. You can hire a business broker.
3. You can ask your accountant / lawyer.
What we will discuss...

1. Introduction to Stony Hill Business Brokers Business Brokers
2. Client Motivation
3. Benefits of Using a Broker
   • In General
   • Why use Stony Hill Business Brokers in particular
4. The Selling Process
   • Buyer and Seller Requirements
   • Value Determination
   • Reality Check
5. Next Steps
Client Motivation
(why are we here?)

Nationally, small businesses change hands every five years.

Why?
- Owners are just plain exhausted
- No longer fun, need a new challenge
- Cash is needed for a new business
- Cashing out for retirement
Benefits of Using a Broker

Why use a Business Broker when you could do it yourself?

• Transactional Experience
• Access to Resources not available to owners
• Credibility with Buyers
• Selling a business is a Full Time job
• We can maintain Confidentiality
• Greater Value Creation
Stony Hill Business Brokers
“Experience Counts”

• Stony Hill Business Brokers is the region’s leading full service business brokerage firm focusing exclusively on the sale of privately owned business.
• Member of the IBBA, PA BBA
• Code of Ethics
• Member of the Institute of Business Appraisers
The Selling Process
(National Average 7 ½ months)

1. Become a MOTIVATED SELLER
2. Price the Business
   • Business Analysis
   • Comparable Research
3. Find Qualified Buyer
4. Conduct Due Diligence on Business
5. Propose Transaction Terms
6. Negotiate Terms
7. Close Transaction
8. Post Transaction follow-up
The Selling Process

Buyer – Advisors
- Accountant
- Lawyer
- Family

Seller – Advisors
- Accountant
- Lawyer
- Family

A Broker pulls sides together and makes a DEAL possible

$ Low Value $ High Value

DEAL VALUE

$ Low Value $ High Value

Stony Hill Business Brokers
The Selling Process
What a Seller wants

• Confidential process
• Highest possible price
• A Sale in the shortest possible time
• A Qualified Buyer
• An Organized “no hassle” sales process
The Selling Process
What a Buyer wants

Buying is typically an INSTALLMENT / DOWN PAYMENT transaction.

- Business to provide a LIVING WAGE and SERVICE DEBT used to acquire it
- RECOVER DOWN PAYMENT in 12 months or less
- Help with the TRANSITION from the Seller
- A NON-COMPETE contract from the Seller
The Selling Process
Value Determination

Value is influenced by two factors, (1) Terms, (2) Buyer Type

PRICE

$ VALUE

LOAN TERMS
- $ payment
- # of yrs

DOWN PAYMENT
The Selling Process

Value Determination

Value is influenced by two factors, (1) Terms, (2) **Buyer Type**

Buyer Types

- **Professional / Industry Buyer**
  - Looking for the cheapest deal
  - Buys assets not goodwill (asset stripper)
  - Pays cents on the dollar
  - Could be your competition looking to close you down

- **Strategic Buyer**
  - Sees a high value in your on-going business
  - Will buy assets and goodwill, might overpay
  - Does not often exist for main street businesses

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[Stony Hill Business Brokers Logo]
The Selling Process
Value Determination

Value is influenced by two factors, (1) Terms, (2) Buyer Type

Buyer Type

• Equity group / High net-worth Individual
  o Will pay for assets, goodwill and transition expertise
  o Likely to bring in professional management
  o Motivation is income diversification / strategic fit
  o Rare but attractive purchaser for your business

YOUR GOAL IS TO MAXIMIZE THE VALUE not PRICE OF THE TRANSACTION
The Selling Process
Value Determination

Value is influenced by two factors, (1) Deal Terms, (2) **Buyer Type**

**Buyer Type**

• Individual / Financial Buyer
  o Will pay for assets, goodwill and transition expertise
  o Likely to be a first time business owner
  o No specific knowledge about your business, but will bring prior experience and personal resources to it
  o Most likely purchaser for your business

YOUR GOAL IS TO MAXIMIZE THE **VALUE**
not PRICE OF THE TRANSACTION
The Selling Process

Reality Check

Only 1 in 5 business listings actually sell, according to the IBBA.

Reasons

• Overpriced
• Lack of financing

The Seller has complete control over these factors.
The Selling Process Reality Check

- Sellers provide the financing [hold a note]
- Often it is a 30% down payment with a 5yr - 7yr note
- Note is secured by the business assets and a personal guarantee
- More than 80% of buyers are first time buyers
- Most buyers are looking for a turnkey business solution to provide them with a LIVING WAGE. They will look at opportunities in many industries.

Price the business appropriately, attract buyers from the start.
Next Steps (you)

What the Broker will need from you .........................

• Provide three years of financials
  o Tax Returns
  o Profit and Loss statements
  o Balance Sheet
• Provide Asset / Equipment list with description
• Provide a copy of any Equipment Leases
• Provide a copy of the Lease
• Provide a copy of the Franchise Agreement (if franchise)
• Provide a copy of any long term contracts (purchase agreements, employee contracts, sales agreements, etc.)
• Be available to answer questions on the business to assist with valuation
Next Steps
Marketing Plan (us)

Once we have your OK to move forward, we can start the prep work to:

• Show your business to our in-house data base of buyers
• Promote your business on the Stony Hill Business Brokers website
• Place your business description on numerous commercial websites
• Reach out to owners of similar businesses
• Contact outplacement firms, etc
Next Steps

*moving forward together*

let’s get started preparing your business for sale.

- Exclusive listing Agreement for nine months
- No upfront fees
- We pay for all marketing expenses
- 10% Commission payable upon success