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## Introduction

Welcome to the definitive guide on how to sell your mid-sized business. We've started, grown, funded and sold businesses, and now we do it for others. I have condensed years of experience into this ebook on the process of preparing, marketing and selling your business.

I've spent three years writing many hundreds of blog articles for Allbusiness.com, and another year preparing this book by organizing the information I had already written and filling in the gaps.

If you have questions or comments please let me know at [ney@compasspointcapital.com](mailto:ney@compasspointcapital.com)

- Ney Grant

### ***Reality Check***

Many chapters include first hand stories in these blue boxes about actual buyers and sellers we encountered, deals that closed and some that didn't, dream deals and nightmares. These are stories of integrity and of greed. Some are useful and educational, and some are just plain entertaining. As is so often the case, in deal making, reality can be much stranger than fiction.

## Preparing Your Company and Knowing When to Sell

You may be thinking about selling your business, now or in the next few years. Timing can be important, not only in regards to the economic cycles, but also in terms of the life cycle of the business.

### *Reality Check*

#### **An Example of Good Timing...**

We had a client in 2008/09 (in the middle of the deepest recession since the great depression) that was growing rapidly in alternative energy. President Obama came into office with a major focus on his area. Amid all of that optimism it was extremely difficult to nail down how much growth this company would experience, but there was no question it would experience significant growth. An unsolicited offer came in for about six times EBITDA, but after creating some competition by getting another buyer interested, the bidding exceeded 12 times EBITDA. Could the owner have kept it and grown the company himself to realize an even bigger gain? Quite possibly, but it was a great exit for the seller and there was significant risk in many of the projects that could have slowed the revenue growth...

#### **And Bad Timing**

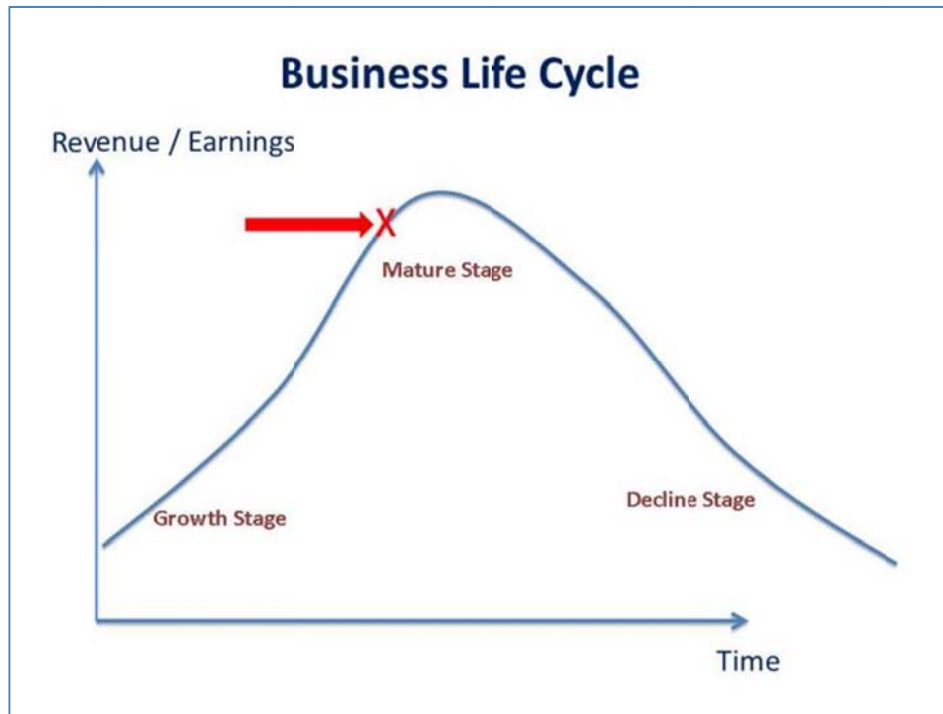
We provided an opinion of value to a company in 2006 of around \$7 million to a husband and

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wife team that owned a steel fabrication company that provided product to a number of companies, none of which were more than 15% of their business. The husband wanted to sell, but the wife wanted to earn \$10 million on the sale. She convinced her husband that things were going well, and if they waited just a few more years and grew earnings a bit more, they could have their \$10 million. Unfortunately, although their customer base was diverse, almost all were suppliers to RV manufacturers, and gas prices suddenly spiked to \$4 per gallon and the RV industry went off a cliff. In 2008 the company declared bankruptcy and closed its doors.

### **Knowing When to sell: Where are You on the Lifecycle Curve?**

It is easy to chart out when to sell, but it much harder in reality to know where you are in the business lifecycle. There are a lot of “business-lifecycle-bell-curve-showing-when-to-sell” charts on the web at various business brokerage websites and I have to admit to having drawn one up myself in the past in order to illustrate when to sell. Here is the typical chart:



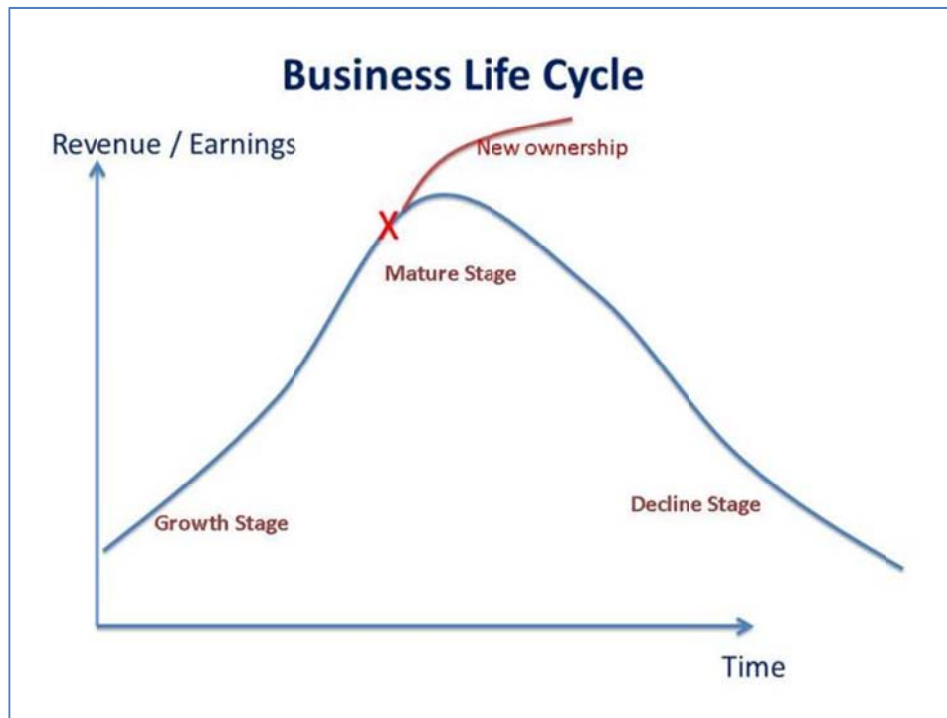
There are a lot reasons for business owners sell their companies. Three common reasons to sell are:

- Retirement age is nearing (I want to make sure I play some golf before I die)
- New skill sets are required to reach a higher level of financial performance (I'm not a good delegator and I can't work 37 hours per day)
- Burnout (If I hear one more employee complaint, I might commit a homicide)

Others include health issues, partner disagreements, new opportunities spring up (serial entrepreneurs)

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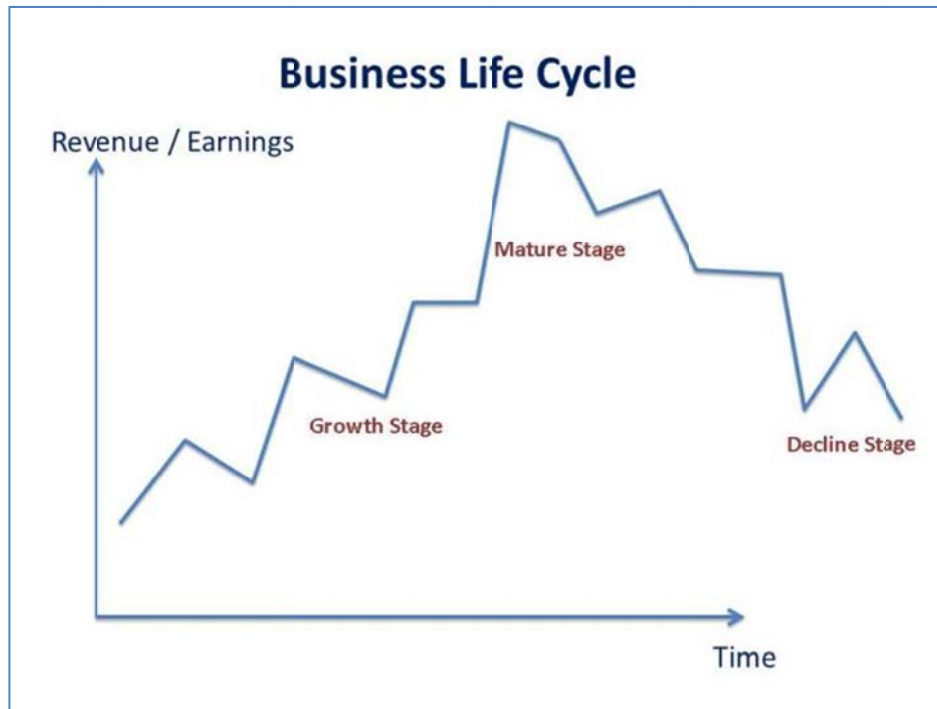
In theory, a new owner can inject new enthusiasm or a missing skill set into a business, thus creating an entirely new lifecycle curve as shown below.



Looks nice, and it looks pretty easy to see when to sell. Its right at the red "X".

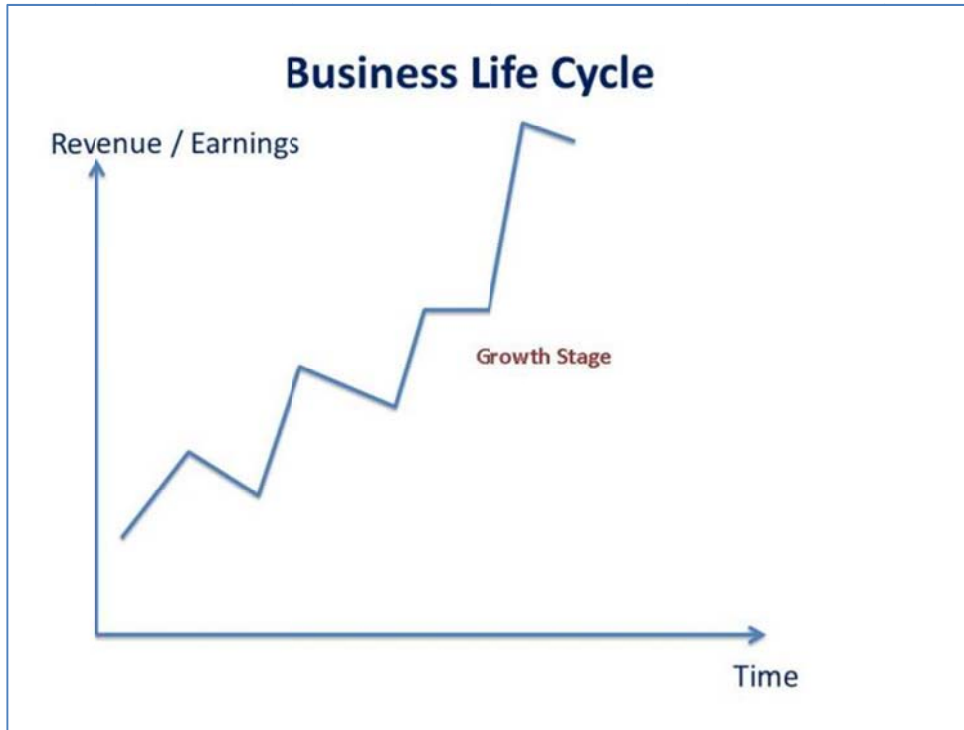
However, there are two problems with that curve. I've never actually seen a business with that particular curve. They look more like this:

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But that isn't the biggest issue. The biggest issue is that you can't see the future, so really what you see is this:

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Now it's a bit harder to see where to sell. Is that last little dip down the beginning of a long decline, or just a momentary pause like you've been through three times already? And then of course there are external issues that can kill a business like the \$4 per gallon gas did to the steel company, or the 911 attacks did to the travel industry in 2001.

Externalities aside some business owners are far better at identifying where that red X goes than others. It mostly has to do with understanding your company and market. I see a surprising number of owners that are not in touch with their business. Not even close. Sometimes it's simply a lack of accounting controls. Other

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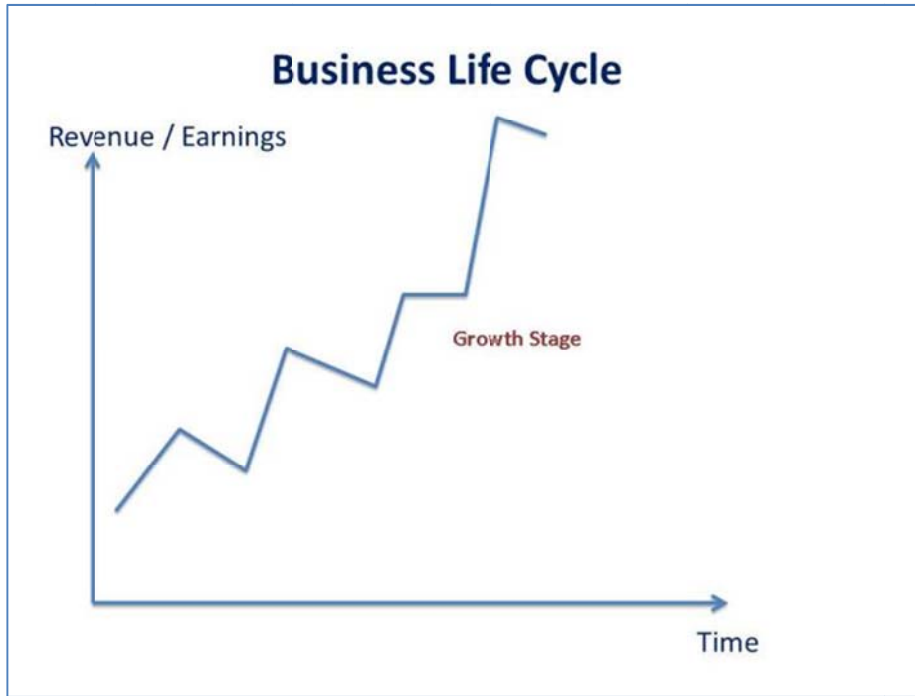
times it is just a lack of attention from an owner that is burned out and spending less time in the office.

I may be able to see that a decline is coming, and will often gently try to guide an owner to that understanding. I never want to push the issue too hard for fear of a perceived conflict of interest in trying to push a sale which will increase my income. So I advise and watch, and sometimes, regrettably, watch the company slip into a unsellable condition. Once a company reaches apparent decline they are almost impossible to sell at any price.

### **Are You in Touch With Your Business?**

You have to have your finger on the pulse of your business to know when the time is right. Some owners know the pulse by just being there and feeling the energy. Others use accounting controls to watch performance. Still others lean on a network of trusted advisors.

So, let's say you sense that your impending burnout, or skill set limits lead you to believe that you are nearing the peak of your company's life cycle. You feel that although the trends are positive you expect a downward slope is coming. However, what a buyer sees is the following, basically a wonderful upward trend:



Are you misrepresenting the business if you don't disclose that you think a down slope is coming? No, unless you don't disclose known external forces that are behind your expectations. Most of the time that isn't the case. You disclose exactly why you want to sell (e.g. time to retire, burned out, etc.), and explain how a new owner can maintain or increase the momentum. The momentum that you haven't lost, yet.

### **Timing the Sale of a Business**

You can work years for essentially no pay if you don't pay attention to obvious signs of when to sell your