

Small Business: A Guide to Selling Your Firm. Valuation. Timing. Results.

Abstract

Owning and running your own company can be rewarding, energizing, and fulfilling. But at some point, you might decide you're ready for what's next. It's time to profit from all of your hard work and move on. But what is next? What are your options?

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“Luck favors the prepared.”

Louis Pasteur

“Nothing is as important as passion. No matter what you want to do with your life, be passionate.”

Confucius

“Always be prepared to start.”

Joe Montana

“Control your destiny or someone else will.”

Jack Welch





You've worked hard for many, many years investing your capital, sweat and tears into your company. You've built it up from a scrappy start-up to a rather good business, one that generates solid revenues and profits.

Now what?

You Have Options

Recognize that you have options. You can choose to keep going, continuing to serve your customers, or, as Steve Miller once sang, it's time to "take the money and run!" An important caveat here, for both options, is that you **do** have a choice. And for the latter option, the distinction, since your company is performing well, is that you're not exactly 'running away' – more pivoting toward what's next. We'll get to what that means in a little bit.

But first, why sell in the first place? Why do you want to sell? Do you want to sell?

Running a company is rewarding. It can be energizing. It can be fulfilling. It can be extremely profitable. Except when it's not. At times, it can be hard; a daunting effort that sometimes isn't generating that solid profitable revenue we mentioned earlier. According to a Gallup Poll in 2018, most people decide that 66 years old is the right time to retire. Some earlier, some later, but everyone has an age that they decide to take the leap, you just need to decide when to sell and move on to your next adventure.



There are many different reasons why it's time to sell. Your company has been your passion and life work. That's great. But it's yours. If your kids or other family members share that passion, that's great, too. Help them continue what you've built. However, if your kids or family don't feel the same passion, there will be someone else likely who will. And that's okay. If you're unable to keep up with the business because of a medical reason, that's okay, too. Now is the time to take care of you and let someone else take care of your company. If you don't have the passion you once did, that's okay as well. Maybe it's time to let someone else carry the company forward. In all of these examples, you have the opportunity to profit from the company you built and help someone else at the same time. In all cases, everyone wins, especially the customers that have become accustomed to what you've been providing.

Whatever your reason, you're ready now. It's time to sell your company.

Now that you've made the decision to sell, what do you need to do?

Next Step: Prepare!



Prepare yourself. Take the time to make sure you are comfortable stepping aside. Have you spent some time reflecting on what is important to you? Now is the time where you can pivot (I told you we'd come back to that) to something that you've been wanting to do – golf, fish, travel, volunteer, start something new – but haven't had the time. Take stock of what is important to you and determine what makes the best sense for you.

Prepare your company. When you go through the process to sell a business, the process will move so much more smoothly if you spend a little time up front to make sure your company is in the best shape to be sold. Now is a great time to clean up your balance sheet – clearing up old receivables (if any), document anything related to cash flow, dust off your business plans (you have those, right?) and gather all the necessary documents, licenses, customer and supplier lists that a potential buyer will need to make their decision to buy. The more organized you are, the more interesting your company will be for potential buyers. And the fewer issues that you will likely run into during the sales process. Your potential buyer will want to do a lot of due diligence. Make it as easy as possible and keep the momentum of the sale moving forward.

Another important thing to do is **assemble your 'dream team' of support** – a CPA, an attorney, contacts you may have in your industry association, and a registered financial advisor. You need to take steps before you sell to best value your company, position it well to attract potential buyers, and work through issues that will become more important later on, such as taxable proceeds, avoiding capitals gains to the extent you are able, and likely most important, putting together a plan of use for the proceeds.



The work you complete to prepare your business for sale will also help when you get to the next stage of the sales process: answering the question 'what is your company worth?' Private companies are valued differently than publicly traded companies. A company whose stock is listed on an exchange is easy to value – the number of shares outstanding times the market price of each share equals the value of a company. For a private company, it's a little trickier. The sales price will end up being some multiple of either sales, EBITDA (earnings before interest, taxes,

depreciation and amortization) or possibly inventory. EBITDA provides a really good snapshot of the firms' operational profitability, because it removes all non-operating factors that are legitimate, but don't reflect how well the firm is performing from the ongoing operations. For a smaller company, there is also a very simple method where you subtract the liabilities from the assets of the company to determine the value of the company. The multiplier that is used depends on the industry, size of the company and what the multiplier is applied against.

Tell Your Story

There's one other important activity you need to work on as you prepare your company for sale. **Tell the story of your company.** Facts, data, financials, and operational history are important. But the story of your company – the reason behind the success you've built – is what will attract buyers. Profits are important. But without the story that details the 'how' and 'why' of your company, they are sterile and by themselves aren't enough to move a potential buyer to act. Humans relate to humans. Share the story.



Everything that I've shared above can be completed anytime – not just when you decide to sell. Frankly, doing it when you aren't necessarily ready to sell is a great exercise to go through. It could identify any potential issues that you would need to resolve anyway. It could also provide you with some excellent motivation and comfort to know that you have something of value that someone will be interested in. And going through this process will also help you to connect with people who know people and organizations that may be interested in a potential acquisition or know someone who might.

What can I do to get started?

Rather than spending your valuable time assembling the documents and exhibits you'll need during discussions with prospective buyers, leverage the Warren Financial Business Valuation Dashboard tool to quickly and easily create the business valuation packet you need to facilitate discussions such as this. All that is required is that you enter some basic information into our proprietary tool to easily model and create forecasts and projections for your company. The tool uses a simple approach to generate a set of succinct charts, graphs and background information that will allow you to best position your company and help create a useful action plan as you move forward.

Complete this TABLE first. Just input all the values. Only enter values in Yellow Highlighted cells.

| Column1 | Annual | Monthly |
|---|------------------------|----------------------------|
| Company Name | Apple Computer Company | |
| Revenue | \$ 7,500,000 | \$ 625,000 |
| Cash on Balance Sheet | \$ 250,000 | \$ 20,833 |
| Cost of Goods Sold | \$ 2,532,000 | \$ 211,000 |
| Cost of raw material / inventory | \$ 1,250,000 | \$ 104,167 |
| Manufacturing Costs / Cost to Prep goods for sale | \$ 462,000 | \$ 38,500 |
| Employee costs related to production | \$ 820,000 | \$ 68,333 |
| Sales General & Admin Costs | \$ 1,954,000 | \$ 162,833 |
| SGA Employee payroll | \$ 1,624,000 | \$ 135,333 |
| Leased office space, equipment, rents | \$ 295,000 | \$ 24,583 |
| Office Expenses | \$ 35,000 | \$ 2,917 |
| EBITDA | \$ 3,014,000 | \$ 251,167 |
| Depreciation & Amortization | \$ 295,000 | \$ 24,583 |
| Interest Expense | \$ 35,000 | \$ 2,917 |
| Tax Expense | \$ 550,000 | \$ 45,833 |
| Profit | \$ 2,134,000 | \$ 177,833 |
| Cash to Owners (Dividends or other distributions) | \$ 1,240,000 | \$ 58% |
| Balance Sheet Value, Non-Cash Assets | \$ 4,260,000 | |
| Corporate Form of Organization (S-Corp, LP, C-Corp) | S-Corp | Non Finance Non Consulting |

The first step is to input some basic business information including revenue, cost of goods sold, operating costs, general and administrative costs and other information from your company's financial statements.

Now think through some basic accounting issues and cashflow needs. What action can you take to improve or eliminate any of these?

| | -----FUTURE | -----FUTURE | -----FUTURE | FUTURE | TODAY | PAST----- | PAST----- | PAST----- | PAST----- |
|---|---------------------------|---------------------------|---------------------------|----------------------|----------------------|-------------------------|-----------------|-----------------|-------------------|
| | Exp'd Expense @ 1-90 Days | Exp'd Expense @ 1-90 Days | Exp'd Expense @ 1-90 Days | Total Future Cash In | Current Cash Payable | Current @ 30 Days Sales | 1-90 Days Sales | 1-90 Days Sales | More Than 90 Days |
| Accounts Payable | | | | | | | | | |
| Location | \$ 184,187 | \$ 184,187 | \$ 184,187 | 312,000 | \$ 184,187 | \$ 184,187 | \$ 184,187 | \$ 184,187 | \$ 184,187 |
| Raw material / Inventory Invoices | \$ 28,500 | \$ 28,500 | \$ 28,500 | 215,500 | \$ 85,680 | \$ 85,680 | \$ 85,680 | \$ 85,680 | \$ 85,680 |
| Mfg Cost Invoiced | \$ 24,500 | \$ 24,500 | \$ 24,500 | 73,500 | \$ 24,500 | \$ 24,500 | \$ 24,500 | \$ 24,500 | \$ 24,500 |
| Leased Office Space & Equipment / Rents | \$ 2,817 | \$ 2,817 | \$ 2,817 | 8,451 | \$ 2,817 | \$ 2,817 | \$ 2,817 | \$ 2,817 | \$ 2,817 |
| Monthly small office expenses (phone, cable, etc) | \$ 170,084 | \$ 170,084 | \$ 170,084 | 510,372 | \$ 224,808 | \$ 166,100 | \$ 166,100 | \$ 166,100 | \$ 166,100 |
| Total Gross Payable | \$ 170,084 | \$ 170,084 | \$ 170,084 | 510,372 | \$ 224,808 | \$ 166,100 | \$ 166,100 | \$ 166,100 | \$ 166,100 |
| Net Total Payables | \$ 170,084 | \$ 170,084 | \$ 170,084 | 510,372 | \$ 224,808 | \$ 166,100 | \$ 166,100 | \$ 166,100 | \$ 166,100 |
| Accounts Receivable | | | | | | | | | |
| Product Group A Sales | \$ 110,500 | \$ 110,500 | \$ 110,500 | 187,500 | \$ 204,800 | \$ 204,800 | \$ 204,800 | \$ 204,800 | \$ 204,800 |
| Product Group B Sales | \$ 28,000 | \$ 28,000 | \$ 28,000 | 112,000 | \$ 140,000 | \$ 140,000 | \$ 140,000 | \$ 140,000 | \$ 140,000 |
| Product Group C Sales | \$ 147,500 | \$ 147,500 | \$ 147,500 | 292,500 | \$ 162,500 | \$ 162,500 | \$ 162,500 | \$ 162,500 | \$ 162,500 |
| Total Gross Receivable | \$ 286,000 | \$ 286,000 | \$ 286,000 | 592,000 | \$ 507,300 | \$ 507,300 | \$ 507,300 | \$ 507,300 | \$ 507,300 |
| Percentage Uncollectible | 0% | 0% | 0% | 1,114,000 | \$ 693,045 | \$ 693,045 | \$ 693,045 | \$ 693,045 | \$ 693,045 |
| Net Receivables | \$ 286,000 | \$ 286,000 | \$ 286,000 | 592,000 | \$ 507,300 | \$ 507,300 | \$ 507,300 | \$ 507,300 | \$ 507,300 |
| New Term Cash Flow | | | | | | | | | |
| Cash on the Balance Sheet | \$ 48,333 | \$ 48,333 | \$ 48,333 | 250,000 | \$ 250,000 | \$ 250,000 | \$ 250,000 | \$ 250,000 | \$ 250,000 |
| Cash out to Employee costs related to production | \$ 130,333 | \$ 130,333 | \$ 130,333 | 457,666 | \$ 137,000 | \$ 137,000 | \$ 137,000 | \$ 137,000 | \$ 137,000 |
| Cash out to Employee costs related to Sales | \$ 2,817 | \$ 2,817 | \$ 2,817 | 8,451 | \$ 2,817 | \$ 2,817 | \$ 2,817 | \$ 2,817 | \$ 2,817 |
| Interest Expense | \$ 82,500 | \$ 82,500 | \$ 82,500 | 187,500 | \$ 187,500 | \$ 187,500 | \$ 187,500 | \$ 187,500 | \$ 187,500 |
| Tax Expense | \$ 152,767 | \$ 152,767 | \$ 152,767 | 458,201 | \$ 180,111 | \$ 171,481 | \$ 140,458 | \$ 9,675 | \$ 158 |
| Change in Cash Amount | | | | | | | | | |
| Net Total Balance Sheet Cash | | | | | | | | | |

| Rates of increase | Enter Value |
|---|-------------|
| Enter Assumed Annual Increase in Sales | 1.2 |
| Annual acceleration in Sales Growth | 20% |
| Enter Assumed Annual Incr Cost of Goods Sold | 1.04 |
| Enter Assumed Annual SG&A | 1.03 |
| Enter Assumed Annual Sales Employee Increase | 1.05 |
| Enter Assumed Annual Production Employee Increase | 1.03 |
| Company Value: EBITDA Multiple | 10 |
| Company Value: Sales Multiple | 3 |
| Company Value: Book Value Multiple | 3.3 |

Next, consider some assumptions – expected increase in sales, changes in cost of goods sold, number of employees and more.

Ultimately, the goal is to generate a forecast for your business – by quarter or by year – to use either as a planning tool or as a baseline description for the sales process, providing you with a flexible, accurate and simple tool to make the most of your business investment. With these tools you can spend less time discussing accounting and more time telling your STORY.

| | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 |
|---|---------------|---------------|----------------|----------------|----------------|----------------|
| REVENUE | | | | | | |
| Revenue for: Apple Computer Company | \$ 10,800,000 | \$ 15,552,000 | \$ 22,394,880 | \$ 32,248,627 | \$ 46,438,023 | \$ 66,870,753 |
| End Last Yr TL Bal Sh Assets | \$ 5,460,215 | \$ 7,865,430 | \$ 11,974,895 | \$ 18,634,492 | \$ 29,060,593 | \$ 44,951,916 |
| Cash on Balance Sheet | \$ 1,503,180 | \$ 3,911,444 | \$ 8,044,269 | \$ 14,720,393 | \$ 25,133,163 | \$ 41,015,140 |
| Cost of Goods Sold | \$ 2,981,176 | \$ 3,536,385 | \$ 4,223,762 | \$ 5,075,919 | \$ 6,133,551 | \$ 7,447,440 |
| Cost of raw material / inventory | \$ 1,560,000 | \$ 1,946,880 | \$ 2,429,706 | \$ 3,032,273 | \$ 3,784,277 | \$ 4,722,778 |
| Manufacturing Costs / Cost to Prep goods for | \$ 576,576 | \$ 719,567 | \$ 898,011 | \$ 1,120,728 | \$ 1,398,669 | \$ 1,745,539 |
| Employee costs related to production | \$ 844,600 | \$ 869,938 | \$ 896,036 | \$ 922,917 | \$ 950,605 | \$ 979,123 |
| Revenue Less COGS | \$ 7,818,824 | \$ 12,015,615 | \$ 18,171,118 | \$ 27,172,708 | \$ 40,304,472 | \$ 59,423,314 |
| Gross Margin | \$ 1 | \$ 1 | \$ 1 | \$ 1 | \$ 1 | \$ 1 |
| EXPENSES | | | | | | |
| Sales General & Admin Costs | \$ 2,045,100 | \$ 2,140,557 | \$ 2,240,583 | \$ 2,345,400 | \$ 2,455,242 | \$ 2,570,353 |
| SGA Employee payroll | \$ 1,705,200 | \$ 1,790,460 | \$ 1,879,983 | \$ 1,973,982 | \$ 2,072,681 | \$ 2,176,315 |
| Leased office space, equipment, rents | \$ 303,850 | \$ 312,966 | \$ 322,354 | \$ 332,025 | \$ 341,986 | \$ 352,245 |
| Office Expenses | \$ 36,050 | \$ 37,132 | \$ 38,245 | \$ 39,393 | \$ 40,575 | \$ 41,792 |
| Total Expenses | \$ 5,026,276 | \$ 5,676,942 | \$ 6,464,345 | \$ 7,421,319 | \$ 8,588,792 | \$ 10,017,792 |
| EBITDA (Revenue Less Expenses excluding Int.) | \$ 5,773,724 | \$ 9,875,058 | \$ 15,930,535 | \$ 24,827,308 | \$ 37,849,731 | \$ 56,852,961 |
| EBITDA Margin | \$ 1 | \$ 1 | \$ 1 | \$ 1 | \$ 1 | \$ 1 |
| Depreciation & Amortization | \$ 306,014 | \$ 329,374 | \$ 345,901 | \$ 332,570 | \$ 323,223 | \$ 316,714 |
| Interest Expense | \$ 35,000 | \$ 35,000 | \$ 35,000 | \$ 35,000 | \$ 35,000 | \$ 35,000 |
| Corp Tax Expense | \$ 5,738,724 | \$ 9,840,058 | \$ 15,895,535 | \$ 24,792,308 | \$ 37,814,231 | \$ 56,817,961 |
| Profit | \$ 3,328,460 | \$ 5,707,234 | \$ 9,219,410 | \$ 14,379,539 | \$ 21,932,254 | \$ 32,954,418 |
| Cash to Owners | \$ 2,410,264 | \$ 4,132,834 | \$ 6,676,125 | \$ 10,412,769 | \$ 15,861,977 | \$ 23,863,544 |
| New End of Year Cash Balance | \$ 3,911,444 | \$ 8,044,269 | \$ 14,720,393 | \$ 25,133,163 | \$ 41,015,140 | \$ 64,878,683 |
| End Year: Value of the Company | | | | | | |
| Cash on the Balance Sheet | \$ 3,911,444 | \$ 8,044,269 | \$ 14,720,393 | \$ 25,133,163 | \$ 41,015,140 | \$ 64,878,683 |
| Book Value of Non-Cash Assets | \$ 3,953,986 | \$ 3,930,626 | \$ 3,914,099 | \$ 3,927,430 | \$ 3,936,777 | \$ 3,943,286 |
| TOTAL BALANCE SHEET ASSETS | \$ 7,865,430 | \$ 11,974,895 | \$ 18,634,492 | \$ 29,060,593 | \$ 44,951,916 | \$ 68,821,969 |
| EOY EBITDA based Value of Apple Computer C | \$ 57,377,240 | \$ 98,750,582 | \$ 159,305,353 | \$ 248,273,083 | \$ 378,492,307 | \$ 568,529,612 |
| EOY Sales/Multiple based Value of Apple Comp | \$ 32,400,000 | \$ 46,656,000 | \$ 67,184,640 | \$ 96,745,882 | \$ 139,314,070 | \$ 200,612,260 |
| EOY BookValue based Value of Apple Comput | \$ 25,955,920 | \$ 39,517,153 | \$ 61,493,824 | \$ 95,899,958 | \$ 148,341,324 | \$ 227,112,499 |
| Approx Tax Expense to Owner of non-C-Corp | \$ 1,147,745 | \$ 2,127,465 | \$ 3,626,881 | \$ 5,835,965 | \$ 9,075,647 | \$ 13,810,061 |

Summary

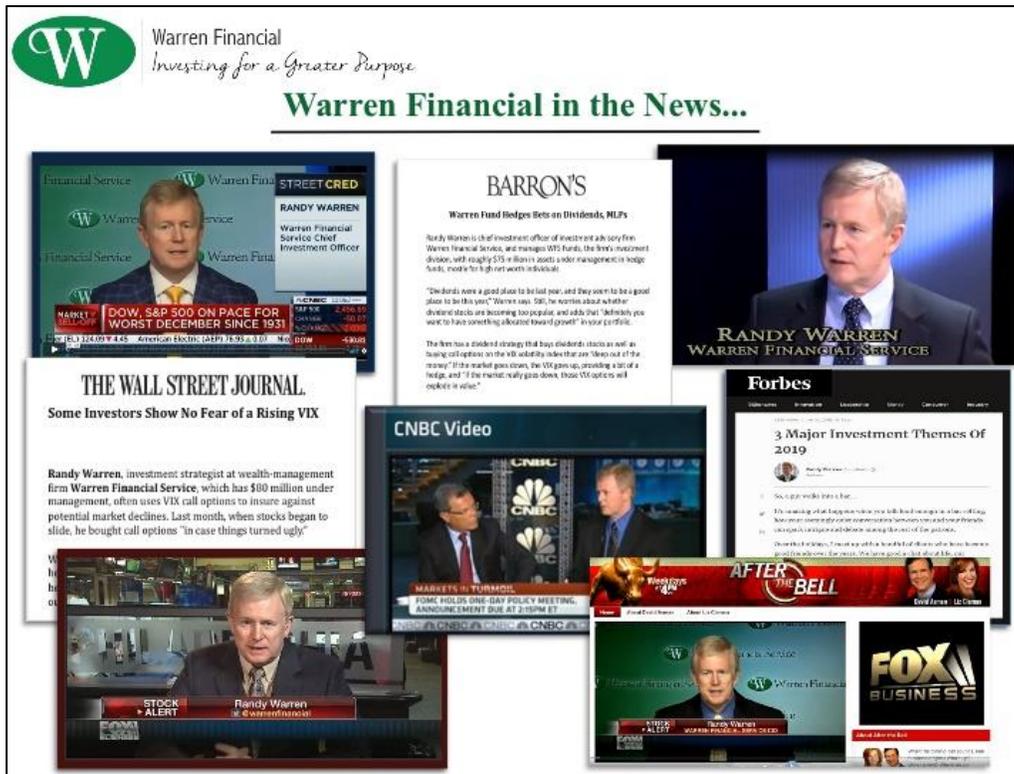


You've worked hard to build your company to where it is today. Take just a little effort to help increase and realize the value as you take it across the finish line.

Talk to your Warren Financial advisor. Our team is made up of a diverse group of professionals with deep experience in financial and portfolio management. We also bring expertise in many of the domains that you will need to understand as

you seek to sell your company and move on to 'what's next'. We take the time to know our clients and can help create the optimal path through retirement or wherever your passion leads.

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