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Value series: Part Eight

Planning ahead key to getting top value when selling

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As with every exit strategy, experts advise owners to plan early if they think they will eventually sell their business.

According to the business monitor survey published for the first quarter of this year by the Canadian Institute of Chartered Accountants and Royal Bank of Canada, the top two challenges business owners believe they will face in selling are getting the right value for their company and finding the right successor.

Lawrence Wilder, a corporate lawyer with Cassels Brock, said that companies can get a start long before the actual sale date by staying on top of financial reporting and other bits of housekeeping.

“You certainly will get a better value if you have your ducks in a row than if you don't,” Mr. Wilder said.

Business owners who already have comprehensive financial and tax reports completed by third-party advisers will have a leg up on the due diligence process that eventually comes in an acquisition.

Once a business owner has decided to sell, he or she will have to hire an auditor, legal counsel, a business valuator (who does not take a commission on a sale) and, sometimes, a mergers and acquisition adviser (who does take a commission).

The team completes a company review, Mr. Wilder said. Everything from sales projections to employee and intellectual property agreements inform both the sales memorandum document that is used to market the company and the valuation of the business.

Some work with a business broker to market the company, but many owners want to maintain confidentiality during the process. Often, they rely on their adviser's networks to look for potential buyers.

“Most accounting firms have divisions that will assist in finding a buyer,” Mr. Wilder said. “They'll quietly market it around the street, and, very often, they won't name the company. They'll just say it has approximately x...revenues, and to please contact the accounting firm to get the name of the person who's selling.”

Interested buyers can then begin to negotiate the terms of the sale agreement to see if a deal can be made.

Even though the economy will have an effect on M&A activity, there are key factors every business owner should consider to maximize value when they sell, said Farley Cohen, a certified business valuator.

For one, it's important to have developed a business plan that goes beyond the owner's final day. said Mr. Cohen, chair of the board of the Canadian Institute of Chartered Business Valuators and a principal with Cohen, Hamilton, Steger & Co.

“The key thing to keep in mind is that value is prospective,” Mr. Cohen said. “It's looking into the future.”

Along with having comprehensive tax returns and financial statements that put the company in good standing, business owners must have answers for questions about how the company will continue to grow.

What assets and liabilities does the company have today and what are its prospects for the future? What is the value of the real estate and the equipment? How are sales expected to grow? Are there any unusual expenditures coming up?

Secondly, a business valuator will measure the internal risks of the company, which include how it is structured, how it is operated and by whom.

Whether or not a management team has a chief financial officer and a vice-president of sales and marketing will affect how much value he or she can ascribe to the company.

The valuator will also look at how competitive a business's pricing is, the level of customer satisfaction and a company's awareness of its competitors.

“You have to know what's going on in your industry and act accordingly,” Mr. Cohen said. “If there's new machinery that everybody's using, you should have that. I don't want to buy last year's way of doing things. I want to buy this year's – or, even better, next year's.”

Lastly, Mr. Cohen will look at the external risks to the business, which are largely outside of most owners' control. But any owner would be wise to ask himself or herself the same questions a business valuator will be asking.

“It's sort of like a house,” Mr. Cohen said. “When you're selling your house, you'll look to find out what your neighbour sold their house for.”

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