RC Advisory Services, LLC
P.O. Box 53534
Bellevue, WA 98015
425.890.6857
www.rcadvisorysvcs.com

Considering the Sale of Your Company?

Part 1 of 7 <u>Change your mindset; be objective & realistic</u>

<u>Change your mindset (it is no longer your baby):</u>

- Learn to think like a shareholder that is selling the stock of a company
- Understand how a buyer thinks
- Stop thinking of your company as your "Baby"

<u>Be Objective; ask the tough questions:</u>

- Do you know how much money you need to retire?
- Do you know the value of your company?
- Do you know what improvements need to be made to increase the value?
- Do you have a subordinate staff that can run the company, or are you still involved in day to day operations?
- Can you go on an extended vacation without checking in daily?
- Do you have a business plan and a staff capable and empowered to execute it?
- Do you know what you are going to do after you sell your company

<u>Be Realistic.</u> In order to obtain the best value for your company you will need the following:

- Time; two to three years is ideal
- Two years of solid profitability and sales growth
- A positive forecast
- A seasoned staff that has been empowered to execute a business plan.
- CPA reviewed financials.

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Part 2 of 7: Prepare the company for sale

- When you own a company, it is easy to procrastinate making some of the hard decisions that you know need to be done.

- Shed some of those long term customers and/or product lines that aren't very profitable.

- Clean up the physical plant and stop accepting excuses. Implement the "5S" process in manufacturing, assembly or distribution areas. While thinking like a buyer, manage by "by wandering around." Look at the doors and doorknobs; are they dirty? Is there unneeded materials and tooling on the shop floor?

- Are the employees engaged, positive and talkative to visitors? If they are proud of what they are doing and the work that they are performing, they make the firm attractive to buyers and perhaps the reason to command a premium price.

- Get your financial house in order. Engage a CPA firm to review your financials and make changes to the chart of accounts. While more expensive, reviewed financials are very appreciated by buyers.

- Get your administrative side of the house in order. Scan all older financial statements and personal and federal tax returns for the past five years as well as all corporate and insurance documents. Similarly, clean up and organize all paper file folders so that are neat and well organized.

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Part 3 of 7: Create a team that is experienced in M&A Transactions

- Financial Planner – Determines the long term needs of the seller and seeks to address some of the tradeoffs between cash up front, seller notes, etc.
- Attorney – experienced in M&A transactions. Reviews and edits documents drafted by the buyer's attorney.
- CPA - experienced in M&A transactions. Provides tax advice and options relative to deal structure; also forecasts after-tax proceeds. "it isn't the selling price, it is what you deposit in the bank after the taxes."
- Management consultant if needed, assists in getting the company ready for sale
- M&A Intermediary – Manages the sale process and interfaces with the Seller, Attorneys, CPA, Financial Planner and Management Consultant. Markets the company, locates candidate buyers, negotiates deal points, and coordinates the entire sale process.

Get prepared and get smart! Talk to your team and learn from them. Keep a notebook and write down questions about the various terms that come up in conversations. When a deal starts coming together it is important to be able to be a knowledgeable participant in the process.

Part 4 of 7: Know the Company Value and What Impacts it.

When considering the sale of a company, one should objective know how much the company is worth. The value of is based on a range of factors which are specific to each company. These include some or all of the following:

Industry
Customers & concentration
Products & concentration
Employees & dependencies
Employee retention history
Competition
Competitive Threats
Government regulations

Company History
Previous legal actions
Sales history
Capital Equipment; Age and Condition
Adjusted EBITDA
Bank lending practices
Seasonality of earnings

Usually, a realistic opinion of value can be determined by your M&A Intermediary but sometimes it is worthwhile to obtain a formal valuation from a certified valuation professional.

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Part 5 of 7: Train and Empower Your Management Team

- A strong management team will usually command a premium price for a company.
- Conversely, a company that is dependent upon the seller, has a diminished value.
- The management team must have clearly defined responsibilities and been delegated the authority to make the decisions necessary to run the company
- Hire a strong general manager (if you don't already have one).
- Create an organization chart and if necessary, lean out the organization by "retiring" some of the folks that a prospective buyer will consider superfluous.
- When the company can run substantially without you, it's ready for sale.

Part 6 of 7: Create a Business Plan for the Company and Execute it.

- Every company should have a going-forward business plan whether or not it is for sale.
- A business plan substantially eases the due diligence tasks of a prospective buyer.
- It isn't enough to have a plan but rather sustained execution and tracking of results vs. expectations.
- The plan should be objective and realistic
- All management staff should take part in its creation and "own it"
- If the company doesn't have experience with business plans, a management consultant should be retained to assist in both its drafting and in its implementation

Part 7 of 7: Go on Longer and Longer Vacations

- Extended vacations are the only way to reduce and eventually eliminate the company's dependence upon the owner.
- While there will be a few stumbles by the management staff while the owner is away from the company,, issues will eventually self-correct and dependence upon the owner will be reduced to nil.
- Initially, a several week vacation may be difficult, especially if communications with the company is restricted (don't call, don't message, and don't email)
- Later, 6-8 week vacations should become the norm.
- A buyer will be value a good management team that is not dependent upon the seller.