

OWNER'S PATH

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

KEY EMPLOYEES

- Who are your 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?
- A bonus or deferred compensation program to provide funds for a down payment of purchase
- Sell to third-party possibly using a broker or to private equity.
- Become employee owned, ESOP.
- Sell to customer or vendor.

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

- Impact of sale structure on after tax proceeds. Stock vs asset and impact for entity type.
- 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) in a memo or in it's own account.

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.

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 and compare to actual.

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.

NORMALIZING ADJUSTMENTS

- Highlight the unusual items.
- Are all expenses at market rates?
- 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?