



What is my Business Worth?

Preparing to Sell Your Business



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Introduction

Selling your business is a unique and important transaction - perhaps even a once-in-a-lifetime event. It is vital to do it right and a key component of achieving a successful outcome is knowing your business' value. Many business owners neglect to value their business until they want to sell, only to find out it is worth less than they expected.

With historically high demand for small businesses, you should assess your business' value now. However, valuing your business can be complex, especially if you have no experience.

Valuing a business is not an exact science, but an art that requires real-world experience to convince potential buyers. You can use different formulas and calculations to estimate your business value, but you also need to use a combination of strategies, positive positioning, additional assets, and storytelling. However, there is no one right way to reach a precise number.

Selling a business involves more than just accurate valuation. It is a complex and lengthy process that can take anywhere from **6 to 11 months**. To make it smoother and less stressful, you need to plan ahead and prepare your business to be ready to sell.

in this Guide to Preparing for Your Business Sale, we will show you how to value your company and get ready for your business sale. This comprehensive guide will answer the following questions:

- What are the steps to prepare for a business sale?
- What key information contributes to a business valuation?
- How are business values calculated?
- How can you maximize the value of your business?
- How do you make your business more appealing to prospective buyers?
- How do you tell your business' story?
- When should you work with a business broker?

Working with a leading business broker like First Choice you can determine a desirable asking price for your business that makes sense in the current market. Plus, you can avoid the hassle and stress of selling your business by yourself



Preparing to Sell Your Business

In the business world, getting your company ready for sale is called ‘positioning’ your business. It means making sure everything is organized, orderly, and ready to sell. This way, you can get the best price for your business. Some of the things you need to do include:

- Organizing your books and records to be clear and easy to understand
- Decluttering your physical business space
- Depersonalizing your business
- Reviewing your A/P and A/R aging report
- Clarifying legal ownership of your business
- Cleaning-up outdated agreements with customers or vendors
- Updating outdated registrations or licenses
- Documenting current staff duties and procedures
- Being transparent about any litigation issues
- Contacting a professional business broker

Besides getting these important parts of your business ready, you also need to gather all the required documents. Most buyers won't engage in a meaningful way with you until they see the hard-copy documents that show the facts, finances, and numbers of your business. Here are some of the documents you should have assembled when you want to sell your business:

- Financial Statements
- Schedule C Tax Returns
- Corporate Tax Returns
- Statement of Seller's Discretionary Earnings and Cash Flow
- Building Lease
- Equipment Lease(s)
- Inventory List with Values



As you complete pre-sale work to position your business, refrain from disclosing to anyone that you're thinking about selling unless you have to. Only tell the people who need to know, and have them sign non-disclosure agreements before sharing any confidential plans. If you announce your intent to sell, your employees might get worried and your business may lose value during this crucial time. Also, your competitors might use this information against you if they know you're selling.

Potential buyers prefer businesses that have low risks and high rewards. In fact, 1 in 15 small business buyers back out of their deals because they deem the business too risky. To make your business look less risky, point out any areas that you can improve performance. Some of the things you should examine are:

- Legal condition – Ownership, licenses, zoning, and litigation
- Finances – Revenues, profits, taxes, and debt
- Business reputation – Image, publicity, advertising, and brand awareness
- Business operations – Staff, equipment, and business plans
- Transferability – Leases, documentation, organization, and training-level of staff

By looking at these characteristics of your company, you can more deeply appreciate what makes your business valuable and what makes it less valuable. You can also craft a plan of action for what you want to do to improve your business before you sell it. This can make your business more attractive to buyers.



How to Calculate the Value of Your Business

Getting the maximum value for your business is a goal that many business owners have when they decide to sell their company. There are a variety of methodologies professionals use to value a business, depending on the size, industry, and profitability of the business.

These simplified calculations may not capture all the factors that affect your business value, but they do provide a quality estimate and lend legitimacy to the seller's asking price.

SDE

The Seller's Discretionary Earnings (SDE) method is a common way to value a business. SDE, which is the pre-tax income of your business before non-cash expenses, owner's compensation, interest, and one-time expenses provides a clear computation of how much money the business makes before the owner pays themselves and other items that are not related to the business.

SDE shows the true earning potential of your business to a new buyer. It is especially helpful for valuing small and medium-sized businesses that may have different expenses and tax deductions than larger ones.

To calculate the SDE, you add back the things you spend on yourself, one-time expenses, or other expenditures that are not part of the business operations to your net income. Then you multiply the SDE by a valuation multiple that is derived from comparable sales transactions across your industry. Businesses typically sell for somewhere between one and four times their SDE. This will give you a good idea of your business' worth within your industry.

EBITDA

EBITDA is a way to measure how much money a company makes. It stands for earnings before interest, taxes, depreciation, and amortization. EBITDA is good for valuing larger businesses that make more than \$1 million USD a year in sales. However, EBITDA alone may not tell the whole story, so you may need to use EBITDA multiples that are specific to your industry.

EBITDA Multiples

The EBITDA multiple is another common way to value a business. It may be more accurate than just using EBITDA because it considers assets, shares, growth potential, and other things that make a business valuable. The higher the EBITDA multiple, the more valuable the business.

To calculate the EBITDA multiple, you use this formula:

Enterprise Value / EBITDA = EBITDA Multiple

This formula shows the ratio between a business' annual EBITDA and its enterprise value (EV), or the total value of the business. This method is quick, but it may not represent the cash flow well. This method works best for larger businesses.

Comps Method

The comps method is a valuation technique that compares your business' trading/valuation multiples, such as EBITDA multiple, to those of similar businesses that sold recently. This is a suitable method for smaller businesses to show realistic valuations in their markets.

You can find the multiples of businesses that sold recently by consulting a broker or looking online for public sales records. The average multiple for businesses sold in 2020 was 2.28 times their cash flow.

However, these calculations are often not enough to accurately value your business. They only give you a rough idea. To arrive at a more accurate value, you can partner with a qualified professional business appraiser like First Choice Business Brokers.





How to Get the Maximum Value for Your Business

You may have high hopes for selling your business, but you also need to be realistic. Many deals fall apart because sellers don't want to take lower offers. **46 to 80% of small and medium-sized business sales transactions fail to close**, according to recent studies. Sellers refusing lower-than-expected offers is a common reason for the deal falling through. Nonetheless, you can still take action to proactively make your business more valuable. Here are some actionable tips to increase your business' value.

Improve Company Performance

To boost your business value, improve your company performance before selling. Increasing profits and cash flow are two of the main drivers of business value. To accomplish this, review your profitability and implement short-term and long-term solutions to increase sales, optimize pricing, reduce costs, and improve margins.

An interim CEO may be a good option to raise your revenue quickly, depending on your company size. You can also create a growth plan to show the potential of your business to a buyer and make it more valuable in their eyes.

You can accomplish this by identifying new markets, products, services or partnerships that could grow the business in the future. You may also implement plans to reduce your risks and dependencies, which are the main detractors of business value.

Even if you don't complete everything in the plan, it shows buyers how they can make more money from your business after they take ownership. The more profit your business makes, the higher your EBITDA or SDE multiple will be, and that means you can sell your business at a higher price.

Tie-up Loose Ends

One way to make your company more valuable is to clean up your business. This means getting rid of clutter, paying off debt or clearing legal issues, renewing permits or licenses, updating contracts or agreements, proving legal ownership, and more. Buyers will be more attracted to your business if it is clean and organized, both physically and on paper.

Organize financial statements

Another way to help maximize your business' value is to have neat and organized financial statements that show your income, expenses, assets, and liabilities. This gives buyers confidence that your business is well-run, making money, and the underlying fundamentals are sound. It is essential to ensure your financial documents are accurate and current.

Create Competition

You can also make your business more valuable by creating competition among buyers. If more than one buyer is eyeing your business, it makes your business appear more valuable.

It also increases demand and the potential for a competitive bidding process, which means you can get more offers and a higher sale price. If one deal falls through, you have other prospective buyer options to fall back on. To create competition, show your business to as many potential buyers as possible.

Tell the Story of Your Business

Sometimes selling a business is about telling a good story. You need to tell buyers why your business is special and what it can do in the future. This can make buyers interested in your business and see its value. Keep reading below for more tips on how to tell your business story.

Work With a Broker

Working with an expert business broker like First Choice can help you sell your business faster and for more money. Business brokers can help you improve your business, position your business, prepare legal documents, find the best buyers, and negotiate the best price.



Shift Your Mindset

You need to be realistic when selling your business. Don't get stuck on your image of an ideal buyer, your dream price, or your business legacy. These preconceptions may cause you to miss out on great deals. They can also lead you to ignore or postpone the necessary actions to improve your business. Instead of focusing on a specific price, focus on building a great business that you're proud to offer and sell to buyers.



How to Make Your Business Appealing to Buyers

You want your business to stand out from the millions of small businesses in the US that are for sale - only 30-40% of which actually sell. Here are some proven tactics to make your business more attractive to buyers.

Cater to Your Buyer

Different buyers look for different things in a business. They also use different methods to value a business. Some buyers may have adopted the SDE method, while others may prefer a comparison analysis. You should know what your buyer wants and how they value your business. Only then can you optimally position your business to match their preferences.

Make it Easy for Your Buyer

You can make your buyer's life easier, and the purchase process less intimidating, by doing some of the hard work for them. This means having all the necessary documentation ready, having clear and organized financial records, having a detailed business plan, having a clear sale and transfer plan, and anything else that can make the process simpler for your buyer.

Be Honest

You should always be honest and transparent when sharing any challenges or risks in your business. You may be tempted to hide them, believing doing so will make your business look better, but it will only hurt you in the long run. Buyers will uncover them during the due diligence process, and they understand there may be concerns or risks associated with purchasing a small business. They will trust you more if you tell them upfront.

Transfer Leadership in Advance

To ease the ownership transition, you should have a second-in-command employee who can take over your role and help the buyer run the business post-sale. Buyers will feel more confident if they have a knowledgeable and experienced person by their side from day one. You should also place other current employees in key roles as needed. Transfer leadership whenever possible, but if that's not an option, offering post-sale training periods and/or consulting agreements can serve the same purpose. Any of these tactics will help make your business look more attractive to buyers and ensure a smoother transition to new ownership.



How to Tell Your Business Story

Telling a good story about your business can help you sell it. It embraces and tells the human side of your business. Your business story should enable the buyer to envision the future, feel part of it, and make them want to buy your business. Business is not just about numbers, but also about people.

To tell your business story, show how your business solved a problem, how this helped your customers, how successful you are now, and what their future could be. Your business story should have these elements:

- A main character
- A challenge they faced
- How they overcame the challenge

Your business story doesn't have to be enchanting or revolutionary, but it should be real and human. Be honest and authentic, because you want to convey the human element of your business and build trust with your buyer.

You can also partner with a professional broker to learn how to tell your business story better. A First Choice broker will work with you to craft your business story together, then they will help you weave together an engaging and convincing narrative for your buyer.





How to Decide if You Need a Broker

Selling your business is a big deal. You can do it by yourself, but it may be easier and beneficial to work with a broker. Working with a business broker like First Choice can help you gain an in-depth understanding of your market, position your business, accurately value/price your business, market your business, negotiate with buyers, and more.

If you wish to sell your business by yourself, your business sale is termed 'for sale by owner' (FSBO). You may choose to do this if:

- You can't find a broker you like or trust
- You can't afford the broker's fee
- You want to have full control of the sales process
- You have your own experience with selling

You may want to work with a broker like First Choice if:

- You have never sold a business before
- You own a small business
- You don't know what your business is worth
- You want to get the best price for your business
- You want to have a smooth and successful sale
- You want to avoid legal problems
- You need a 3rd party to help you with the process
- You don't know how to find buyers or where to start

Working with a broker also lets you focus on running your business while they take care of the sale. Brokers are very experienced in selling businesses, and they can help you with all the financial, operational, and legal steps. Although brokers earn a commission, they can also prove to be extremely beneficial counselors, help you find valuable assets that make your business worth more, and get you a higher price than you expected.

Working with a broker can make selling your business easier, less stressful, and result in a better deal for you. A broker like First Choice can also help you find the best buyers and keep your sale confidential, safeguarding your business' value during this important time.



Conclusion

Selling your business may be the biggest and most difficult thing you do as a business owner. There are so many steps, so much competition, and so little experience. It can be overwhelming and you may feel like you don't know what to do.

Fortunately, First Choice Business Brokers is here to help you. We have the experience, expertise, and resources you need to sell your business successfully. We can help you with every aspect of the sale, from valuing your business, to finding buyers, to closing the deal.

You have worked hard to build your business and get to this point. You deserve to have a great experience selling your business. Contact us today and find out how First Choice Business Brokers can help you realize your vision and sell your business faster and easier.

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