DAK

THE MID-MARKET, MAXIMIZED

12 Critical Steps to Prepare Your Business for Sale

The value of *12 Critical Steps*

*"The DAK Group has prepared a superb, quick read on the **12 Critical Steps to Prepare Your Business For Sale**. As a business owner and a mentor, I have always believed that your goal should be, be prepared to sell your business in the next five years. The time to start is now, the **12 Critical Steps** outlined here is your first place to begin. DAK is one of the premier investment banks to the middle market. They have a deep understanding of the buyer's mindset; this perspective is invaluable for companies looking to maximize their value and these **12 Steps** will help get you started."*

Phil Fine, Vistage International

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You have invested years, possibly decades…

of your life building a successful business. When the time comes to sell that business, you'll want to get the greatest possible value in return for all those years of hard work.

With so much at stake, you're going to want to do all you can to be ready. How well you prepare your business for sale will make all the difference in its perceived value in the marketplace.

Prospective buyers look for very specific factors when developing their valuations of your company. And, whether you plan to sell to a financial or strategic buyer, sell to your management team, or transfer ownership to the next generation of family—focusing on the following twelve steps will materially impact the value of your company.

It doesn't matter if your ideal exit strategy lies two or ten years down the road, the time to begin addressing these issues is now. The decisions you make today will determine the returns you receive for all those years of effort.

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1

Be Ready To Sell At All Times

It is critically important to have your business ready for the sale process. And that means preparing it well in advance of when you're planning to put it on the market.

If you wait until you're ready to sell to optimize efficiencies, your greatest opportunity to build value may be lost. Look for ways to increase earnings and maximize profitability now so you will have an established track record by the time you go to market. By keeping your focus on operational efficiency now, you'll build value at the closing table.

Make sure you're viewed as replaceable. This may sound harsh, but it is absolutely vital that potential buyers see a strong management team that is not dependent upon you, the owner, to manage business operations. This is a frequent drag on value. You must demonstrate that the flourishing organization you have worked to build will continue to operate successfully without the same level of your involvement.

2 Communicate Your Vision of the Future

Buyers are interested in potential—they buy the future, not the past. You must be able to paint a compelling and defensible picture of your company's path forward and the opportunities that will propel its growth in the years ahead.

Do not leave it to the buyer to understand your company's vision for the future. You cannot count on them to do the work of selling them-selves on your business. It will be well worth your time to develop a cogent, supportable message that powerfully and logically communicates your vision of the company's future.

3

Understand Your Business Value & Value Drivers

The true value of a company can vary widely depending on the fit with any given potential acquirer. As a result, *most business owners don't understand the potential value of their companies.* While factors like multiples of revenue or EBITDA can be helpful in establishing some benchmarks, they are far from conclusive when it comes to defining market valuations.

Why is this? It is absolutely essential to understand business *value from the perspective of a buyer.* Often the motivation behind a given suitor's interest in your business is not obvious. Their view of its value may be completely different than yours.

For example, you may consider the quality of your products to be your company's greatest strength, and therefore represents its greatest value. A potential buyer however may be interested in acquiring your distribution network, or your technology—*and be willing to pay a significant premium to acquire it.*

Buyers are often willing to pay higher prices based on their economics, synergies, specific goals or even the reputation of your business. It is important to understand all of your company's value drivers to avoid leaving money on the table.

4 Avoid Surprises- Self-Due Diligence

Any serious buyer will perform extensive due diligence prior to consummating a transaction. Any surprises at this stage will have the serious potential to negatively impact a deal. Trust is critical to a successful transaction. The last thing you want to put into the mind of a buyer is doubt. ("If they didn't mention this problem, what else might we find?")

You can avoid any surprises by conducting your own due diligence process with your team of advisors prior to bringing your business to market. *Be ruthless*...rest assured the potential buyer's analysts will be. Identify any and every possible issue that may be perceived as a negative through rigorous self-assessment.

By conducting this process well in advance, you will gain the ability to identify potential problems and either eliminate them or mitigate their effects over time long before you begin the divestiture process.

5 Address Customer & Supplier Concentration

There are two areas of risk that can affect business continuity in the minds of potential buyers: *customer concentration and supplier concentration*. If your business is highly dependent on just a few customers or suppliers, it could have a profoundly negative effect on your valuation.

Depending on your specific business type, these issues may be unavoidable. Still, there are ways to mitigate the risk. Contracts or consents with key customers and suppliers will instill a greater level of confidence in industries where customer and supplier concentration is unavoidable. Whenever and wherever possible, strive to expand and diversify both your customer base and supplier pool. Anything you can do to reduce the risk of concentration will help to increase the value of your business.

6

Lock in Key Employees to Mitigate Risk

Another area of risk for potential buyers lies in your company's dependency upon a few key employees. If your operation is overly dependent on one or a few key players, would-be buyers may be reluctant to move forward at all unless you've taken steps to mitigate that risk.

Most buyers do not look to save money by terminating key employees. Rather they focus on retaining a company's leadership. Whenever possible, lock in key employees by obtaining non-compete or non-solicitation agreements well in advance of a transaction. Try to align the financial goals of management with ownership to create a win-win situation.

7

Prepare Supportable Financials

Potential buyers must have absolute confidence in the accuracy and veracity of the financial picture you're painting for them. The quality of your financials will play a key role in solidifying the transaction.

Your financial statements must be reliable, accurate and available in a timely organized fashion. While it is common to present "recasting" adjustments that may more accurately reflect the operations of the business, make sure these adjustments and projections are supportable and realistic.

Finally, the presence of *strong financial controls and systematic procedures* will instill greater confidence in a prospective buyer that your information is reliable.

8

Optimize Working Capital, Don’t Leave Money on the Table

Business owners often leave money on the table when selling their businesses by not understanding or managing their working capital. By reducing your company’s current assets, you could actually significantly increase its value.

Higher levels of working capital do not increase the value of your company. And, as counter intuitive as it may seem, the fact is, *they actually reduce it.*

By establishing what is a “normal” level of working capital for businesses like yours, and managing to it, you will optimize your company’s value.

9

It's What You Keep That Counts

It's very easy to become dazzled by a high top-line number when you're selling your business. The true value of the transaction, however, lies in its after-tax yield.

It is crucial that any deal you make be structured in a tax efficient manner. Again, lead time is the key here. The longer your lead time, the more tax efficient your deal can become.

Examine your corporate structure. Depending on whether your firm is set up as a C-corp, S-corp or an LLC, you could face double taxation at the time of sale. Consider estate planning issues as well. Gifting to the next generation may reduce your tax burden significantly. You may also be able to take advantage of differences in tax rates between jurisdictions.

By considering these issues now, well in advance of a transaction, you could net substantially more when you sell. Again, it's not what you get—*it's what you keep that counts.*

10 Assemble Your A-Team of Advisors

The chances are, you've never sold a business before, and you may never do it again. Since this is likely to be one of the most important financial decisions of your life, this is no time to try to learn on the fly.

Make sure you assemble the right team of experienced advisors to assist you through the process. A seasoned team of professionals that have "been there, done that" hundreds of times will be your best asset in avoiding anyone of a thousand costly missteps.

The right team will have dedicated experts in accounting, tax, legal and investment banking issues. Each will play a specific role in the sale process, providing you with the insight, expertise and guidance to make the tough decisions along the way.

It's often said that people learn from their mistakes, but this is no time or place to put the axiom to the test. You're likely to get just one shot at this, and you'll want an experienced team that will make sure you get it right.

11 Address Deal-Killers

While there are a multitude of issues that could be outright “deal-killers” for your sale, most can be avoided if you address them early. (If you’re noticing a theme here, it’s not your imagination—starting early is key.)

Some typical “deal-killers” will most often arise within the areas of taxes, environmental protection, employee and pension matters, litigation of any kind and the ownership of intellectual property.

The last place you want one of these issues to rear its ugly head is at the closing table. Take a hard look at these areas and address them now, long before you go to market. Eliminate any problems you can and mitigate the negative effect of any “necessary evils” that remain. *And be sure to communicate these to the buyer before coming to the table.*

No company or transaction is perfect but being up-front prior to coming to the table can keep a “deal-killer” from killing yours!

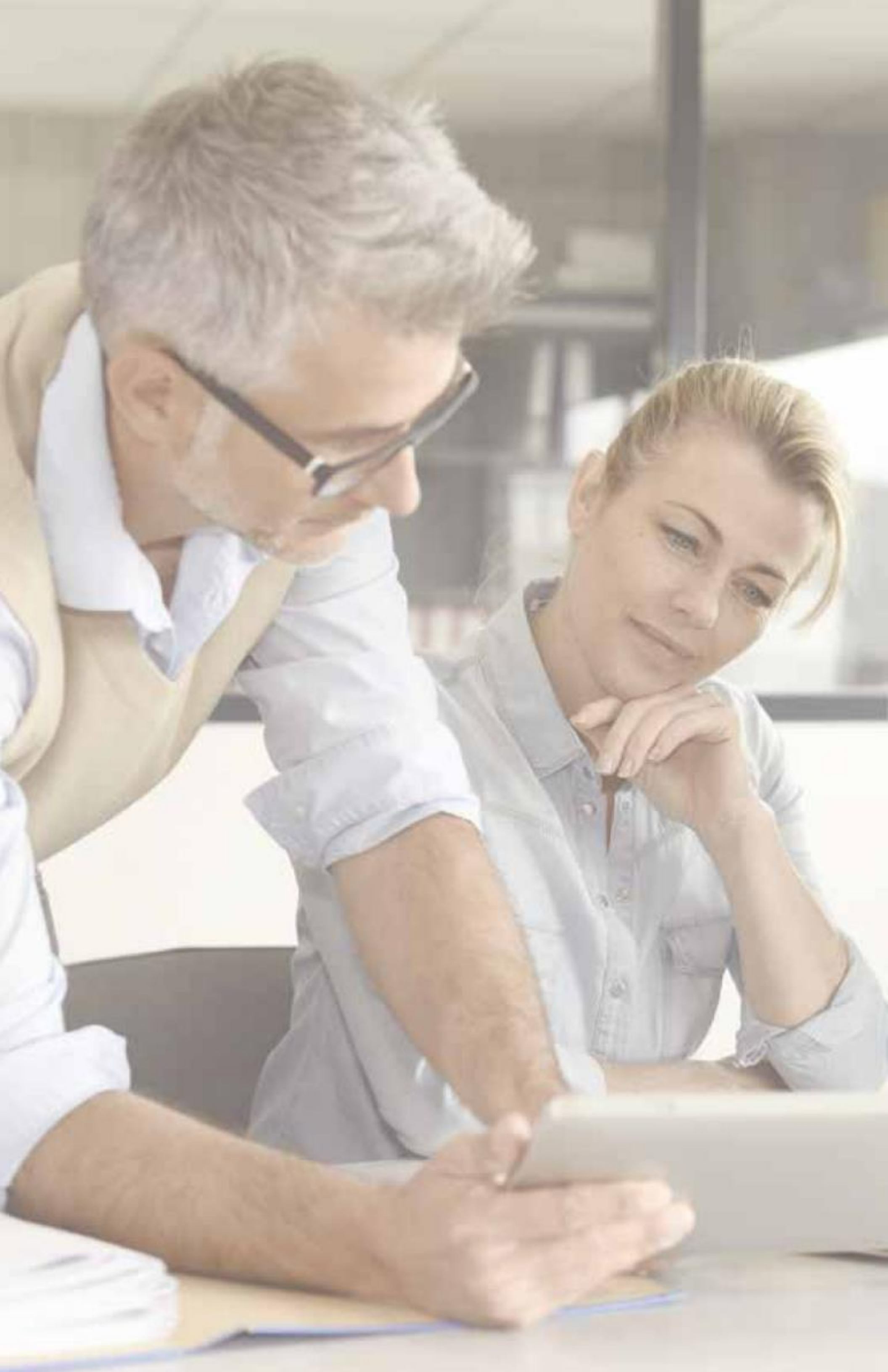
12 Keep Your Eye On the Ball

You need to keep running your business and *doing the things you've been doing* to make your business successful. It's important that you continue to run your business as though you plan to own it forever, especially during the sale process.

Again, assembling your A-Team of Advisors will pay off here. Your advisors will manage the process and keep it moving forward without overly distracting you from your primary mission.

The last thing you want to happen is for your company's performance to falter at this critical juncture. Often a business owner will become distracted by the sale process itself, neglecting his or her role in what made the company successful in the first place.

Staying focused on running your business will ensure that it retains its value up to and through the transaction closing.



About DAK

DAK is a leading investment bank for middle-market, privately held businesses. Our exclusive focus is on helping entrepreneurs, business owners and other stakeholders navigate financial options for growth and expansion, as well as to pursue successful exit strategies.

We support client needs in the areas of:

- Full or Partial Sale of the Business
- Mergers/Acquisitions
- Strategic Leadership Advisory
- Valuations and Fairness Opinions

DAK was founded in 1984 and has successfully completed over 750+ transactions worldwide across the full range of industries. The DAK team includes senior level investment bankers who understand the intricacies of working with business owners making, what could be, the largest financial decision of their lives. Utilizing our proprietary process, we maximize the value of each client's company, helping them successfully navigate the most important transaction of their lives.

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