WORKFORCE

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OWNER'S PATH

- Do you plan to stay with the company post transaction?
- What will your role look like?
- How long to you plan to work?
- Who will replace you in the future?

KEY EMPLOYEES

- Who are you key employees for each area? Sales, management, etc.
- Do you have employee agreements or non-compete's in place?
- Consider providing incentives to retain key employees.

CUSTOMER RELATIONSHIPS

- What employees have key relationships with vendors & customers?
- Consider how to introduce others to key relationships.
- How will customers react? Consider ways to communicate the transition.

IS MANAGEMENT READY

- Take a vacation - empower others to make decisions - training wheels.
- Do you have the right people in place?
- Do you need to hire additional management?
- Consider if additional training or mentoring needed.

POTENTIAL SUCCESSORS

- Is there someone in your company that may want to buy?
- Consider financial feasibility of the individual.
- Is seller financing acceptable?
- A bonus or deferred compensation program to provide funds for a down payment of purchase?

FINANCIALS & TAX

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ACCOUNTING RECORDS IN ORDER

- Reconcile ending balances on balance sheet.
- Implement a month end close.
- Create & track monthly budgets
- Document processes.
- Clean up depreciation schedules.
- Remove non business assets.
- If not on accrual basis start!
- Don't treat the company like a piggy bank. (leave personal expenses out of the company)

ADEQUATE ACCOUNTING FIRM

- Can your current accountant handle the services your requesting?
- Are they educated in value? If not, consult with a valuation expert.
- Do they have experience with companies being sold?
- Can they handle the unique tax implications of a transaction?
- Are they tracking & reconciling your tax basis?

GIVE YOUR NUMBERS CREDIBILITY

- Obtain CPA issued financial statement.
  - Audit, review, compilation
- CPA prepare tax returns reconciled to internals.
- Quality of earnings.

CASH FLOW

- Calculate sale proceeds after tax. Is this enough?
- Does it appear the company can fund the required payments base on value?

USE YOUR ACCOUNTING TO PAINT A PICTURE

- Segregate multiple revenue streams.
  - If one dips or grows, it's easier to explain and not have it all impact value.
- Highlight unique items for the year(s).

TAX EXPOSURE

- Are you filing in all states for both sales tax and income tax when required?
- Verify you have proof of entity type.
  - S Corporation? Find S election acceptance letter from the IRS.
- Gather legal organization documents.
  - Operating agreement, articles of organization, etc.

VALUE

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Your company is worth at least your assets minus your liabilities, however, in the valuation world, the common method is BASED ON INCOME.

GIVE YOUR NUMBERS INTEGRITY

- Build a track record by having solid numbers.
- Obtain compiled, reviewed, or audited issued financial statements from a CPA.
- Calculate 5 year projections.

CONSULT A PROFESSIONAL

- May need a valuation professional.
- High level rule of thumb (range of value) based on multiples.
- Obtain calculation of valuation.
- Can company cash flow make payments based on the value?

KNOW YOUR EBITDA

- Keep track of EBITDA.
  - Net income + Interest + Taxes + Depreciation + Amortization
- Normalized EBITDA.
  - Take your EBITDA and adjust the unusual items out.

NORMALIZE ADJUSTMENTS

- Highlight the unusual items for each year.
- Draft a memo with highlights to illustrate going forward.
  - i.e. Supply chain issues, major customer items
- Create an account for the unusual.
  - i.e. Moving expenses

INCOME STREAM

- This is the common way companies are valued.
- Intangibles come into play.
- Includes the underlying assets needed to generate the income.

RISK IMPACTS VALUE

- What are your key performance indicators (KPI)?
- How will KPI's be transferred?
- Do you have concentrations?
  - Major customers
  - How can you diversify?