**SELL-SIDE DUE DILIGENCE & PLANNING: 11 THINGS TO CONSIDER TO INCREASE YOUR ENTERPRISE VALUE**
**by Pamela M. Belyn, Esq.**

Your company has successfully made custom widgets for over 15 years, the kids are successful in their own careers and retirement is looming on your personal horizon. The market is good, your balance sheet strong, a competitor in Ohio got $25 million at sale and your business has better margins, more customer, etc. Once you have finally decided to sell… now what? This question is asked repeatedly across industries in middle market businesses throughout the country. More likely than not, sell-side due diligence contributed to your competitor's upside. This article will focus on the steps you can take in the pre-sale due diligence process to maximize your company's attractiveness in the marketplace.

1. Control the Process. Nothing can lower the perceived value of your business faster than the appearance of a fire sale. Not everyone is capable or interested in buying your business, so do not market your business to everyone. A well planned and focused process coupled with a niche target market will get better results than a frenetic shotgun sales approach.

2. Protect Your IP. Trademarks, servicemarks, trade secrets and confidential information all have value in the marketplace. Taking the necessary steps to protect your intellectual property, from the company name to the catch phrase you have been using for the past decade, creates tangible value for an intangible asset.

3. Don't Be Emotional/Be Ready to Sell. Are you really ready to sell? Really ready? Nothing is worse that going through the sale process and not truly being ready to give up the reigns. Withdrawing the sale or being impossible in negotiations to get the buyer to overpay or withdraw will leave a bad taste in everyone's mouth the next time on the block. Having a reputation of "just testing the waters", being an unrealistic negotiator or having multiple busted auctions makes the sale that much harder the second, third or fourth time around. The community of buyers and sellers is too small to have a perception of disingenuousness or otherwise bad reputation in the marketplace. Most importantly, "busted auctions" as well as bad reputations can lead to lower offer prices.

4. Investigate Yourself…Before Someone Else Does. There is nothing like a sale process to make you finally sign all those board meeting minutes the paralegal department has been sending you all these years. These pesky housekeeping items, while an annoyance to you in the grand scheme of making widgets, are important for liability protection and in the sale process. Well organized and clean corporate, accounting, sales and operational records convey a seriousness about your business that can make a difference in offer price. Think of your business as a house you are selling. The house with fresh paint, clean carpet and neutral décor will always command a higher price than a comparable whose interior is in disrepair.

5. Disclose Everything. Honesty counts in the due diligence process. If the 4th quarter of the last year was not one of the company's best sales quarters, don't bury the numbers, give

solid answers as to why the event was non-recurring or if it is recurring, state the potential future impact of the event. Do not give the buyer a chance to make up their own story. It is a guarantee that if the buyer is left to make up their own story or your story is not grounded in quantitative fact, it will not have a positive impact on your final purchase price. As your mother told you repeatedly as a child, you only have one chance to make a good first impression. In this case, a good a first impression can obtain the maximum value possible for your business. Be organized and thorough in your sale process, due diligence and overall operations.

6. Consulting Fees, Earnouts and Backend Compensation. If your company is worth what you believe it is worth, you should not oppose taking an earnout, consulting fee or some other backend compensation. Sellers who are willing to standing behind the business and defer a small portion of compensation could reap big rewards for hitting future financial targets. However, do not acquiesce to the buyers demand to take a majority of the purchase price on the backend. Find a happy medium that lets the buyer know you are willing to stand behind the business but not short change your upfront cash.

7. End Diligence. As in life, everything must have a beginning and an end. If a buyer looks hard enough for long enough, they will find what they perceive to be the skeleton in the closet. Set a reasonable date to cut off due diligence. A firm end to the due diligence process forces you to be organized in the conducting the process but more importantly, it forces the potential buyer to focus on what really matters, not just a fishing expedition.

8. Have a Price Range not a Price. More likely than not, you have been involved in the business from the outset. You are selling your life's work and emotions are running high. Now is not the time to get hung up on the exact number you have always believed represented the price of the business. Without objective quantitative and qualitative examination that "pie in the sky" price will more likely than not include your years of sacrifice, long hours, inventory mistakes and other irrelevant factors. Sellers rarely, if ever, get the emotional value of their business. If you have a higher exit price than your competitors in the industry, set a realistic range that covers industry norms and your premium price. Then go one step further and objectively quantify your rationale and strengthen your position in asking for the premium.

9. Don't Scrutinize a Good Offer to Death. A little more here or there in the negotiation process may win the battle but lose the war. Having a firm grip on the objective value of your business and its potential will give you guidance as to what a good offer should resemble. Don't dismiss reasonable offers out of hand. Keep in mind that buyers will rarely present the best offer first. After the due diligence process, if the offer has not moved, it may be a good offer for the industry, timing and future potential for your business. Give all reasonable offers their proper due.

10. Get your Financial House in Order. Cookie Jars are good for kids not your financial statement. Reconcile those pesky checks, reserve for doubtful accounts, write-off everything that really should have been written off long ago. Put yourself in the buyer's position, and ask the questions a buyer would ask. Who are your top ten customers and

what percentage of revenue to they comprise? How many accounts are more than 60 days old and why? How many accounts are in collections? What percentage of sales is to related parties? Be able to answer standard questions regarding your financial operations quickly and accurately. Potential buyers who have the sense that a company runs a tight financial ship (or at least has a clue about relevant performance metrics) are less likely to feel that they are overpaying for your business or ask for purchase price adjustments.

11. Get Professional Help. Remember the old saying "Only a fool represents himself." In this instance it may be more apt. You don't know what you don't know when it comes to selling this particular business in this particular business climate. Business brokers, accountants, lawyers and appraisers are professionals whose skills you can utilize to substantiate your enterprise value and counter attacks to your price range. These professionals have more ability than just damage control at audit or in litigation. Early involvement of specialized professional service providers may eliminate or lessen the damage that needs to be controlled. But beware, not all service providers are created equal. Hire outside service providers who have experience and are knowledgeable about your business or particular industry. Good counsel can shepherd a deal to a successful closing, bad counsel can and most likely will, kill your chances at a slightly higher premium.

In today's climate when quality acquisition targets are plentiful, set yourself apart by making your business worth buying. Careful planning and comprehensive sell-side due diligence can be the difference between a decent sales price and early retirement.

**About the Author**

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