

## **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 and two thirds of those will be sold in the next 5 years. This is driven in large part by the retiring baby boomers. Therefore if you are thinking of selling your business, it would seem prudent that you sell sooner rather than later with this many companies coming to market.

My firm, A.I.M. Group Canada Ltd., has specialized in the sale of private businesses since 1990. We have sold a wide range of manufacturing and service companies. They have ranged from software companies to industrial manufacturing companies. We usually work with companies that have anywhere from \$1 million to \$10 million of EBITDA (to be defined shortly).

Selling a business is a complicated, time consuming and usually quite stressful event. This will probably be the largest financial transaction in your life and I would strongly encourage you to hire an advisor to assist you with the process. At each step of the process you will require advice and assistance that can only come from years of experience in the financial transaction markets. Your agent will both manage this time consuming process while you continue to run your business and will provide a buffer in the negotiations.

So what are the steps in the process?

**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. Your tax planning should already be in place and you should check with your accountant that the sale of your business has been considered as part of your tax strategy. During this phase of the process your advisor will collect information on the operations of the business, the industry you operate in and your historical and projected financial statements. With this information, your advisor will then begin preparation a Confidential Information Memorandum describing the main aspects of your business.

**Step 2 – Valuation** - The value of any company at a point in time is the net present value of its future earnings potential. Another way of expressing this sentiment is achieved by putting 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 purposes of determining a Valuation of the business, the EBITDA will be reduced by any capital or other annual expenditures that are required to sustain the business. The multiple used to determine the price will be based on the sustainability of earnings and their potential for growth. On average these multiples range from three to six times but vary by industry and by company. For example, if you generated \$2 million in EBITDA last year and you have good prospects for continued profitability a rough estimate would be an \$8 to 10 million purchase price.



**Step 3 – Identifying Prospective Buyers** - both strategic buyers in your industry and financial buyers such as Private Equity firms are the best prospects. Your advisor will prepare a list with your assistance to determine the best prospects.

**Step 4 – Contacting Prospective Buyers and getting Confidentiality Agreements Signed** – (your agent’s role) Your agent will work on your behalf to contact prospective buyers. Additionally, your agent will deliver Confidentiality Agreements and the Confidential Information Memorandum to interested parties.

**Step 5 – Responding to Buyers’ Questions** (you and your agent collaboratively) - You and your agent will work collaboratively to provide details to interested buyers based on any questions they may have regarding your business and its operations.

**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 the prospective buyers are proposing. It forms the basis for negotiations that will lead to the final deal.

**Step 7 – Negotiation of final Letter of Intent** (an important intermediary role of your agent).

**Step 8 – Buyer’s Due Diligence** - This involves the buyer reviewing all legal, accounting, tax, banking, human resources, health and safety, information systems, real estate and other material contracts. They will also make investigations into products, customers, outstanding litigation, environmental issues and so forth. This is a time consuming process and requires a great deal of preparation (let alone photocopying / scanning a large number of documents).

**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 gives you an indication of the extensive work involved. For further information please contact Mark Groulx who can be reached by email at: [mark@aimgc.ca](mailto:mark@aimgc.ca).