



*1700 Rockville Pike, Suite 400
Rockville, MD 20852
jordancrandus@crandus.com
301-230-0034 • fax (301) 681-2955*

Business Exit Planning

What Buyers Look For

During our just ended 10 part series we demonstrated how important it is for every business owner to be ever ready to sell their business. Now let's look at it from the buyer's perspective. What do buyers want and expect?

The owners of a service business were confident they had everything in order when an ideal buyer approached them and made a strong offer. The parties agreed and the due diligence study began. When the buyer found a substantial amount of the accounts receivable in the 120-day category a red flag went up. Because cash flow was always strong the owners didn't bother to police the receivables. However, the buyer was rightfully concerned and reduced the offering price 25%. The deal died.

A highly successful retail business, the envy of all its competitors, suddenly found itself adrift when the owner became seriously ill and was unable to oversee day-to-day operations. Revenues began to dip and so the family came to us to find a buyer. Because the business was so tied to the owner, no buyer was willing to take the chance of buying this once prized business that soon failed.

The owner of a successful contracting firm was tired of the headaches associated with running a business and wanted to retire. Good buyers lined up to acquire the company but they all walked away when they found that the key employee was not "locked in" to the business and would not commit to staying on with a new owner. In frustration the owner sold to the key employee for half of what other buyers had offered.

As you can see from the above examples, and from Bradley Feld's comments that follow, buyers want, at a minimum, sound operating systems, continuity of management that will encourage continuity of revenues, and a business that is not dependent on one individual.

Owners of growing companies typically have two paths to liquidity – either offering shares to the public through an IPO (initial public offering) or a sale of the company. Since an IPO is highly unlikely in today's business environment, entrepreneurs should begin positioning their companies for sale early in the life of their businesses and should continue to take steps toward that strategy throughout their business life.

The above appeared in the June 2003 WPI Venture Forum Newsletter and was written by Bradley Feld, co-founder and managing director of Mobius Venture Capital. Feld's advice is as relevant today as it was in 2003, and will be as practical tomorrow.

When Bradley Feld says "entrepreneurs should begin positioning their companies for sale early in the life of their businesses" he's saying buyers want a company that has a sound concept, a practical business plan, competent management that will stay with the buyer, sustainable systems, and a consistent and growing profitable revenue stream.

Owners tend to go into business treating it like a job rather than an investment. While working **IN** the business, not **ON** it, details that drive the values mentioned above are overlooked. The result is when the business is sold the owner leaves money on the closing table, often times a great deal of money.

Issue one of our recent series quoted *The Kiplinger Business Resource Center* and *The Wall Street Journal* both warning business owners that "gigantic amounts of wealth are not going to be realized because of lack of planning". The buyer's market we are now in will continue for quite some time as more distressed businesses become available due to the economy and as baby boomers decide to or find a need to retire.

Plan ahead for success when you exit your business, or plan for less than what you hoped for. Only the best-prepared businesses sell for top dollar.

If you have questions about exit planning, please contact us for a no-obligation consultation to discuss your particular situation.

Call Louis A Kastelic, MPBC at Jordan-Crandus, P.A. for your free initial consultation. Lou Kastelic is an experienced exit planning consultant and master primary business consultant.

**Jordan-Crandus, P.A.
301-230-0034
lou@crandus.com**