

Our mission is to shepherd as many business owners as possible to fulfillment of their goals and their ideal lifestyle.

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No Mon No Fun: How to Make Your Company More Bankable

by

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and

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Like many business owners you might be thinking about selling in a few years. Maybe you have not taken as much cash to the bottom line recently as you did in the past. And, because you don't like to pay taxes, you probably tended to enter lots of personal expenses as business expenses on the Profit and Loss Statement. That strategy worked well for you because it reduced your tax bill and provided you with a comfortable lifestyle. There's just one problem. Your business might not be bankable. **If it's not bankable, it's not salable unless you will finance the entire transaction for your buyer.** Becoming a banker in retirement is probably not what you had in mind. Here are a few things you can do to increase the bankability and the value of your business.

How to Increase Your Company's Bankability and Its Value

- Lenders are not as lenient as they used to be about adding back your non-recurring business, and your personal expenses to your bottom line. This is the first step in determining your company's value, and the amount a bank is willing to lend to your buyer. Pay for personal expenses with personal income, even if you have to increase your salary. Better yet, reduce your personal expenses and salary. Redeploy that excess cash to initiatives that increase the value of your company.
- From a buyer's standpoint, it is generally preferable for the real estate to be owned outside the business, such as in a partnership that leases the building to the business. This ownership strategy offers you many options when selling, and, when designing your estate plan. Bankers like real estate, so, from a banker's viewpoint a business that owns real estate is desirable. Check with your banker, estate planning attorney, your tax planner (who is usually not your CPA), and your mergers and acquisitions advisor before building or purchasing real estate where your business will be housed. If your business is run out of real estate that you own, be certain to pay fair market rent to the entity that owns it, such as a limited partnership, or trust.

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- If your business owns the real estate, you must be able to demonstrate that your business can carry the debt service on the entire building, even if part of it is rented out to other tenants, unless your buyer has other cash outside the business that can support the debt service on the building.
- Clean up your financials. Have them reviewed for accuracy and for correct format by a qualified party such as an outsourced CFO, or accountant with the necessary expertise. A financial audit is often advisable. A banker will want to see three to five years' financial statements. If you plan to be out in five years, get your financial records cleaned up now so you will have at least three to five years of quality statements to show the banker, and your buyer. Your tax returns need to reflect the actual expenses and must square with your financial records. Any increase or decrease in revenues must be reflected in changes on the balance sheet.
- A banker will expect to see stable or increasing cash flow in the last three to five years. If revenues dipped during the recession but you can demonstrate that you reduced expenses to keep the bottom line stable or growing, the banker will look favorably on your proposed transaction. Stable, or reduced, revenues is acceptable if you took immediate steps to manage expenses. Re-visit your strategic business plan, operations efficiency, and your sales management system if your revenues or cash flow have not been stable or growing.
- Select an acquirer that has sufficient capital and direct industry-related experience to maintain and grow the business.
- Select a mergers and acquisitions advisor that is very knowledgeable about the various lending sources and their respective requirements, and, the lender's desire to loan on businesses in particular industries.

Joan M. Ridley is president of Business Wealth Solutions, a Dallas based advisory firm that consults with business owners about how to successfully grow and harvest their business wealth. Please visit our website at www.businesswealthsolutions.net. Call us today at 214.692.9192 for a complimentary meeting to learn how we can help you. Ask for our complimentary brochure.

William (Bill) Whitehurst is president of [Whitehurst Mergers and Acquisitions](#). He has over 30 years experience as a business owner, manager, and mergers and acquisitions professional. As a mergers and acquisitions professional he has represented over 100 business owners in the sale of their businesses.