What's It Worth?
Business Valuations, Mergers, Acquisitions, and Consulting
NEWSLETTER ARTICLE ARCHIVE

Is your company sellable?

It has often been said that all businesses can be sold, it just depends on what price you put on the business. If a business has been losing money and does not have a future of making a profit, then the value of the business to a potential buyer will be fifty cents on the dollar for the hard assets as a rule of thumb. Generally, in this scenario, the buyer will not purchase the stock of the business, but rather selected assets. If your company is profitable and has been for 3 to 5 years, then one would conclude that the company is sellable, however there are the top 7 things you need to consider:

1. **What are you selling – a business or a job?** The first question that pops up with a business is just that…are you selling a business or just a job? Believe it or not both can be sellable under the right conditions. For those businesses where the owner can be replaced without a disruption in revenue, you truly have a sellable business. One rule of thumb to follow is this: if you can go on extended vacations without the business revenue diving downwards you own a business and not a job. If you own your own company, but you, as the owner, are indispensable and the customer base comes only to you and will not go to just anybody else easily, then the value of your business has been compromised and the ability to successfully transfer the customers/clients/ patients to another service provider is in question. In growing your company, it is very important that you work to develop an organizational structure that is not solely dependant upon you. If this is fairly impossible, then you will find that you will have to stay on board with the new owner while you slowly transfer the customers/client/patients to your successor. Many times, the value of the company will then be based on an "earn-out". An earn-out is a payment plan based on the revenue from the customers/clients/ patients that the new owner is able to retain.
2. **Are key employees staying or leaving?** Buyers are looking for the key employees, especially the sales people, to have some longevity with the Company and are willing to sign reasonable non-compete agreements. Buyers want to make sure that once they buy the business, the sales people or key management will not go out and start up another business right away. Your labor force may need to be able to go through the e-verify process depending on the size of your company and what your customers require. You may have to consider selling stock and not assets in order to have your labor force be grandfathered in under the original labor laws when you hired them. This can be done and the deal still be treated as an asset sale.
3. **Can you transfer your contracts – customers and vendors?** It is critical that the relationships you have with your customers and vendors can be moved to a new owner. It is always best to have some form of contracts with your customers and vendors if possible as it makes the transferring of relationships easy and gives the buyer more confidence. When selecting your buyer, they will need to

have the credit worthiness to meeting the approval of your vendors. Also, it is easier to transfer customer contracts when the buyer buys the stock of the company, but this can still be created with asset sales.

4. **Are your leases transferable?** With many businesses it is critical that your real estate, vehicle and equipment lease can transfer. Many time they cannot and then the Seller must continue on as the guarantor and with the responsibility of the payments so read these leases carefully before signing since some leases do not allow for any sub-leasing which can make this very sticky when it comes to selling a business.
5. **Are you and your business partners on the same page?** You need to make sure that all the shareholders or partners are willing to sell and have it in writing prior to going to market or else you can find yourself with a great buyer that will not wait around for all the shareholders to get on the same page.
6. **Can all the liens and encumbrances be paid off?** Make sure that all liens, including tax lease for all shareholders can be removed with the sale of the stock and that all liabilities can be paid off at closing or at least assumed by the buyer as part of the purchase price. I have seen deals die because one minority shareholder had such large tax liens on his shares, that it made it economically impossible to sell the Company.
7. **Are your books and records in order?** Many times, buyers and their bankers will not work with Company's who books and records are a mess. If you are running many "discretionary" items through your company and continually filing extensions on your tax returns, this will make it difficult for the buyer to show bankers the needed cash flow to purchase the business at the price you are looking for plus "time kills all deals" and without current tax returns, deal needing third party finance cannot be accomplished in a reasonable time.

Capital Endeavors, Inc.
P.O. Box 895, 232 Crogan Street, Lawrenceville, GA 30046
Web: www.capitalendeavors.com
Email: davidstill@capitalendeavors.com
PHONE: 770-962-8399 FAX: 770-962-8640