

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

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## Who Will Buy My Business As Is

By

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When called upon to show a business owner how to leave his<sup>1</sup> business, the “showing” starts with evaluating how prepared the business and the business owner is for executing the actual event of leaving. Most business owners are not aware that 70% of all deals fail - more like 85% in the current market. The reason is “lack of pre-sale planning”, according to a Pricewaterhouse Coopers study.

### The Conversation Changer

The conversation begins with the business owner sharing how he thinks he will exit, such as a third party sale or selling to employees, but it quickly changes to how well positioned is the business, and, what needs to be done to properly position it for the exit strategy that the business owner favors. So, the answer to the question - “who will buy my business as is” can best be answered, “that depends”. It depends on: how well you run the business day to day; how profitable it is compared to its peers; how well management can run it when you, the owner, are not present; how dependent you are on the net proceeds to achieve your goals, and a long list of other factors. Generally, most lower-mid-market businesses (under \$50MM in sales) need some preparation before a qualified potential acquirer will show any serious interest. Very, very few businesses will sell in “as is” condition.

### Start Thinking Like a Buyer

The first and very important step in the preparation phase is to start thinking like buyer. I realize this is a tall order, especially if you founded the business. Perhaps you started it with a small cash investment and funded it along the way from cash flow, credit cards, lines of credit, and loans from friends and family. Now you are asking a buyer to invest a substantial amount of cash up-front as a down payment, and to borrow the rest. So while you sought to create a job for yourself, you now are trying to sell an asset. Your goal has changed and so have the rules.

Your potential buyer is going to scrutinize every inch of your business because he is putting his personal and business assets

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on the line as collateral for a loan. He might be risking his kids' education fund, his retirement funds, his home, his other business interests, and his credibility with his spouse. So while you put up more modest amounts of cash over time, you are asking him to risk everything up-front through a large cash outlay and an even larger indebtedness. If your acquirer is a private equity group, that buyer's investors are also risking their assets. That acquirer will also put your business through the paces during the due diligence process. As we prepare you for your exit, we will evaluate your business for 54 value factors, and, so will your potential acquirer. Be prepared to implement our recommendations to address the value factors, unless you plan to sell your business "as is".

If you have not made the necessary investment in your business to create a going concern with a sound infrastructure that can run without you, a potential acquirer might ask, "then, why should I?" If *you* don't think it's worth the risk, then why should a buyer? Take a look at your financials. Will they support the proposed debt service, and, would *you* be willing to finance the transaction based on those facts? Even if the *buyer* were to take the risk, it would likely structure the transaction with a low down payment and an earn-out over several years. That strategy only magnifies your risk because now you no longer own the business, and, your return is totally dependent on how well the new owner runs it.

### Due Diligence Ground Work

How will your prospective buyer evaluate your business? The buyer will probably seek good advice from his advisors including his accountant, attorney, and probably someone who has had considerable experience with transactions. This transaction advisor could be an attorney, a mergers and acquisitions advisor who has represented buyers and sellers in the deal making process, or, it could be an exit planner. Either way, your business and you will be put under a microscope. **Why you?** Because the buyer needs to determine early on if you have the commitment to go the distance since he is going to spend a lot of money with these advisors who will be checking out your business during the due diligence process.

### Evaluating the Financial Buyer's Rate of Return

So, getting back to your business, let's take a look at how the buyer will evaluate it when determining what it is worth. Your acquirer will look at your business from many angles, but the big question on any financial acquirer's mind is "what is the current and recent profitability and is it sustainable?" Note that a strategic acquirer, which would likely pay more for a business than a financial buyer, is a whole different matter. Financial buyers include wealthy individuals and private equity groups. However, a great majority of buyers in the lower mid-market are financial and not strategic acquirers.

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First the buyer will determine what rate of return he needs to earn to justify the risk of owning your business. This rate of return is largely compared to the return that can be earned from other investments, such as stocks and bonds, and the risks they pose. Then there's the liquidity issue. Your business is illiquid which means that it cannot be sold and turned into cash quickly like a publically traded stock or bond. Nor is it highly marketable which means there is not an active, organized market for selling and buying interests in privately held companies. The analysis will include the annual capital outlay, debt service, and the salary required to replace your services.

### **Are You Willing to Roll the Dice**

As a potential seller, your focus might be on the mechanics of exiting. But, you would be well-advised to start the conversation with an honest look at the current position of your business, and your own financial and mental preparedness. Otherwise you are gambling with what is probably your single largest asset. When you were younger, you could afford to take a chance, but now you have more to lose and not enough runway to recover. Take the time to prepare for the single largest liquidity event of your lifetime. Seek an expert's opinion about your company's current position. Invest a few dollars to position your business to attract the most qualified acquirer, and realize a return that far exceeds your investment. Your company will be more profitable and you won't need to work so hard while you are waiting for the optimum market to put your business in play.

<sup>1</sup>Throughout this article I have referred to the potential acquirer as "he" which could also be "she" or "it", such as a private equity group.

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**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 leave their business. Visit our website at [www.businesswealthsolutions.net](http://www.businesswealthsolutions.net). **Call us today at 214.692.9192** for a complimentary meeting to learn how we can help you get where you want to go.

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