# The Advisor – Winter 2011

## How to Sell Your Business

In a recent newsletter, we discussed how an owner should prepare his business for sale. This newsletter discusses the next steps once the business is "sale ready" and the decision to sell has been made.

Prior to selling, an owner should determine what his long term objectives are. Namely:

1. Is the owner prepared to stay on in a management role for some period of time after the sale for a transitional phase?
2. Is the owner willing to retain some equity in the business?
3. Where does the owner see himself two to three years after the sale? Is he prepared to sign a non-competition agreement that will prohibit him from entering into the same or similar business in the future?
4. Is the owner concerned about his legacy? Does he care if the company continues to exist as a going concern and that all current employees retain their jobs?

Once the answers to the above are established, a decision on how the business should be sold will be easier to make. The method chosen should be in line with his objectives and should attract the type of buyer the seller is willing to sell to.

Two methods of selling a business are discussed briefly below.

1. **Soliciting Offers by Word of Mouth.**

   An owner can let it be known through his business network that he would entertain offers from interested parties to purchase his business. Potential buyers will make contact and the process would get started on an informal basis.

   This option may make sense in a number of cases:

   i. The business is small and operates in an industry with few competitors;
   ii. The owner is concerned about the legacy of his business, has knowledge of a potential buyer and believes there would be a strong fit if a sale were to be consummated; or
   iii. There is a strategic fit with one or two companies making it difficult for any other parties to justify a competitive bid.

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An advantage to this method is that if key items of the sale can be agreed on with relative ease (i.e. price, assets to be sold, representations and warranties etc.), the entire sale process should be completed relatively quickly in a cost-effective manner.

2. **Sale of the Business via a Controlled Auction.**

   There are a number of advantages to using an auction over an informal sales process:

   i. The seller is in complete control of the process and can dictate the terms and conditions of how and when they would like to sell the business. Potential bidders who do not wish to comply with this framework need not apply; this saves everyone time and aggravation.
   ii. Multiple offers should result. This should drive up the sales price due to the competitive nature of the process.
   iii. If an informal sales process is used and the first offer presented is accepted, a seller will never know if he could have obtained other offers at a higher price.

Regardless of which method is chosen, it is imperative that a company valuation be performed so that the seller has an indication of what his business is worth. However, the final sale price may differ significantly from the valuation depending on the method chosen to sell the business and how flexible the owner is in receiving the proceeds of the sale. An all cash deal will usually result in a lower sales price. If the owner is prepared to assume some risk and take a portion of the proceeds in the form of equity or an earnout, the final sales price can be substantially higher.

Aries Advisory Group is uniquely qualified to assist you with the sale of your business. We can perform a valuation to provide you with a baseline of what your business is worth. We can recommend a method to sell your business that is in line with your objectives. And we can facilitate the sale through the chosen method in order to maximize the sales price. Please contact us at info@ariesag.com or at (416) 467-7878 to see how we can help.

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