

Strategy Sells Businesses And It Buys Them Too

Murphy Business Sales

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Owners' Worries

- Wondering at one o'clock in the morning:
 - Who will buy my business?
 - How much is it worth?
 - How do I find a good buyer for my company?
 - Can I sell it to my good employees?
 - Which advisors do I need to help me?
 - How long will it take to sell my business?

Buyers' Worries

- Wondering at one o'clock in the morning:
 - Who will sell me their company?
 - How much is it worth?
 - How do I find a good company to buy?
 - Will the good employees quit if I buy it?
 - Which advisors do I need to help me?
 - How long will it take to buy?

A Transaction is a Mirror

- To successfully sell, think like a buyer
- To successfully buy, think like your seller



Did you know

- Sellers are not as well prepared to sell as buyers are to buy
- Buyers typically spend too much time analyzing business financials; failing to match their skills and personalities to the business
- Business valuation is an art; not a science

Did you know

- Attorneys and tax advisors need time to help get the transaction done well.
- It's not over, even when it's over.
 - You will need help after you sell or buy your business
 - Both parties need support during transition period

Webinar Goals

What You Will Learn Today

- **Reasons** sellers sell and buyers buy.
- The successful **process** for both sellers and buyers.
- Real **experiences** of people who have successfully bought or sold a business in Montana.
- Why things seem to happen (or don't happen) when buying/selling a business so you may **prepare**.

Introductions



Introductions

- **Murphy Business and Financial Services**
 - Largest transaction firm in the U.S.
 - 280 professional intermediaries
 - former owners, CEO's, CFO's, CPA's, senior level executives
 - Has over 3200 closed transactions worth over \$2B
 - **Credentials**
 - Licensed by MT, ID, ND, SD, WY Real Estate Commissions
 - National brokerage and valuation certifications
 - Senior level business management



Our Firm Covers The Nation



Why Do People Sell Businesses?

- Burned out
- Retirement – no heirs
- Divorce, partner disputes
- Illness
- Insufficient capital to grow
- Achieve estate liquidity
- Get discovered; receive an offer to buy

U. S. Small Business Market

Category	Total Employees	Revenues	% of Total Businesses
General Business	<10	<750K	80
Larger Business	<20	750K – 2Mil	10
Mid Size Company	<100	2Mil – 30Mil	9
The Larger Company	>100	>30Mil	1

Source: International Business Brokers Association, used with permission



How Many Sell?

Category	Revenues	Number of Businesses	Estimated # for Sale
General Business	< \$750K	4,320,000	864,000
Larger General Business	\$750K-\$2Mil	594,000	173,000
Mid-Size Company	\$2Mil-\$30Mil	486,000	73,000
Larger Company	>\$30Mil	54,000	8,000

Source: International Business Brokers Association, used with permission



How Many Actually Sell?

Category	Revenues	# of Businesses	Estimated # for Sale	Actually Sell	%
General Business	<\$750K	4,320,000	864,000	157,000	18
Larger Business	\$750K- \$2Mil	594,000	173,000	43,250	25
Mid-Size Company	\$2Mil- \$30Mil	486,000	73,000	21,000	29
Larger Company	>\$30Mil	54,000	8,000	2,500	31

Source: International Business Brokers Association, used with permission



Why Don't More Small Businesses Sell?

Unfortunately, most don't follow a proven process to manage a successful transaction

So, Let's Get Started Successfully Selling and Buying Private Businesses



Transaction Exercise -- You are asked to advise a friend on **buying** or **selling** a business

- **WHAT** are the five (5) key factors you would be most concerned to know about the company?

AND

- **WHY** do you see these as key to making a good buy/sell decision?

Why Follow a Process?

A proven, successful process:

- Reduces risk
- Increases likelihood of closing
- Makes business more “bankable”
- Increases the business’s VALUE to the ownership (selling and buying)

The Optimal Business Transfer Process

- Preparation for sale or purchase
 - Know thyself and thy needs
- Valuation of the business
 - The right information is needed for a successful transaction
- Confidential Marketing Plan and Search
 - Unlocking the best transaction at the right value
 - Prepare the Offering Package

The Optimal Business Transfer Process

- Due Diligence
 - Confirming what is said
 - Cost-effectively and on schedule
- Purchase Negotiations
 - Starting them, keeping them going AND finishing them on schedule
- Financing and Funding
 - Getting ALL the money necessary for success
- Closing and Transfer – Finishing the Job
 - Coordinating the law and tax work
 - Post closing matters

Process Solves Problems

- Let's review your five most important concerns from Exercise 1
- When does the Optimal Business Transfer Process address these problems before final decisions are made?

Let's Follow The Optimal Business Transfer Process



Preparation for Sale/Purchase

- The National business market today
 - Owner-financing is a major driving force in U.S. business transactions
 - First timers (many career-changers) now represent 70% of the Nation's buyer market
- The “ante” is up for good business information
 - Buyers must know details of the business to buy and to get financing
 - Financial statement quality affects business value
 - Sellers expect to know the skills and resources of buyers

The Optimal Process -Preparation

- Know thyself and your needs
 - What is important to you and what is not!
- Prepare a valuation of the business
 - “Fair market value” and appropriate price
 - Both must be present for a successful transaction

Valuation for Purposes of Sale

- Most small businesses are sold on the strength of earnings -- not assets
- Today, the Market Method is the most effective way of valuing a small business
- Problem: How can you find out these values to maximize the price of your business?

Using Easy Rules of Thumb

Revenue	Company A	Company B
2015	\$6,000,000	\$18,000,000
2016	\$8,000,000	\$15,000,000
2017	\$12,000,000	\$12,000,000
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Debt	\$1,500,000	\$7,000,000
Equipment Age	35 yrs	20 yrs
Owner's Comp.	\$350,000	\$100,000
Owner's Vacation	6 Weeks	None
Similar Customers,	Industry,	and Revenue
Pretax Net Income=	\$1,500,000	\$1,500,000

Do these two Companies Deserve Equal Market Value?

Valuation for Purposes of Sale

- Most small businesses are sold on the strength of earnings -- not assets
- Today, the Market Method is the most effective way of valuing a small business
- Problem: How can you find out these values to maximize the price of your business?
- Solution: Good valuation knowledge of actual transactions better gauges value and supports negotiations

Confidential Marketing Plan

- Create the Confidential Offering Memorandum
 - Key information in a typical business profile
 - The business and its history
 - Sales, expenses, and earnings of the business
 - Marketing strategy
 - Employee profile
 - Tangible and intangible assets
 - Facilities and location of business
 - Reason for sale
- Prepare a Market Plan uniquely suited to the business
 - The who, what, where, when, why and how to find top quality prospects

Confidential Search

- Liquidity adds value
 - Local buyers are a small portion of the buyer pool
 - Buyers throughout the Nation must be screened
 - National search is particularly valuable
- Finding and keeping the best buyers add value
 - Managing “back-up buyers” while the primary buyer negotiates his/her best offer

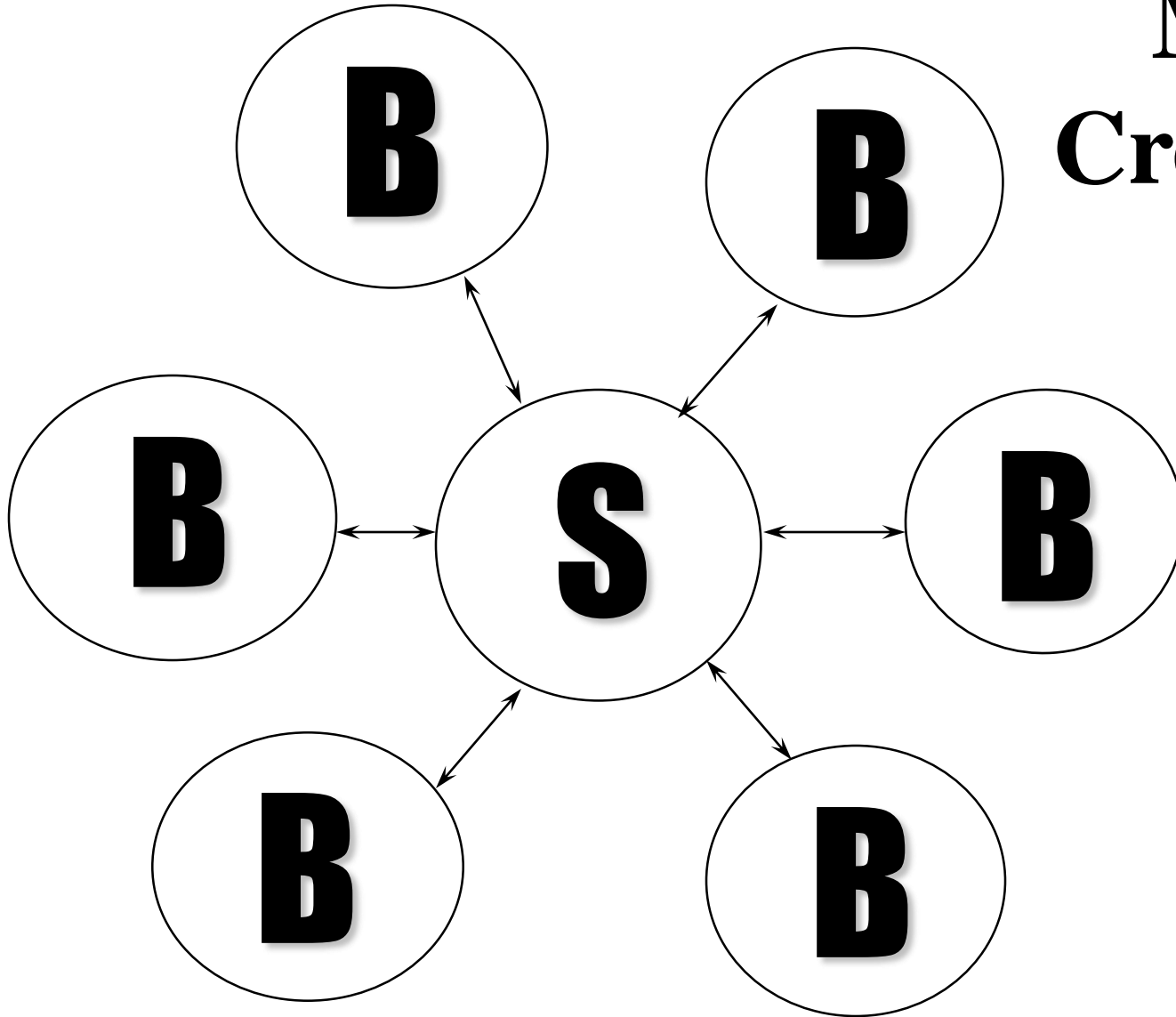
Who Buys Businesses?

- Types of Buyers:
 - Individuals (employees, career changers, former executives)
 - Corporate (competitors, suppliers, customers)
 - Financial buyers (small, private buying groups)

Finding Good Buyers

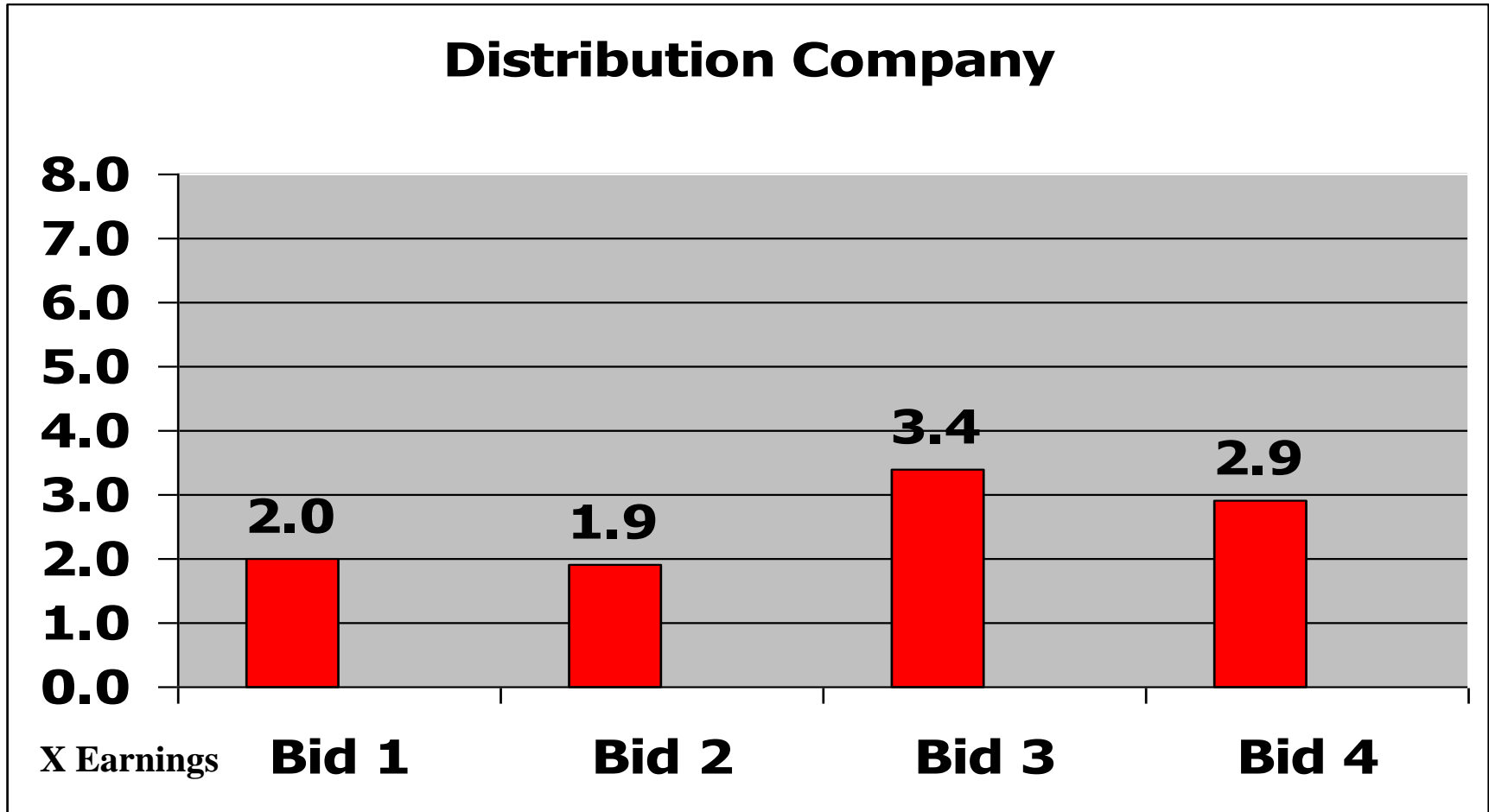
- A network of experienced brokers and intermediaries throughout the Nation
- Contacts with affiliates and brokers throughout the U.S.
- Relationships with the best business advisors in the community
- Full-service brokerage firm's confidential databases of buyers and sellers

Markets Create Value



The Optimal Process

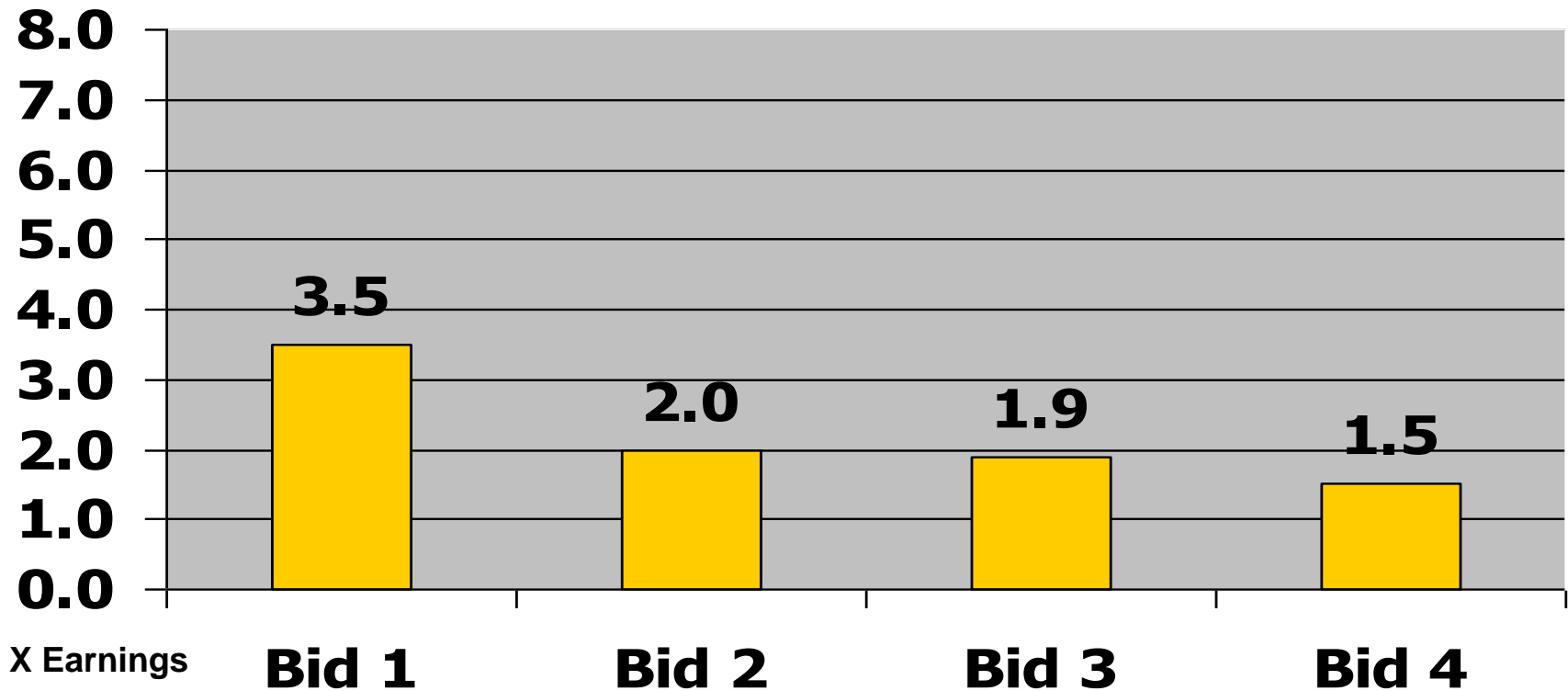
Market Search Adds Value



The Optimal Process

Market Search Adds Value

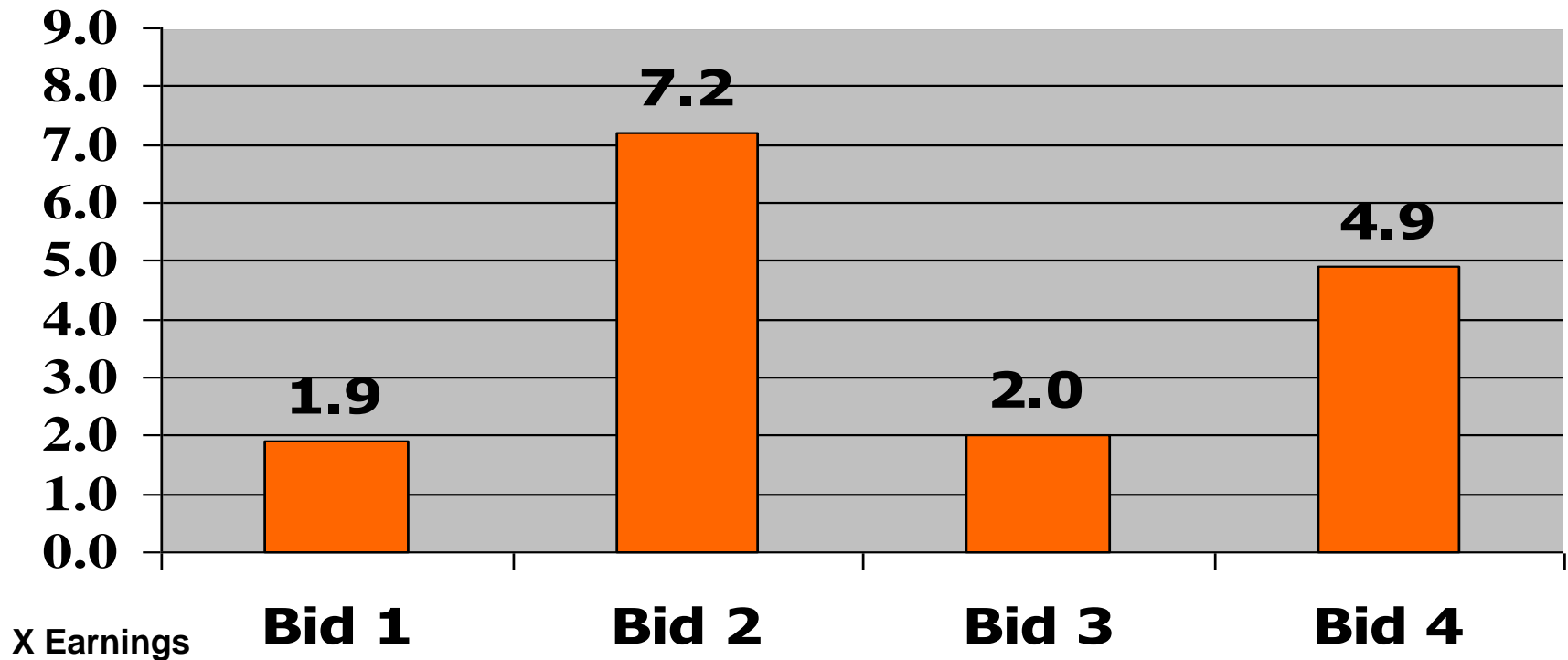
Service Business



The Optimal Process

Market Search Adds Value

Manufacturer



The Optimal Process – Negotiating the Purchase Offer

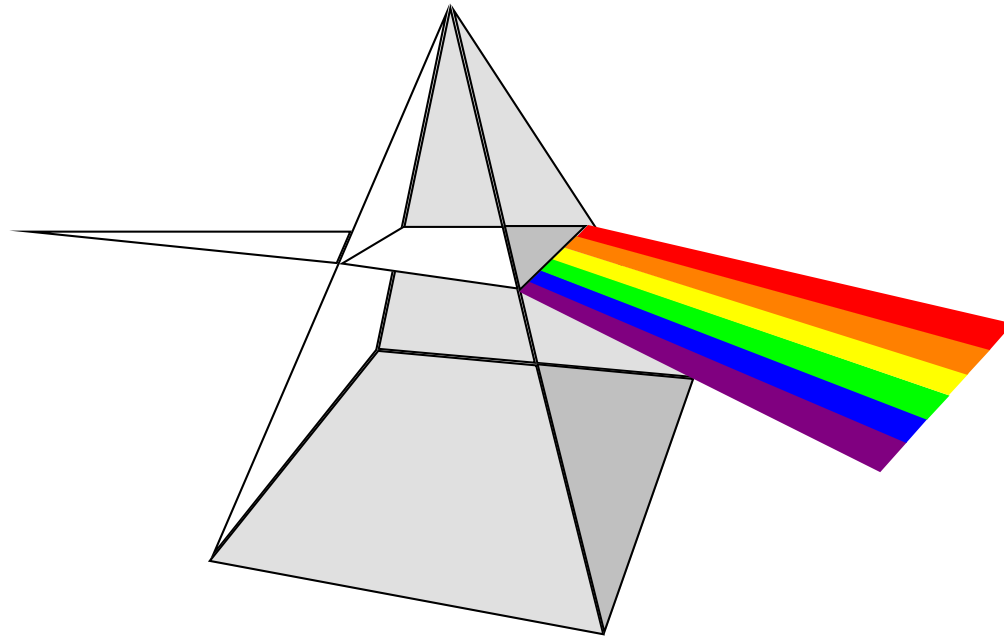
- Completeness of terms and conditions
- Timeliness to finish the transaction
- Confidentiality about the matter
- Clarity of terms to all concerned
- In short -- attention to the details

The Market's Definition of a Good Business aka: The Buyer's Test

- Covers the debt service of acquisition
- Provides adequate working capital
- Pays the owner/manager a reasonable salary
- Provides a reasonable return on the cash invested
- Creates a safety cushion of cash flow for unforeseen changes in the business – has cash left at year end

The Optimal Process – Due Diligence

- Verify what we know is true
- Documenting the facts



Typical Selling Mistakes

- Failing to run the business while selling
- Demanding unrealistic prices
- Negotiating with only one buyer
- Nitpicking in negotiations
- Failing to evaluate the buyer's personality and skills
- Losing your flexibility

Typical Buying Mistakes

- Demanding unrealistic prices
- Negotiating with only one seller
- Nitpicking in negotiations
- Overlooking conflicts with seller's personality and skills
- Incomplete due diligence
- Losing your flexibility

The Optimal Process – Financing and Funding

- Understand the lender's criteria
- Experience anticipates problems and opportunities for funding a transaction
- The information ante is going up
- The preparation effort pays off
 - The Marketing Plan informs and reduces lending risk
 - Good information speeds the lending process

The Optimal Process – Closing and Transfer

- No surprises at “the closing”
- Documents prepared earlier now support the necessary legal and tax work
- Confidentiality protects employees, vendor relations and customers
- Smooth closings add confidence
- After the closing, prepare for needed legal and tax work

The Optimal Business Transfer Process

- Anticipation is Key
 - STAY ON THE AGREED SCHEDULE
 - Anticipate future problems and opportunities resulting from present actions

Today, We Bought and Sold a Business

- We hope you gained some ideas that will help you in your business
- We have explained why things happen when buying/selling business
- The Process helps you prepare for transaction success
- The Process reduces risk of selling or buying your business. Value is increased

Thank You for Attending

Murphy Business and Financial

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