30 Second M&A Newsletter

Confidence in Numbers

A number of our clients use compiled financial statements, and some maintain reviewed statements. That's acceptable, but you'll do much better with audited financial statements a year or two before you plan to sell.

With validated financial accuracy, the buyer confidence is increased, you will experience shorter due diligence periods, and your company will be sold. I've had buyers tell me they've paid 0.25 to 0.5 more on deal multiples for a business with strong financial statements. As your business size grows, those quarter points can make a big difference in the purchase price and well outweigh the cost of an audit.

Put Time into Planning Sale of Business

Over my career, I have witnessed business owners who spent more time planning for their children's wedding, their 50th wedding anniversary, or even their fantasy football draft, than they put into planning for the sale of their business.

According to the quarterly Market Pulse Report, we know that when it comes time to sell a business, less than half of all business owners plan ahead. What that means is that most business owners wait for some kind of trigger before they go to market. Those triggers are reactive and often negative in nature, stemming from a family health issue, conflict, or (more commonly) burnout.

According to Christopher Snider, CEO of the Exit Planning Institute, 50% of business owners exit because of one of the five "Dismal Ds:" death, divorce, disability, distress, disagreement. Unfortunately, that often means business performance is on the decline. Or, at the very least, that the business owner hasn't had time to make specific changes that will better position their company for sale or transition.

Selling a well-prepared business is a completely different experience than selling due to some triggering event. You have more leverage, and the process is less stressful as you are proactively executing a strategy versus reacting to an event in your life. With planning, you'll be able to walk away from the closing table feeling satisfied and confident you made the right choices.

It's true that you may still be able to sell your business without planning. But the more you plan, the more options you have when you want to exit. When a business owner is well-prepared with an attractive business, it typically receive more offers. That means you keep more leverage in the sale so you can go out on your terms.

The holy grail is when you have prepared, you're emotionally ready, and the M&A market is at a peak. If you can pull that off, it's typically a win in terms of value and structure. Plus, the sale process will go faster, reducing the inevitable emotional turmoil for you.

Not everyone achieves such perfect synchronicity. Your chances are significantly better if the sale is part of a planned strategy. Whether you're 10 months or 10 years away from exiting your business, take time now to truly think about how and when you will leave.

Have a conversation with an M&A advisor. It doesn't mean you have to sell right away. But you will walk away better educated about your exit options, the importance of timing, and how the process works.

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