

PRIVATE SALE

10 STEPS TO SELLING YOUR PRIVATELY OWNED BUSINESS

By Mark Groulx

Recent surveys suggest that 50% of the privately owned businesses in Canada – those not listed on a stock exchange – will be sold in the next 10 years. A full two-thirds of those will be sold in the next five years alone.

Today's grim economic forecasts will probably curb the number of these sales in the near term. The sale process is also likely to take longer and prices will be lower than the historic levels seen in recent years. Nonetheless, there is still a market for well-managed, profitable companies. If you are considering selling your business, you need not delay simply because of current turmoil.

At the same time, selling a business is a complicated, often stressful event. I strongly encourage you to engage an advisor to assist you with what will probably be the largest financial transaction of your life. Your agent can provide an invaluable buffer in the negotiations and can manage this protracted process while you continue to run your business.

Most important, your agent can guide you through the following sequence for a smooth, successful transaction:

STEP 1. Preparation

First and foremost, you need to get the company and its records in order. This could take anywhere from two to six months. During this phase, your advisor will collect information on your operations, your industry and your historical and projected financial information and prepare a Confidential Information Memorandum describing the main aspects of your business. Work with your accountant to ensure that the sale of your business is factored into your tax planning.

STEP 2. Valuation

The value of any company at a point in time is the net present value of its future

earnings potential, or a multiple on your EBITDA – Earnings before Interest, Taxes, Depreciation and Amortization. EBITDA is calculated by adding your interest expense, depreciation and amortization to your pre-tax earnings, found on your income statement.

For the valuation of your business, the EBITDA will be reduced by any capital or other annual expenditures required to sustain the business. The multiples used to determine the price vary by industry and by company but, on average, range from three to six times. For example, if you generated \$2 million in EBITDA last year, and you have good prospects for continued profitability, you would estimate your purchase price at roughly \$8-10 million.

STEP 3. Identifying prospective buyers

Strategic buyers in your industry and financial buyers, such as private equity firms, are your best prospects. Your advisor will help develop a list to determine your best prospects.

STEP 4. Contacting prospective buyers

Your agent will work on your behalf to contact prospective buyers. Your agent will also deliver Confidential Information Memoranda to interested parties.

STEP 5. Responding to buyers' questions

You and your agent will work collaboratively to provide details to interested buyers.

STEP 6. Receipt of Letters of Intent

These non-binding letters outline the price and structure of the proposed transaction, as well as the broad terms

and conditions of the prospective buyer. They form the basis for negotiations leading to the final deal.

STEP 7. Negotiation of final Letter of Intent

An important intermediary role for your agent.

STEP 8. Buyer's due diligence

At this stage, the buyer will want to review all legal, accounting, tax, banking, human resources, IT, real estate and other material contracts. The buyer will also investigate your products, customers, any outstanding litigation, environmental issues and so forth.

STEP 9. Legal documentation

Your agent will work with the lawyers on both sides to paper the deal.

STEP 10. The closing

Money changes hands and keys are passed.

This is a very brief overview of the many activities involved in selling a business, but these 10 steps can give you a head start on the extensive work involved. Despite today's economic conditions, it can be a very worthwhile process.

A.I.M. Group Canada Ltd. is a member of the Toronto Board of Trade and has specialized in the sale of private businesses since 1990. Over nearly two decades, A.I.M. has facilitated the sale of a wide range of manufacturing and service companies. For further information, please contact Mark Groulx at mark@aimgc.ca.