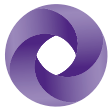
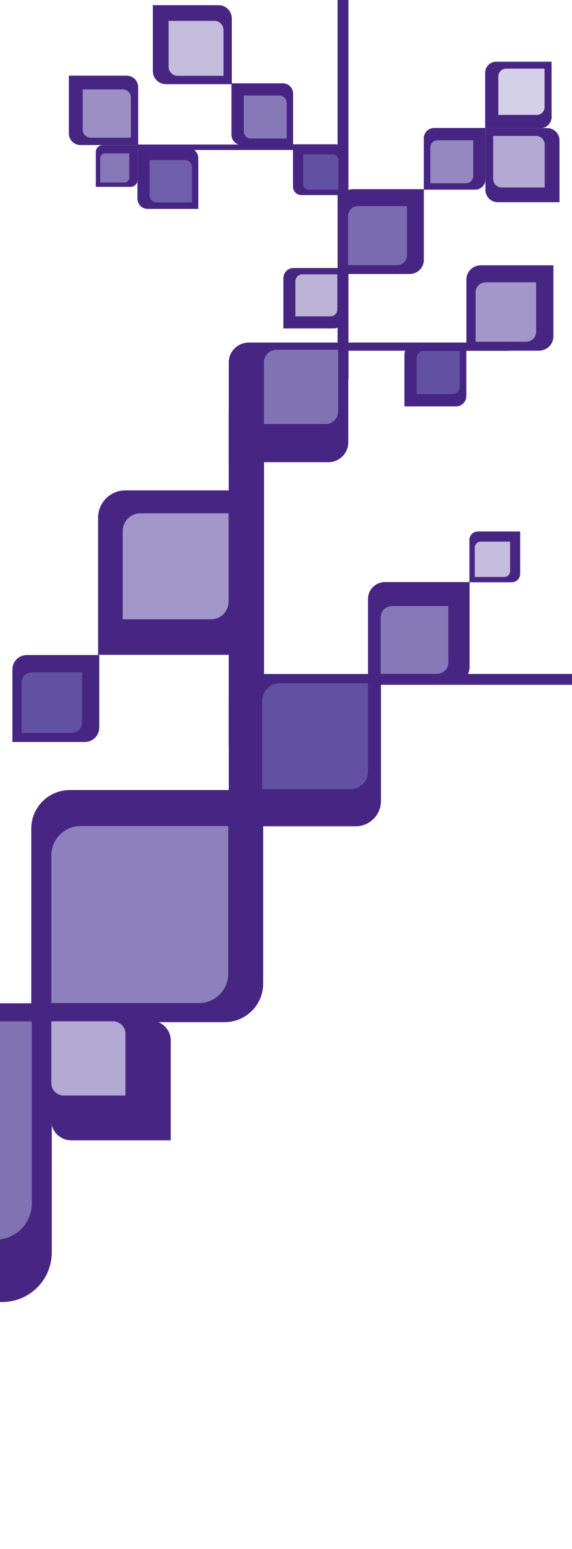
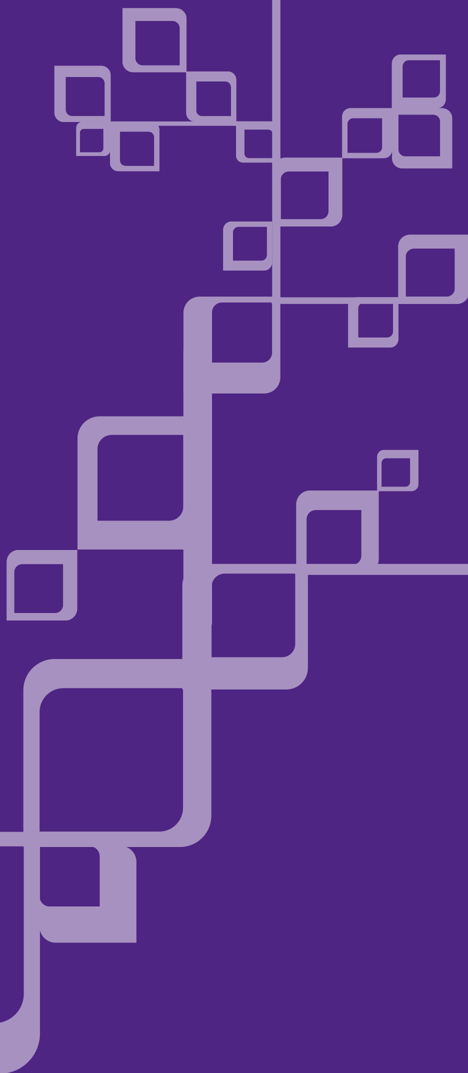


Grant Thornton

An instinct for growth™

Maximizing financial return when selling your business





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Executive summary

Regardless of economic conditions, after years of hard work everyone wants to garner top dollar when selling their company. What's more, most business owners sell their companies because they need liquidity to retire comfortably.

Presale planning not as common as it should be

The best way to achieve a successful sale is to do some presale planning. While this may seem obvious, Grant Thornton LLP's 2013 survey of 271 senior-level executives at privately owned businesses found that many business owners are not utilizing best practices when planning for a sale. Sixty-five percent of respondents surveyed are interested in selling their company within five years, yet only 29% have had a formal and comprehensive valuation assessment of the company within the previous two years — a critical step to maximizing the value of a sale.

Additionally, only about one-half of respondents surveyed have implemented legal strategies to lower taxes on the sale of their business. Only about one-third have incorporated strategies that could lower their estate taxes. This is an unclaimed opportunity to mitigate taxes and thereby enhance the return from the sale and create greater personal wealth.

Clearly, business owners can do a better job of preparing for a sale.

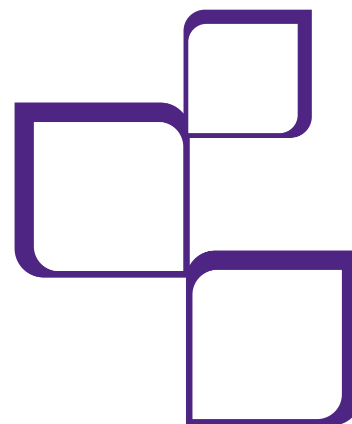
Perspectives vary between respondent groups

It's important to note that respondents comprise two groups: privately held businesses and family-owned businesses. Privately held companies are those owned by employees and possibly investors who are not employees. Family-owned businesses are privately owned; the distinction is that a single family controls 51% or more of the equity and is actively engaged in managing the business. It is clear in the data that follow that privately held businesses have a greater focus on presale planning, while family-owned businesses are less sophisticated in this area.

This report illustrates how underprepared companies are for a sale. It also underscores the importance of preparing for a sale in an environment in which buy-side due diligence is increasingly efficient.

If there's a misstep by the seller, the buyer will find it. Underplanning can result in thwarting a sale or failing to sell at a good — let alone the best — price. This report's insights derive from analysis of the survey of senior executives conducted by Grant Thornton in mid-2013. Perspectives are also provided by industry professionals at Grant Thornton, and by private equity professionals and investment bankers.

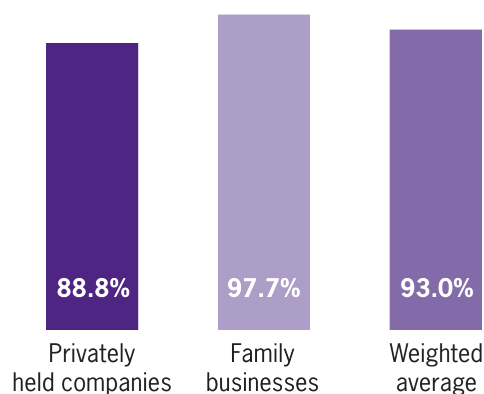
The survey was conducted by Grant Thornton in partnership with R.A. Prince & Associates, Inc. The vast majority of respondents were business owners over 50 years old who thought they would be selling their business within the next five years. More demographic information is provided at the end of this report.



The current environment

It's no secret that maximizing returns when selling a business is a crucial — if not the most important — objective. More than 90% of senior executives surveyed want to achieve the best price possible for their companies when they sell (Exhibit A). However, most business owners are so busy with the day-to-day operations that they neglect to focus on the business processes most important to getting a business ready when the time comes for a sale.

Exhibit A: Getting the best price



N = 271 privately owned companies

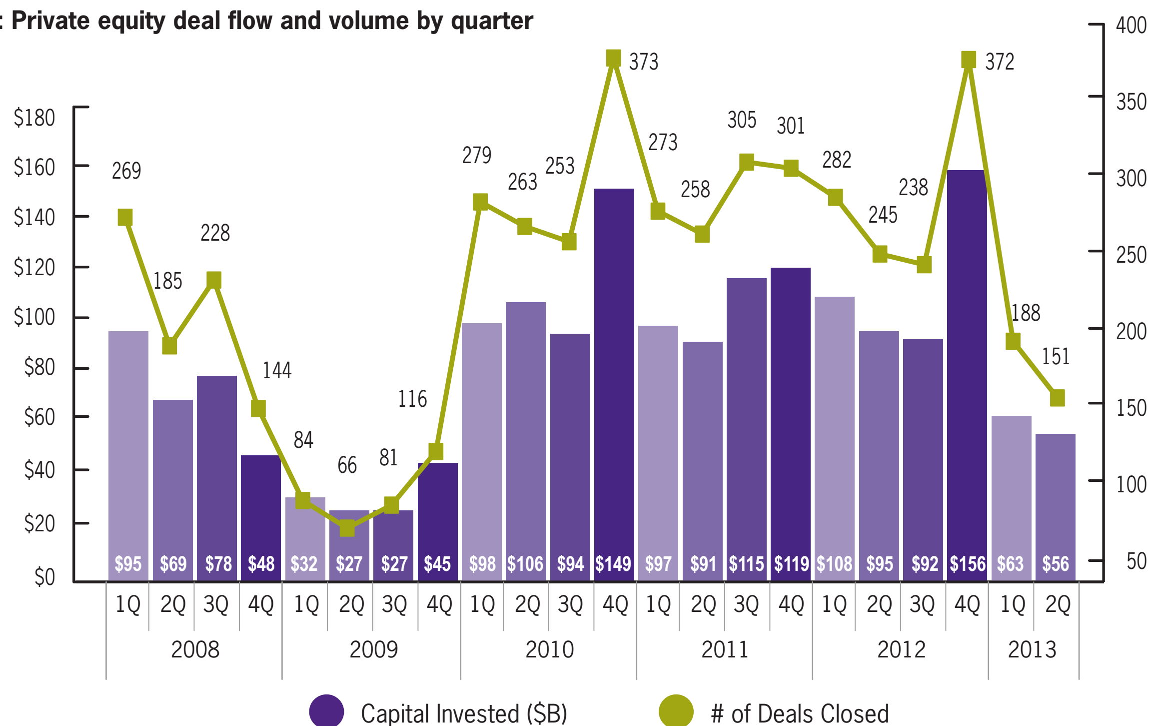
After many years of economic uncertainty, there are positive signs of recovery in the global economy. As a result, now or in the near future could be a favorable time to sell a business. Financial institutions are lending again, which has generated a positive impact on M&A activity. The debt markets are very liquid, and there's a confidence returning among buyers. What's more, strategic acquirers and private equity firms have capital to put to work.

Strategic buyers are on the hunt for good acquisitions. Favorable conditions in the lending markets have spurred on their desire to buy, as well as the need to stay competitive and grow. In fact, buyers spent $896 billion globally in the first half of 2013, according to Mergermarket.[1]

Carlos Ferreira, partner and practice leader of Grant Thornton's Transaction Advisory Services group in New York, explains: "Strategic buyers went into survival mode during the downturn by preserving cash, reducing costs, and minimizing lower priority investments and capital expenditure. They have emerged with strong balance sheets and cash reserves. The fastest way for these companies to expand today is through acquisitions. And, as you can see from the increase in M&A volume, strategics are aggressively buying these days."

[1] Mergermarket, *Monthly M&A Insider*, March 2013, p. 15. See mergermarketgroup.com/wp-content/uploads/2013/03/ma-insider-march-2013.pdf.

Exhibit B: Private equity deal flow and volume by quarter



Source: PitchBook

Private equity firms also have capital to spend. During the first two quarters of 2013, private equity firms raised about $80 billion for investment (Exhibit B). That's on top of the $130 billion raised in 2012, according to PitchBook Data, Inc. (PitchBook).

"PE firms have rebounded nicely since the downturn and, with a favorable lending environment as wind in their sails, they are looking for attractive assets," says Ferreira. "The trick for the seller is having the business in tip-top shape years prior to looking for a liquidity event. Buyers bought a lot of less-than-perfect assets in the go-go days and then were burned when the financial crisis hit. To make sure they do not make the same mistake again, buyers are extremely cautious about what they are buying and taking their time with due diligence. If there are any flaws in the company, these buyers are going to find and use them to their advantage to negotiate a lower price or move on altogether. For this reason, since 2010 we have seen a significant increase in requests from business owners for our sell-side due diligence services."

Indeed, a study conducted by the *Journal of Private Equity*[2] found that on average, executives at private equity firms review 80 potential investments before they make a single one. Selling your company at the best price or at all is not as easy as it appears.

[2] Teten, David, and Farmer, Chris. "Where Are the Deals? Private Equity and Venture Capital Funds' Best Practices in Sourcing New Investments," pp. 32-52, *Journal of Private Equity*, Winter 2010, Vol. 14, No 1.

Timing: A case in point

AVA Construction[3] was a typical family-owned business. Founded by Stuart Smith's parents, the construction company has achieved solid growth for the past 75 years. AVA had grown to more than 300 employees, had two facilities and owned more than 100 trucks and excavation machines. Smith was over 70 years old and needed to get liquidity out of the business for his retirement.

At first glance, AVA looked like it was running smoothly: it was profitable, employee turnover was low and customers were happy. Smith expected a sale to be rather easy. His goal from the sale was for employees to remain with the company and gain liquidity for his retirement. Seemed simple. However, although the company looked solid from the outside, it had problems on the inside. It was not nearly as profitable as it should have been; based on revenue, the books weren't accurate; and there was an unresolved legal issue stemming from old equipment leases.

When Smith's adviser explained that it would take time to clear these issues up and get the company ready for sale, Smith was disappointed. He was faced with a decision between selling the company as is at a lower price or delaying retirement plans to work through the problems. Ultimately, Smith chose to take a lower price because he had already delayed retirement and was ready to get out.

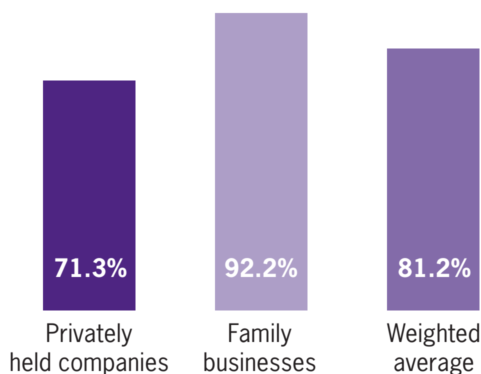
Andy Tarquinio, partner-in-charge of Grant Thornton's Long Island, N.Y., Tax practice, says this is an all-too-common scenario: "Unfortunately, business owners do not always put themselves in position to achieve their own best outcome or that of their companies. Owners who think there's a remote possibility of sale need to take the proper steps to make sure the company is running smoothly years before they start the selling process if they want to maximize returns."

[3] While a real-life situation experienced by a Grant Thornton client, the names of parties involved have been changed to preserve anonymity.

Best practices: Setting goals for selling your business

While amassing wealth for various reasons, including retirement, is important to sellers, there are other motivating factors, including the ability to garner capital to explore new business opportunities; take financial care of investors, employees and/or loved ones; and, increasingly for many, be more philanthropic (Exhibit C).

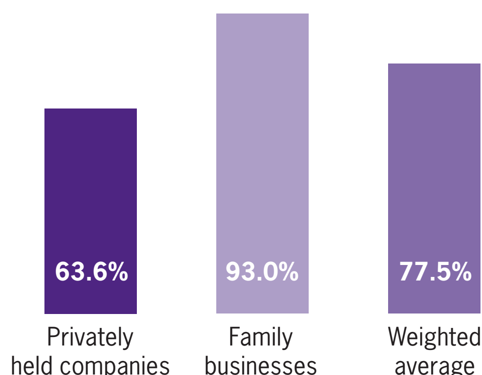
Exhibit C: Desire to become wealthier



N = 271 privately owned companies

"Of course wealth is an end goal, but there are other factors that play an important role in the decision-making process — like making sure family members are financially secure after a sale," says Grant Thornton Tax Partner Andy Tarquinio. In fact, more than three-quarters of the senior executives surveyed are highly focused on the financial well-being of their loved ones (Exhibit D).

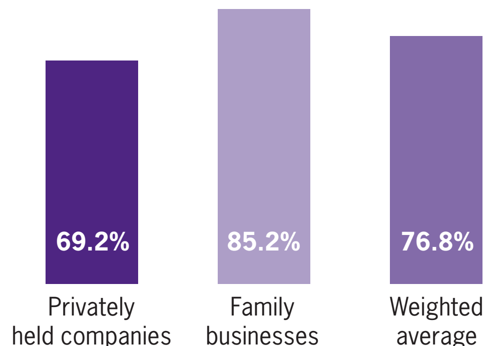
Exhibit D: Financial care of loved ones



N = 271 privately owned companies

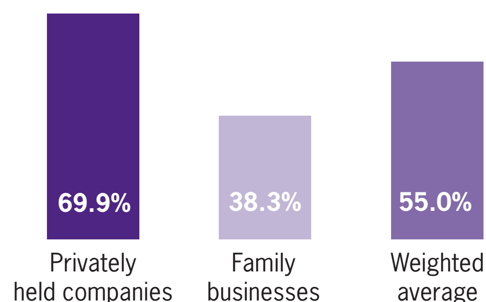
President Obama's 2014 fiscal budget proposes $1.1 trillion in additional tax increases on top of the $1.6 trillion in tax increases that went into effect under the Affordable Care Act. The new tax proposal includes lowering the death tax exclusion from $5 million to $3.5 million. Today, estates, gifts and generation-skipping trusts are taxed at a maximum rate of 40%, with the federal estate tax exclusion set permanently at an inflation-indexed $5 million. With taxes increasing, it's not a surprise that slightly more than 75% of the senior executives are focused on legally minimizing the taxes owed from the sale of the business (Exhibit E).

Exhibit E: Legally minimizing tax owed on the sale



N = 271 privately owned companies

Exhibit F: The future well-being of employees



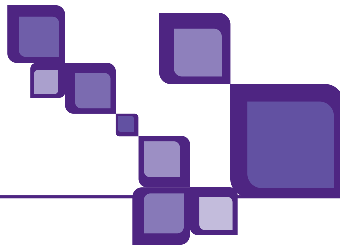
N = 271 privately owned companies

"There's no question that early preparation, personal tax planning, estate planning and availing oneself of many different minimizing tax strategies preserve wealth," says Tarquinio. "Tax planning is a key component of walking away with the best return. And it's important to keep in mind that planning needs to be done with a trusted professional."

When business owners want to sell, they often think about the future of their employees (Exhibit F). Surprisingly, while family business owners are concerned about the future of their employees — who in many cases are family members — even more privately held company executives say they are also concerned. The survey showed that about 70% of privately held companies worry about the future well-being of employees. There's a popular misconception that institutional money doesn't care about employees. However, institutional investors like private equity firms often invest in the same sectors repeatedly and come across the same employees. They certainly don't want to have bad blood with employees if they can help it.

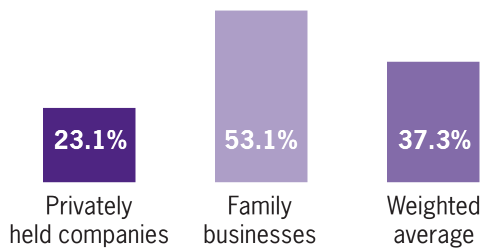
What's more, if human capital is important to the overall success of a business, sellers should be incentivizing key employees with incremental income such as employee stock options, profit-sharing options and retention contracts that encourage employees to stay with the business. Sellers should also set up stipulations in the purchase agreement so key employees who remain after the sale will be compensated.

Fred Lane, Raymond James vice chairman and investment banking head of the consumer group, says: "In cases where employees are clearly an important part of the business, it's incumbent upon the seller to put in place a retention feature with respect to key employees that the buyer can step into and assume. Such features will clearly be perceived as value by the seller. If the seller doesn't believe the employees are valuable, then obviously he may or may not put in place the incentives, and it is then the buyer's responsibility to do so. Generally, having a broad management team makes it much easier for someone to sell the business."



Lastly, as far as goals, many owners have achieved personal success over the years and would like to give back in some way, using proceeds from the sale. Almost 40% of senior executives expect to use a portion of their returns from the sale of their business to enable them to be more generous philanthropists (Exhibit G).

Exhibit G: Support worthy charitable causes



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Mark Oster, national managing partner of Grant Thornton's Not-for-Profit and Higher Education practices, explains: "It's not unusual for the wealthy business owner to decide to give back, based on his or her life experience and core values. As investable assets grow, family legacy also becomes more important in many instances."

Understanding your goals

Grant Thornton was hired last year by a second-generation business owner who wanted to sell his business in anticipation of the increase in tax rates. We conducted the sell-side due diligence and supported the owner through the sale process. The owner received bids from multiple buyers. The owner's banker negotiated a good price, but after the six-month diligence process, the owner realized what it would be like to work with a financial partner. He decided he wasn't willing to give up control and freedom, even for a very significant payday. He walked away from the offer days before signing the agreement.

According to Grant Thornton's Carlos Ferreira: "In this case, our client went through the motions and then realized in the end it wasn't really a sale he wanted. Another option would be to find an investment partner to take a minority interest in the business, which would allow an owner to take some money off the table and still retain control of his business."

Best practices: Getting infrastructure in place

Failure to take on comprehensive presale planning stymies the selling expectations of many businesses. Only half of privately held businesses and fewer than 5% of family-owned businesses have had a formal and comprehensive company valuation assessment completed within the past two years, and a bit over half of privately held businesses and fewer than 15% of family-owned businesses have financial statements that effectively communicate the company's value (Exhibit H). As far as having effective succession planning and talent retention strategies in place, privately held businesses are generally unprepared — only about one-half do — and family-owned businesses are woefully behind, with fewer than 9% prepared.

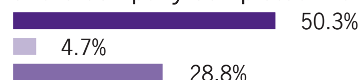
High-quality financial statements go a long way. The premise is simple: financial statements should provide accurate information that will help potential buyers make decisions going forward. The more information that's on paper, the easier it is for a potential buyer to get comfortable with a company. It lowers the risk for the buyer, because there are processes and protocols that can be seen and are not just residing in the company owner's head.

When potential buyers look at a company's financial status, they want to see accounting records, financial statements, systems and controls, taxes, working capital expenditures, sales reports, analysis of debts, budgets and forecasts. A well-documented paper trail of nonrecurring expense items is a must, as is a monthly reporting package that highlights key top- and bottom-line metrics. Buyers want transparency; having systems in place to demonstrate the company's financial health makes it more attractive.

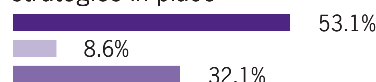
To provide high-quality information, companies need processes, oversight and accountability. "We worked with one company where it was a few people's job to collect the company's financials and, ultimately, no one did it. Putting out high-quality statements has to be a priority," says Grant Thornton's Carlos Ferreira. "The buyer wants to be able to see what the owner sees and how he or she measures the business. They want to see it on paper."

Exhibit H: Presale corporate actions

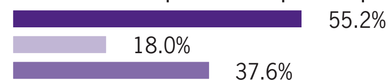
Formal and comprehensive valuation assessment of the company completed within the previous two years



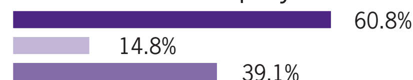
Effective succession planning and talent retention strategies in place



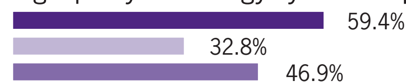
Incentive compensation plan in place



Financial statements effectively communicating the value of the company



High-quality technology systems in place



Discretionary spending managed

Audited financial statements in place

No tax problems with the government

N = 271 privately owned companies

In another key area — taxes — make sure the company has been compliant with returns filed on both the state and the federal level in a timely fashion. Although seemingly obvious, outstanding tax issues delay negotiations.

Jeff Maxwell, head of Raymond James M&A, says: "One of the keys to a successful transaction is an uneventful diligence process. Unexpected financial results or adverse diligence findings can quickly get negotiations headed in the wrong direction. Most business owners know exactly what makes their business unique and why they are successful; the challenge, however, can be quantifying and documenting those success factors. If an owner has not sold a business previously, I would strongly encourage them to start preparing well in advance of the actual sale process. Robust financial reporting practices can help pave the way for a smooth diligence process, but these take time to fully implement."

Raymond James' Fred Lane adds: "From a legacy and net worth standpoint, a sale is probably the most important thing an owner will ever do. Amazingly, nine out of 10 sellers aren't ready for sale in the opinion of the owners. The most effective approach is to plan for a sale years in advance by having detailed financial statements, budgets and projected cash flow statements ready, as well as some degree of insight into the business on an ongoing basis."

Professionalizing your family business

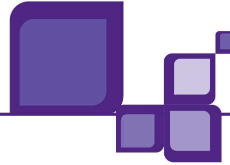
There are many factors that come into play when a family business is readying to sell. One of the most frequent issues companies face stems from the lack of maintenance of interim books and records. While companies may have an annual audit, they often don't have the process and controls in place to adequately accrue costs or accurately value inventory on a monthly basis.

Grant Thornton worked with a company that received significant vendor rebates and discounts. For annual audit purposes, the company could easily measure and record the vendor rebates receivable. However, for interim reporting purposes, the rebates were recorded on a cash basis and negatively affected the inventory valuation. As part of the sell-side due diligence process, we identified this issue and were able to assist the company in developing a methodology for accurately tracking and recording these rebates. If we hadn't done so, the company would have run into serious problems during a sale process.

Not having the right people in place is also a common issue for family-owned businesses. Most of the business knowledge is usually with the owner. If the owner is preparing to leave and employees of the company do not know the ins and outs of the business, it will make potential buyers skittish.

Stewart Kohl, co-CEO of The Riverside Company, says: "We are not buying past earnings; we're buying future earnings. To maximize the purchase price that we will pay, show us a full credit management team made up of players who will stay and drive performance after the sale."

Additionally, understanding the competitive landscape of the industry and where growth opportunities lie can help sellers educate potential buyers on where the value is in the business and future growth opportunities.



Privately held businesses fare better than family-owned businesses in terms of planning, because their institutional investors are not new to the sale process and are more keenly focused on what potential buyers will be looking for. What's more, family business owners can tend to run a business based on personal biases and approaches; institutional investors typically have processes in place and expertise at hand that helps in business activities, including strategic presale planning.

Even if a family business owner isn't willing to make changes or develop the company further, there should be a blueprint for the company's direction. Privately held businesses need the same.

Maxwell explains: "Having an institutional investor involved in a privately held company can certainly help prequalify it as an acquisition candidate in the eyes of a buyer. That said, privately held companies are not immune to many of the challenges that family-owned businesses face when preparing for a sale process. The house still needs to be in order and ready to go to market. Everyone wants the highest price, but they all still need to take the necessary steps to help maximize value for the owners."

Yet, according to the survey, fewer than one-half of company owners are operationally ready to enter into a sale process.

Having succession plans in place, a company valuation completed and the proper systems in place are really meaningful ways owners can enhance the value of their company. Not only will these best practices help maximize value at sale time, they will also be effective in making businesses run more efficiently today. Business owners can spend a minimal amount of money annually to evaluate their companies.

Succession planning

It's clear that most business owners don't spend a lot of time thinking about the exit plan. Still, at some point an exit will happen, and without a transition plan in place, a seller will not achieve the best price for his or her business. It puts the company at risk of faltering and not contributing its potential. Owners need to implement processes that a newcomer could understand.

The Riverside Company's Stewart Kohl explains: "Human beings are not wired to think about their demise or do succession planning. But to obtain the maximum value on a sale, a private owner should have identified successors for all key positions. And if he or she plans to leave, the transition should at least already have been begun, and ideally it will have been substantially completed."

Owners need to ask themselves the following questions:
Am I mentoring possible successors?
Do I have high-level employees in critical roles?
Do I reward key employees?

Best practices: Increasing value through tax planning

An array of strategies to maximize value in selling their company is available to senior executives. These are strategies and structures that can be used by companies to lower the tax cost on the sale of the business and minimize estate taxes.

Grant Thornton Tax Partner Andy Tarquinio explains, "Advanced planning that takes into consideration an effective tax strategy centered around the sale of your business — one that addresses both tax risks and opportunities — is essential and should be addressed as early as possible."

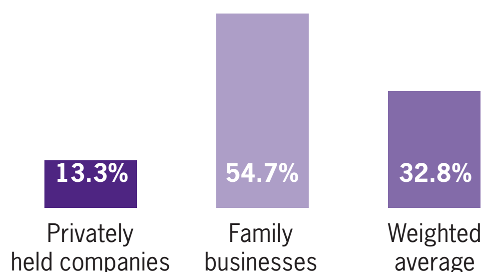
When privately held company owners sell their business, the tax cost associated often represents the single biggest cost of the transaction. Additionally, with taxes continuously increasing, it's wise to take advantage of beneficial tax strategies. Surprisingly, tax-saving tactics are not typically used by many senior executives.

"After properly setting up a tax structure that makes sense and selling a company, I have had clients tell me that we have created more value in terms of their net after-tax proceeds than the increase in value of their business over the previous 10 years. It comes down to a net perseveration of wealth in the form of tax savings," says Tarquinio.

To preserve their wealth, business owners should start planning well in advance of the actual sale. Every decision made during negotiation of tax structure, forms of consideration, warranties and indemnifications can have separate and distinct tax consequences, as well as different economic risks.

Business owners are not taking advantage of steps to mitigate tax risk enough. For example, only about one-half of family-owned businesses are employing partnerships and/or trusts to mitigate the wealth-eroding effect of estate taxes (Exhibit I and J).

Exhibit I: Using partnerships or trusts to lower estate taxes on the sale of the business

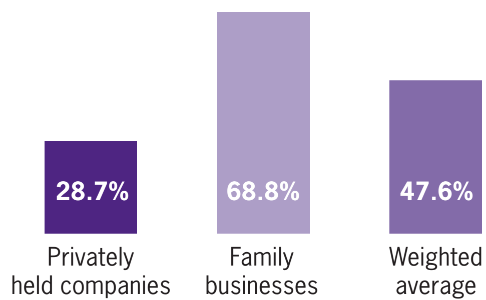


N = 271 privately owned companies

When dealing with a family business, owners should be gifting stock and putting money into generation-skipping trusts for their heirs. A business owner can also put a little leverage on the company, recapitalize it and pay out dividends to family members' trusts and current shareholders. When the company has the ability to pay dividends, it doesn't make sense to not pay them out and diversify your holdings.

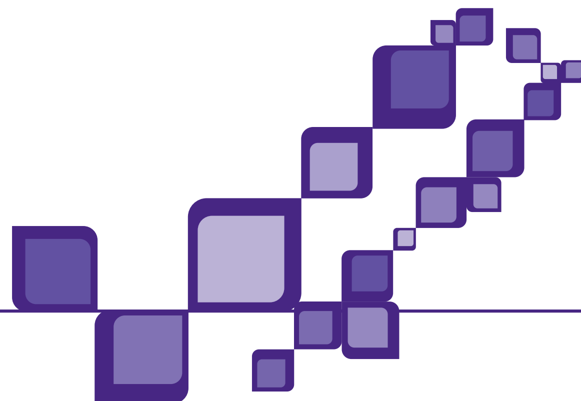
Raymond James' Fred Lane says: "Lots of owners keep the money tied up until a sale, but it's irrational to have all your money tied up in one asset when there are ways to diversify. It doesn't make good financial sense."

Exhibit J: Using charitable trusts or corporate structures to lower taxes on the sale of the business



N = 271 privately owned companies

Grant Thornton Partner Mark Oster says: "More than ever before, we are seeing wealthy people making commitments to charity. After achieving financial success, professionals are opting to give back. Not only is this a wonderful trend in terms of modeling philanthropic behavior for others to follow and helping organizations that do good, but it also has tax benefits."



Seller's checklist

During **preplanning of a sale**, business owners should consider the following:

- Organizing the company's legal affairs to support a sale of assets.
- Restructuring to separate unwanted assets not used in the business or retaining an interest in some part of the business, e.g., rental real estate, an asset that can provide the seller with a future income stream or facilitate succession of part of the business.
- Conducting resale estate and gift tax planning, which involves the transfer of wealth at discounted values to future generations. This should be done as early as possible and well in advance of any identified transaction or buyer.
- Determining issues that could affect the value of the business, including key employee compensation and incentives.
- Considering the importance of sell-side due diligence, which assesses various opportunities and risk factors facing the company prior to sale. A sell-side tax due diligence can uncover items such as:
  - failing to file all required income and sales and use tax returns in all required jurisdictions;
  - the use of improper tax accounting methods;
  - employment-related taxes, including golden parachute payments;
  - international tax issues, including local tax compliance matters in foreign jurisdictions, transfer pricing methodologies, permanent establishment matters, and value-added and other indirect tax compliance matters;
  - ability to utilize net operating losses (NOLs) and credits; and
  - post-acquisition integration.

During **the negotiating process**, business owners should do the following:

- Obtain an understanding of alternative transaction structures and the tax impact of alternative structures on maximizing value during the sale process
- Obtain an understanding of the tax impact of different types of transaction considerations that include the use of cash, debt and equity securities such as rollover equity, and deferred purchase price, including escrows, earnouts and seller financing
- Understand that decisions that go into the final deal structure, including payment terms and indemnifications, may present different economic risks and opportunities for tax savings

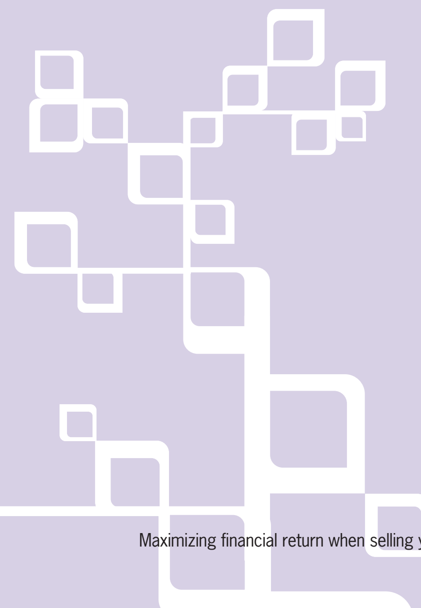
Typical **deal structures** can include the following:

- Sale of assets, which buyers typically try to achieve due to the potential fair market value "tax basis step-up" in the acquired assets that can lead to future increased tax depreciation and amortization for the buyer.
- Sale of equity, which sellers typically try to achieve due to tax rate preference on capital gains.
- Sale of equity, which may be characterized as an asset sale for tax purposes, often achieving the structuring objectives of the buyer and the seller.
- Various transaction structures that may allow the seller to reinvest a portion of historical equity on a tax-deferred basis.
- Maximizing the value of tax attributes, including tax loss and credit carryovers, and transaction-related expenses incurred in connection with the sale that can also add up to savings.
- Applicability of the new 3.8% "Medicare tax" on some or all of the transaction proceeds realized by the sellers.

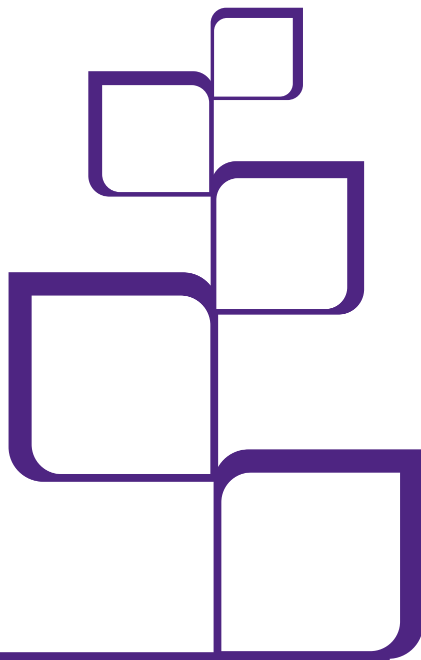
Sellers need to pay careful attention to **potential land mines**:

- The due diligence process undertaken by buyers, which should be managed proactively, including getting out in front of both risks and opportunities that buyers may identify in their due diligence
- The use of NOL and tax credit carryovers in the sale transaction, and the ability to pass those tax attributes to the buyer
- Employee compensation paid in connection with the sale
- Transaction-related costs, including professional fees, which can generate significant tax deductions for the seller if structured properly
- Acceleration of deferred tax items, including cancellation or restructuring of debt

Source: Grant Thornton LLP



Christopher Schenkenberg, partner in Grant Thornton's M&A Tax Services group, explains: "Selling your company is one of the more important business decisions an owner will make. Taking the proper steps to ensure the best outcome from a sale is imperative, but it requires sellers to be prepared early in the process. Working on tax-minimizing strategies needs to be part of the process to achieve the most successful outcome."



Structuring the deal properly

Given how quickly deal processes can get moving, there are tax strategies that are often neglected. These strategies can tip the deal valuation needle in a seller's favor. One example is the existence of imbedded tax attributes in deals. Tax attributes can lead to efficient tax savings when properly managed. Sellers typically want to be paid for tax attributes, and buyers want access to them for minimal incremental costs. This makes early identification and valuation of tax attributes highly advantageous from a deal negotiation standpoint.

Some tax attributes to look out for during the deal process include tax deductions for transaction-related expenses and NOLs. Sellers can set up their business to trigger expenses when an acquisition occurs, which can generate significant tax savings. Selling companies can have compensation plans set to be triggered when a transaction closes, as with stock options that commonly vest automatically when a company is sold. Payouts related to stock options or general transaction-related bonuses could create tax deductions when paid. Other transaction-related tax expenses include success-based fees contingent on a deal closing, e.g., investment banker fees and deferred financing fees written off with half of a seller's existing loans.

Depending on the transaction structure, these tax deductions may be available to a seller in the pre-acquisition period based on factors such as timing of the payment and wording in the stock purchase agreement.

Top tax questions

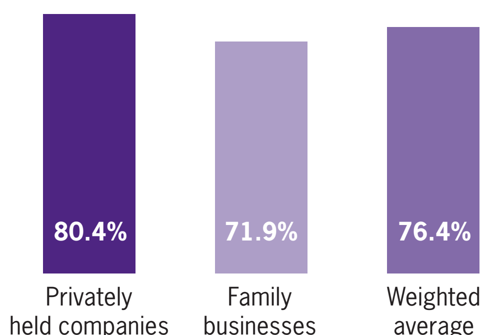
- What is the proposed structure of deal (e.g., stock vs. asset)?
- Does the seller want to reinvest in the business?
- Does the seller want any proposed purchase price allocations?
- If there are stock options that will be exercised, who will get the deduction?
- Does the seller have any tax attributes (e.g., NOLs)?

Best practices: Negotiating to your advantage

Being an effective negotiator is one of the central ways to amass wealth. In synthesizing how self-made millionaires think and the strategies and tactics they employ, a seller can adopt patterns that are proven to deliver results. In evaluating bargaining techniques and comparing them with those of senior executives, considerable differences become obvious.

Many sellers believe that it's critical to a successful negotiation to walk away a winner. The idea that everyone walks away as winners from a business negotiation is a wonderful one, but that rarely works out. Although self-made millionaires tend to subscribe to the tenet of coming out on top, about three-quarters of the senior executives were strongly in favor of the win-win negotiating strategy (Exhibit K).

Exhibit K: A win-win negotiation strategy is the best approach to selling a business

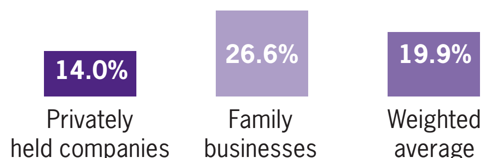


N = 271 privately owned companies

Frank Carone, attorney with Abrams Fensterman, says: "It's very rare for everyone to exit a negotiation getting what they want. On working with business owners selling their companies, it's extremely important to decide the price and terms that really matter, and make sure they get them."

Self-made millionaires tend to astutely look to gain an advantage when bargaining. In comparison, only about one-fifth of the senior executives saw gaining an advantage to be very instrumental when it comes to working out the agreement to sell their companies (Exhibit L).

Exhibit L: Getting a significant advantage is very important in negotiating the sale of the business



N = 271 privately owned companies

Additionally, self-made millionaires generally pride themselves on their insights and understanding concerning the motivations, as well as the needs and wants of their bargaining adversaries. Meanwhile, only about one-third of the senior executives said this focus was critical when selling their companies (Exhibit M).

Exhibit M: It's critical to develop a deep understanding of the people on the other side of the table when selling a company

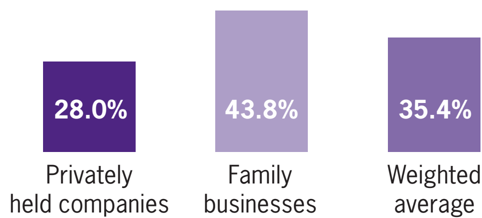


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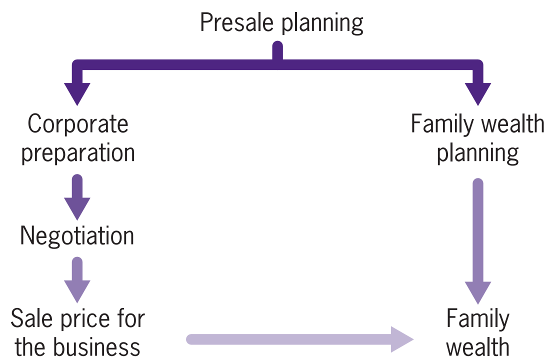
Exhibit N: Actions that produce greater family wealth



Source: Prince, Russ Alan, and Rogers, Bruce H., *I Win, You Whatever: How Self-Made Millionaires Really Negotiate Deals and How You Can Too*. Forbes, 2013.

Russ Alan Prince — author of *I Win, You Whatever: How Self-Made Millionaires Negotiate Business Deals and How You Can Too* — explains: "The bottom line is a majority of the senior executives are not on the same page as self-made millionaires but should be. This is not to say the senior executives cannot get the best price for their companies when they sell, but by adopting the negotiating mindset and approaches employed by self-made millionaires, the senior executives may be able to meaningfully enhance the prices they receive for their companies" (Exhibit N).

Choosing appropriate advisers

An adviser who understands your business and industry is of great value as you look to prepare for a future sale.

Senior executives rely on various professionals for advice when they contemplate a sale; accounting firms and law firms top the list. This is especially true for family-owned businesses that typically have regular contact with their accountants and lawyers. For privately held businesses, the first place they usually consider turning to for advice is private equity firms.

The Riverside Company's Stewart Kohl says: "When contemplating a sale, surely the business owner will want the sage advice of their lawyers and accountants. But meeting with investment bankers and private equity pros is a great way to get a market read, obtain helpful intelligence and ultimately maximize value on exit."

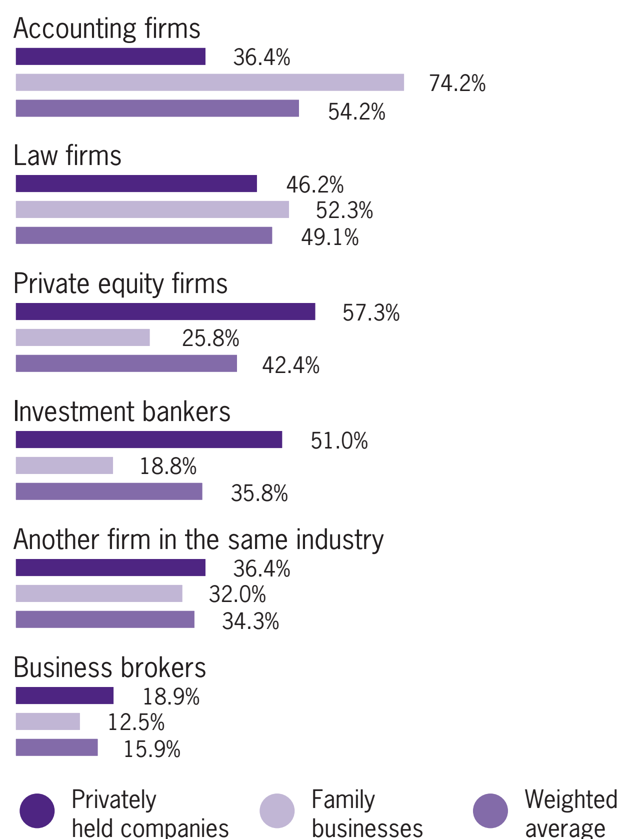
The greater use of private equity investors by senior executives at privately held companies is a function of familiarity with these firms. This also influences their greater proportional use of investment bankers.

Raymond James' Jeff Maxwell says: "Developing an informed view on how the market is going to value a business is an important part of preparing for a sale. We regularly work with business owners to help them assess what buyers are currently paying, which key differentiators are in highest demand and the overall M&A activity level in a given industry. This can help an owner set expectations appropriately and make an informed decision as to how to position their business and when best to enter the market."

About one-third of both segments — privately held businesses and family-owned businesses — turn to other senior executives from firms in their respective industries, seasoned professionals who understand the specific challenges, and opportunities they face and have tackled.

Grant Thornton's Carlos Ferreira explains: "Talking to companies in the industry can be helpful. Peers can share experiences, as well as help an owner identify professionals to work with if they are indeed looking for an exit opportunity" (Exhibit O).

Exhibit O: Sources of advice



N = 271 privately owned companies

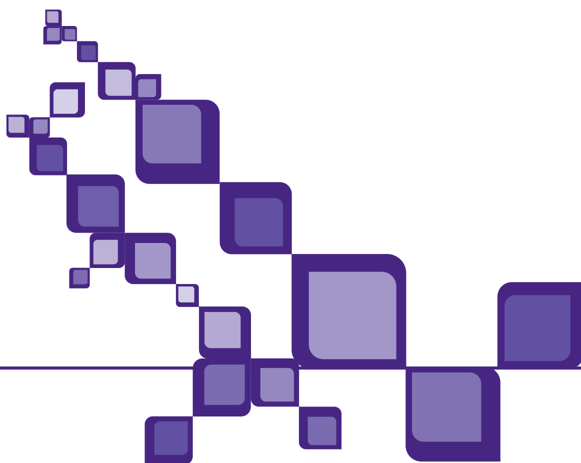
Conclusion

Having records in order, proper systems in place, employee incentives established and succession plans documented are meaningful ways owners can enhance the value of their company. Utilizing effective tax strategies at the corporate and individual levels can increase tax savings and, ultimately, lead to more money in the seller's pocket. These best practices help maximize value at a future sale time, and they are effective in making businesses run more efficiently today. Business owners would do well to annually evaluate their companies, engaging a trusted adviser as they do so.

As they contemplate a sale, business owners need to take into account many different strategies. Admittedly, this takes time. A company needs to be running flawlessly for at least two years, which means potential sellers need to get their company in as perfect condition as possible prior to that time. Otherwise, they risk forfeiting profits. The good news is that everyone can take the proper steps to maximize returns with good planning, time and trusted help.

Steps to preparing for a sale

- Assess the environment and your business
- Set clear goals and objectives
- Secure an experienced management team
- Increase the recurring revenue
- Show two years of double-digit revenue and earnings growth
- Hire a recognized audit firm to perform an audit for the previous two years
- Hire a trusted investment banker and attorney
- Hire an adviser to perform sell-side due diligence
- Document and ensure that assets, intellectual property and trademarks are protected
- Improve internal financial reporting process and systems
- Get your tax house in order



About the survey

During the second quarter of 2013, Grant Thornton, in conjunction with R.A. Prince & Associates, Inc., surveyed a total of 271 business owners. To be included in the analysis, the business owners had to be senior executives at a privately owned company, have a financial stake in selling the business and be likely to sell their company in the near future (Exhibit P).

The sample of those surveyed was composed entirely of business owners of privately owned companies. However, as noted in the executive summary, two distinct segments were identified — privately held companies and family-owned businesses. Privately held companies were a slight majority of the sample (Exhibit Q).

Exhibit P: Timing of the sale

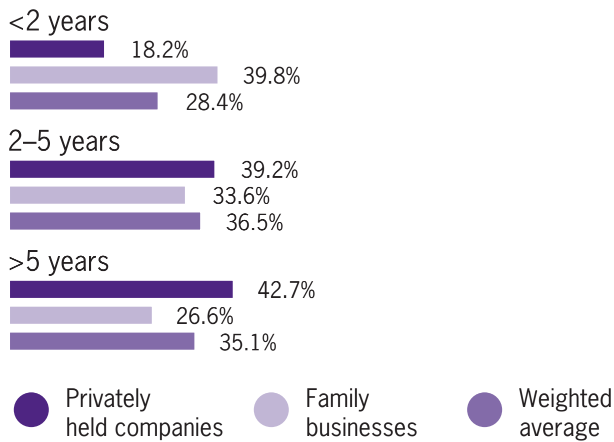


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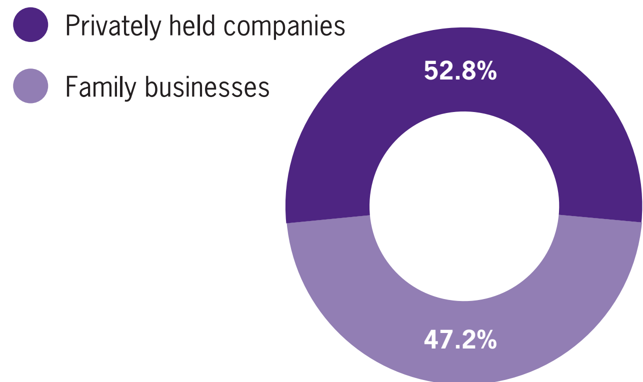
Exhibit Q: Segments

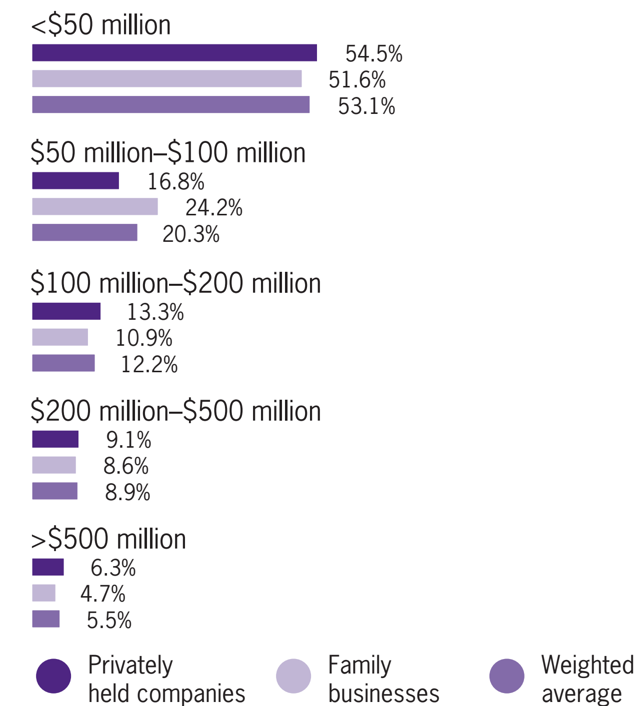


N = 271 privately owned companies

Slightly more than one-half of the businesses had average annual sales of $50 million or less (Exhibit R).

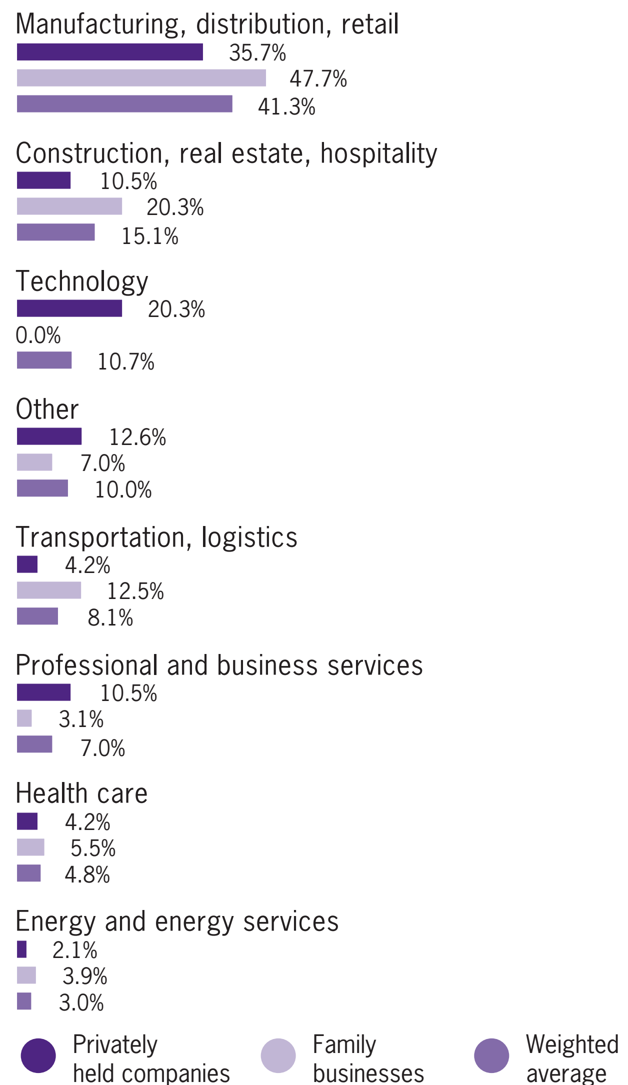
The senior executives surveyed represent many different types of business, with manufacturing, distribution and retail comprising about two-fifths of the sample (Exhibit S).

Exhibit R: Average annual sales



N = 271 privately owned companies

Exhibit S: Business types



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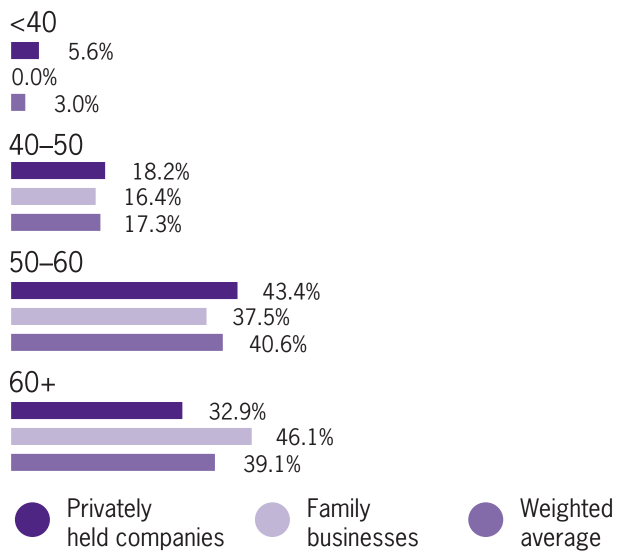
About 80% of the senior executives surveyed were over 50 years old (Exhibit T). The senior executives at family businesses tended to be older than those at privately held companies.

Exhibit T: Age of the senior executive



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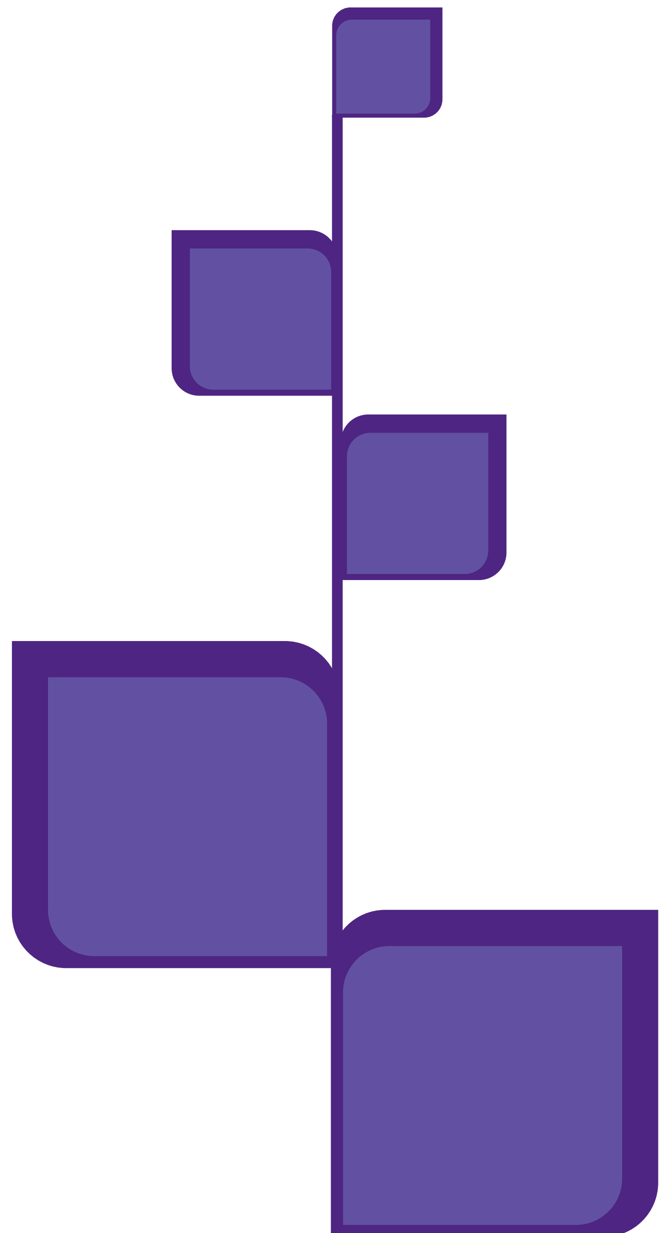

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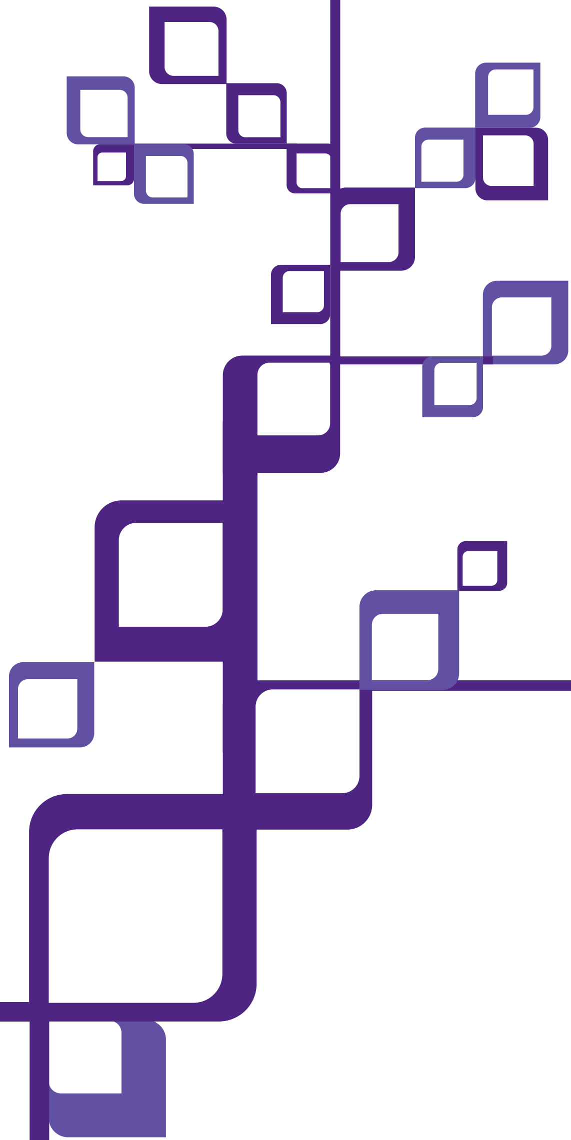

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