

7 Critical Points

Every Business Owner Must Know Before Selling Their Business



These 7 Critical Points allow you to consider and compare why a Business Intermediary makes sound financial, strategic and tactical sense to achieve a successful, trouble-free transaction.



www.murphybusiness.com

If you are considering selling your business by yourself, you will need to coordinate at least 4 different business professionals (CPA/Accountant, Legal Professional, Investment Banker, Appraiser) OR You can make one phone call to a Murphy Business Associate who is expertly positioned and experienced in all phases of business transfers to coordinate everything for you.

When it comes to selling a business, most owners don't even know where to start or which questions to ask. The entire selling process may seem confusing and overwhelming. Some owners turn to their accountant or legal professional for advice, but those professionals represent only a fraction of the overall solution. When you consider that in a typical selling situation there are no less than four different professionals involved in the transaction ranging from accountants to investment bankers, it is easy to see why many people are afraid to even begin the process.

Why Sell Your Business?

Let's say you have learned there may be a potential buyer interested in your business and you're ready to sell for one or all of the reasons below:

- It's time to retire
- A need within the company for new skills, resources or philosophies
- Your profits are at an all time high
- Serious illness
- You are tired of the day-to-day grind
- Lack of sufficient working capital
- Divorce or dissolution of partnership
- Desire to pursue other business interests which are less challenging or less stressful

Since you've been a successful business owner, selling your business can't be that difficult, right? No one knows the business better than you, right? To find out if you have what it takes to be successful in the process of selling your own business, consider the following:

- ✓ Can you maintain complete anonymity so confidentiality is not lost which could seriously damage your profitability?
- ✓ Are you knowledgeable in current areas of the law, accounting, taxes, marketing, financing, negotiations and closings?
- ✓ Do you have a vast amount of contacts and the ability to match a prospective buyer to your business? Can you devote the time and energy to screen and qualify a large group of prospects in order to find a qualified buyer who is serious, can obtain financing and will make a reasonable offer?

- ✓ Are your talents better suited to effectively running your business and managing profitability or chasing buyers, lenders, lawyers and accountants?

If you were unable to answer "yes" to the above questions, you should consider enlisting the help of a professional who can provide these skills for you. Many business owners are too busy operating their business and cannot afford the time or have the expertise to handle the sale of their business. This can be more effectively and efficiently managed by a professional business intermediary who is experienced in all aspects of the transaction.

Buying and selling a business demands a level of expertise that only a Business Intermediary possesses. The intricate details of a business transaction alone can cause a deal to terminate if you are not experienced in all phases of the process, even if you are a savvy business owner.

What are the odds of a sale?

There are more than 27 million businesses in the United States and over 30 million in North America today and 40% of business owners expect to list their business within the next three years. Take a look at these alarming statistics on the next page:

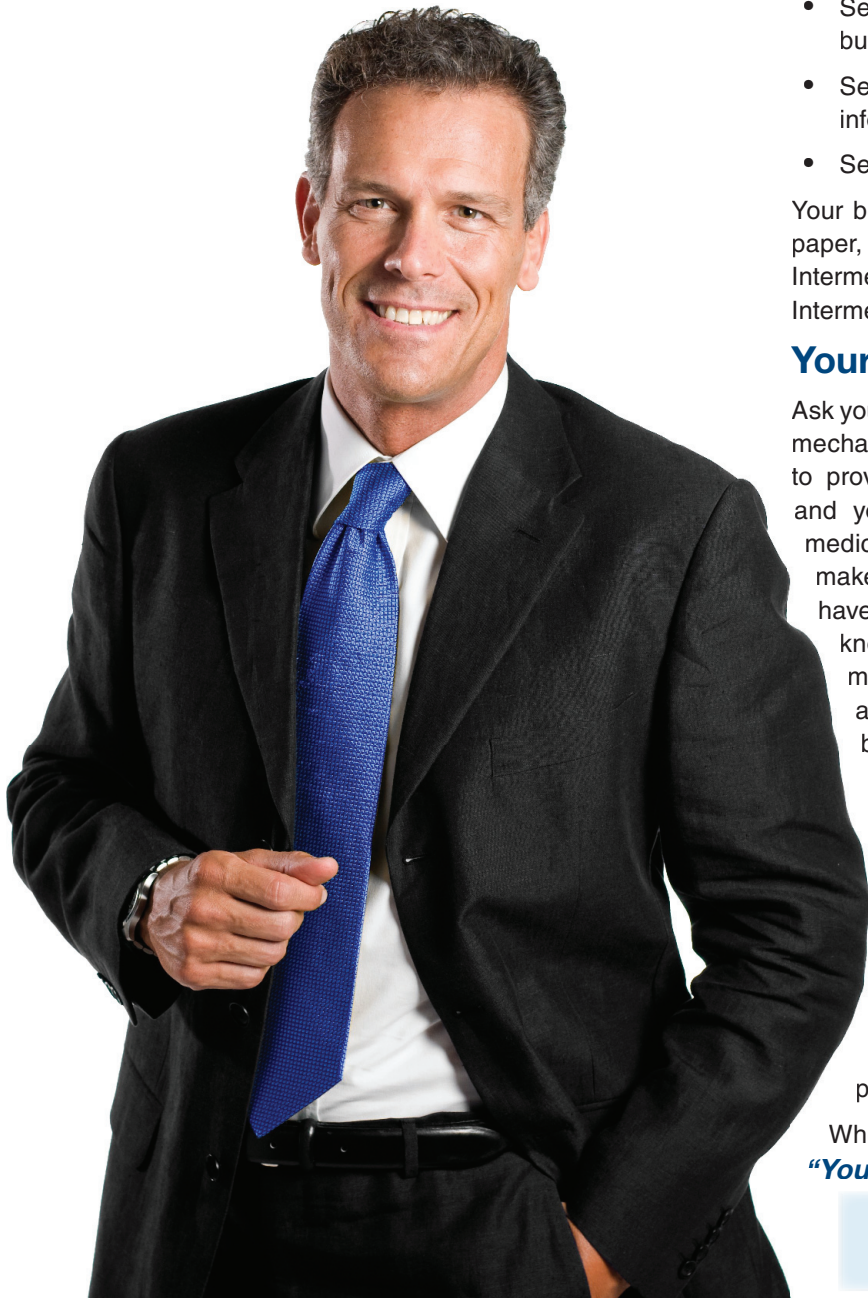
Not very encouraging numbers are they? That's why a Business Intermediary is so valuable to a business owner. Your closing percentage increases dramatically when an intermediary is involved. They can minimize your risk through their vast experience, expertise and attention to the smallest of details.

Jill Andresky Fraser of Inc. Magazine found that historically only about one-quarter to one-third of all private companies ever manage to find a buyer. The reasons:



Business Category		Number of Businesses for sale	Number that sell	Percentage of Sale
Small Businesses	Revenue \$750,000 or less	880,000	160,000	18%
	10 employees or less			1 out of 5.5
Larger Businesses	Revenue \$750,000 to \$3 Million	172,000	43,000	25%
	100 employees or less			1 out of 4
Mid Size Companies	Revenue \$2 Million to \$30 Million	173,000	49,000	28%
	20 to 100 employees			1 out of 3.5
Large Companies	Revenue over \$30 Million	7,500	2,500	33%
	Over 100 employees			1 out of 3

Source: Business Brokerage Press - Complete Guide To Business Brokerage



- Sellers didn't have all of the information that prospective buyers need in order to make an informed decision.
- Sellers are not equipped with current and accurate financial information.
- Sellers are not realistic in establishing price and terms.

Your best guide for buying or selling a business isn't words on paper, it's the experience and representation that a Business Intermediary brings to the process. Using a Professional Business Intermediary will drastically increase the chances for a sale.

Your "Ace in the Hole"

Ask yourself this: Would you visit your family doctor or automobile mechanic if you had a toothache? Your mechanic may be able to provide the correct utensils to extract the throbbing tooth and your family physician may be able to prescribe some medications to suppress the pain, but you would most likely make an appointment with your dentist. Why? Because they have been thoroughly educated in this area. Only a dentist knows the inner workings of the mouth and can provide the most appropriate care in such a predicament. Including a Business Intermediary in the selling process of your business is no different. Even though there are many other professionals who can attempt to handle every aspect of this procedure, they are not equipped or experienced enough to be successful.

Accountants, legal professionals, investment bankers and real estate professionals are adept at only one or two of the many facets of selling a business. A Business Intermediary has the experience and expertise to manage every phase of this important transaction and can provide vital knowledge and resources that no other professional can.

When it comes to selling your business, an Intermediary is **"Your Ace in the Hole."**

"Buyers are more prepared to buy than sellers are prepared to sell."

Find Out The 7 Critical Points You Must Know *BEFORE* Selling Your Business

1 *Validating a Realistic Sales Price:*

Realistic pricing is perhaps the most important factor in selling your business. The pricing of a business is a complex analysis and requires the use of industry tested valuation methodologies. Tangible and intangible value is incorporated into the equation to ensure that the business will be priced correctly.

The price of a business is achieved by a variety of factors; it is more of an art than an exact science. A Business Appraiser is an expert at placing a realistic price on the business, using economic performance indicators and market data.

An Intermediary's objective is to substantiate the true value of the business. They also assist the buyer and seller in the deal structure so that both parties benefit from the sale. When trying to sell a business, there is nothing worse than putting it on the market and not attracting buyers because it is overpriced. We cannot emphasize enough that fair market value pricing is key to the successful sale of a business. An Intermediary has access to professionals who have extensive knowledge and the experience to accurately place a value on the business.

2 *Current Knowledge of the Marketplace:*

Intermediaries surround themselves with databases, search tools, industry reports and business contacts available only to them. Having ready access to this data ensures that your Intermediary is armed with the necessary information to help you make the right decisions regarding the sale of your business. Keeping up-to-date with current marketplace conditions and maintaining contact with other professionals is essential to determining the right time to place your business on the market.

3 *Confidentiality is Essential:*

It is imperative that an owner understand why confidentiality is important to the successful sale of the business. There are many issues that can affect the sales and profitability of the business if it's introduced to the market prematurely. Customers, competitors, employees, vendors and creditors will have different reactions to finding out that your business is for sale. Prospective buyers often react negatively to a business opportunity that has not been kept confidential.

Your Intermediary will hold the sale of your business in strict confidence. He or she has a fiduciary responsibility to maintain confidentiality, but more importantly, the Intermediary's efforts are to maximize the selling potential. Maintaining privacy on this matter will allow your company to operate normally, protected against competitors who might use the information as a strategic advantage, employees who might think of leaving due to a new owner, customers who might take their business elsewhere, suppliers who might raise prices due to a contractual issue and bankers who could call due a note. Any premature leak of information regarding the possible change of ownership could disrupt these relationships and weaken the company's competitive position. For these reasons, confidentiality is critical and vital at all stages of the selling process from listing through closing.

4 *Expertise in Attracting and Securing Serious, Potential Buyers:*

There are three basic types of buyers: individual, financial and strategic. Individual buyers are people who are in the 45 to 60 age bracket and are leaving the corporate world to pursue a dream of buying their own business and controlling their destiny. The next type of buyers are financial buyers. They make up an enormous segment of the buyer's market. These types look for businesses they can acquire using debt financing for 50% to 75% of the asking price and have sufficient cash flow to service the debt. Lastly, are strategic buyers. They expect synergies with their other holdings and can afford to pay a premium, but may not need to because they understand the market.

80% of prospective buyers are individuals who want to control their own future. Many of these buyers can be found locally, nationally and even internationally. An Intermediary is a key player in this process because they keep themselves in continuous contact with all types of buyers all over the globe. They use effective and efficient search procedures to find and screen those that are best qualified to purchase your business.





Blind advertisements and listings are another tactic a Business Intermediary will use to market the business for sale and attract a potential buyer. These ads are written to provide enough information to interest a buyer although they camouflage the identity of the business.

The Intermediary typically has many businesses for sale at any given time constantly attracting buyers. It is proven that buyers respond strongly to ads that indicate the intermediary has a wide variety of business opportunities, even if the individual business descriptions are vaguely worded. Intermediaries conduct a Pre-Qualification process with potential buyers to determine if your business will fit their profile and financial capabilities. Your Intermediary will focus only on those who are genuinely interested in your business and weed out the “tire kickers and time wasters.” It is important to be aware of the buyer’s motivation for acquisition, otherwise the prospects of the sale will decrease. During the early stages, while the buyer is still considering making an offer, the Intermediary is the ideal person to follow up and keep the opportunity running smoothly.

5 Pre-Arrange Lender Financing:

Surveys have shown that sellers who ask for cash receive 75% of their asking price, while sellers who accept terms typically receive 86% of their asking price or higher. In many cases, businesses that are listed for all cash don’t sell. With reasonable terms that a intermediary and lender recommend before locating a potential buyer, the chances of a sale increase dramatically. In addition, the time period from listing to closing greatly decreases. Most sellers are unaware of the amount of interest that can be generated by financing the sale of their business. Furthermore, seller financing provides the buyer with a sense of comfort because the seller is confident that the business will achieve profitable returns for the buyer.

6 Untangle Red Tape:

A intermediary is an expert at alleviating any and all potential pitfalls. A business owner may not have the foresight or experience in these matters regarding selling a business. For example, some problem areas may include: permits, licenses, financing, agreements, leases, etc. When a buyer is interested in your business, the last thing you want to have happen is for the buyer to uncover a mistake in the information presented or have an asset turn into a liability.

7 Expert Negotiator:

The selling process can take on a life of its own. There are emotional highs and lows during the process that make it difficult for the business owner to have clear and reasonable objectives. Sellers can be defensive and confrontational when buyers are questioning financial documents or the value of assets. A intermediary acts as the middle man and works to achieve your ultimate strategic and tactical financial goals without compromising your position.

Get a Lender’s “Pre-Approval” of Terms and Sale Price While Actively Marketing for a Buyer.

A intermediary will uncover the value of your business and communicate it to the buyer in a manner that touches their “hot buttons.” The intermediary understands your financial goals as well as the buyer’s situation and can direct the sale in a manner that meets both parties’ objectives, creating a win-win scenario. A intermediary will uncover the bargaining power of the buyer and discover at the onset how that individual plans to finance the acquisition. In addition, the intermediary will anticipate the buyer’s concerns and offer counseling prior to any meetings. This identifies any problems that might make a buyer suspicious and unnecessarily adversarial during negotiations. Steeped in knowledge about negotiating price and terms, the intermediary will guide you every step of the way.

Now that you’ve learned briefly about the 7 critical points you need to know before selling your business, what other information should you consider before taking the next steps? We think you need to know about valuations and lender pre-approval and why both are extremely important.

Preparation of a convincing historical document and solid financial information is a must for a successful sale.

A professional valuation reflects the “Fair Market Value” of a business based on recasted assets and conditions in today’s market. This presents the true economic value of your business.

Comprehensive documentation from a buyer’s perspective is essential for a successful sale. This means that preparation of a convincing historical document and solid financial information is a must. Sellers rarely receive fair market value when revenues or other important matters are “undisclosed.” Lack of that kind of supporting information puts you in a weak negotiating position. Buyers are looking to justify the price and terms of the sale using normal investment returns.

If you were buying a business, would you rather see Profits or Deductions?

Most business owners use tax returns or financial statements prepared for tax purposes as the only financial presentation of their business and to justify an asking price. As a result, the true market value of assets on the balance sheet may not be properly reflected.

This is a common mistake sellers make, not realizing that tax returns and financial statements are prepared for tax purposes and do not reflect years of hard work, market value of assets and true economic performance of the business. The business’ goodwill, or intangible value, represents a major component of the value of the business. A “recasting” of the balance sheet is an important consideration in determining value.

Too often a business will also use financial statements prepared for tax purposes in the day-to-day operations of their business as a selling tool. Assets are written off rather than capitalized. Profits are minimized to avoid paying taxes. Tax returns provide a negative view of operations from a financial standpoint.

The value of a typical business should be greater than the total value of its fixed assets.

For a buyer, the key factor is that an ongoing business has everything in place for the business to continue to operate successfully and generate the cash flow that is documented in the marketing portfolio such as equipment, inventory, sales, suppliers, employees, business processes, customer lists, forecasted business, etc. The bottom line is that the buyer is “banking” on the net cash to buyer to service debt and receive a reasonable return on his/her investment.

How do you price the intangible assets of a business which is normally referred to as business goodwill or going-concern value? And, what methodology is used to determine fair market

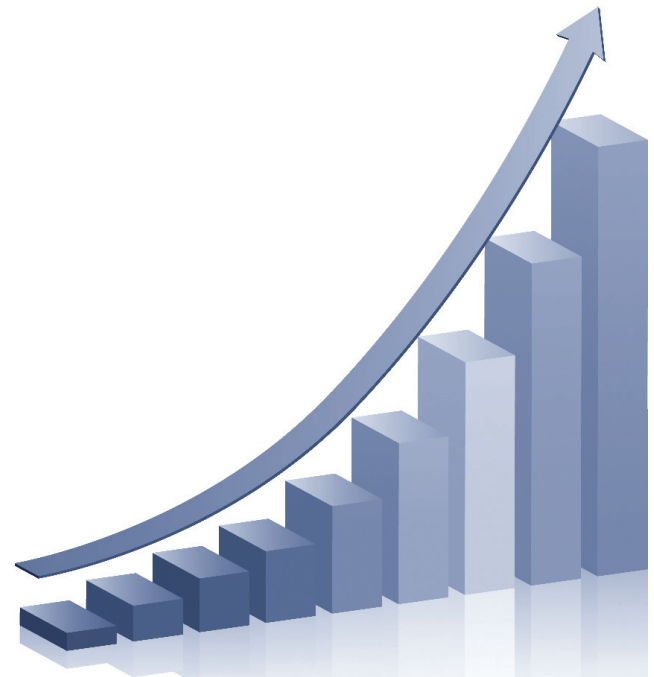
value of the fixed assets? The answer is: Hire a Business Intermediary...It is a must! He or she is **the key player** on your selling team.

It has been stated that a business is worth what a buyer is willing to pay and a seller is willing to take. That is why the profession of valuing businesses is a mix of art and science. However, there are methodologies, algorithms and market studies that allow a certified valuator to apply a “fair market value” on a business entity. There are variations of methods used and weighted averages depending on specific industries. Business Valuators typically use three primary methods to value a business.

They are:

- **Market Approach** – Comparing the entity being valued to counterparts engaged in the same or similar industry with the same or near volume of business.
- **Income Approach** – Company’s value is based on its ability to generate income.
- **Asset Approach** – Sometimes referred to as Replacement Cost Approach. This approach considers the fixed and current assets of the business such as equipment, furniture and fixtures.

Note that there are a number of reasons for valuing a business other than acquisition. Businesses are valued for estate and tax purposes, divorce settlements and for raising capital, among other things.



If you are seriously interested in selling your business in a timely and profitable fashion, who do you contact to maximize sound financial, strategic and tactical advice in order to complete a successful, worry-free sale?

“What is Fair Market Value?”

“Fair Market Value” is defined as the price at which the business would transfer ownership from a willing seller to a willing buyer, understanding that both parties have reasonable knowledge of the relevant facts.

Do you know what your business is worth? We often hear sellers say “I don’t need to value my business. I’ve been in this industry for 30 years and I know what it’s worth.” When you are ready to sell your car, don’t you at least do a little research and maybe review the current “blue book” value of the make and model? We find that sellers who are serious about selling their business have no problem investing the time and energy in the valuation process. ***The valuation is the true indicator that the seller is serious about selling their business and that it is reasonable in price and terms.***

Once you decide to have your business valued, the first person you may think to call is your CPA/accountant. That may be a great choice if your financial advisor carries the Certified Valuation Analyst designation, is current with today’s methodologies, a fair amount of valuations on an annual basis and their schedule permits. It is important to know that most don’t do valuations or have this designation. Of course, a CPA/accountant without this designation may be entirely capable of performing a first-class valuation, this simply suggests that valuations are not something most CPAs/accountants perform as a core part of their business practice.

What else do you need to know about selling your business?

How can ***financing*** a business become a deal breaker when it comes to the change of business ownership? Simply this... lenders and buyers are uncomfortable with financial statements prepared for tax purposes because they do not reflect the true economic value of your business. Additional analysis is required to reflect discretionary spending, true earnings and asset value.

It is important for all parties involved in a transaction to make sure that the buyer can secure the proper financing to acquire the business. Therefore, pre-approval and pre-qualifying sets Business Intermediaries apart from other professionals in this regard. In order to be effective in marketing your business for sale and qualifying prospective buyers, it is imperative that guidance from a lender is secured. Without lender involvement from the beginning, a closing may be plagued by financing and terms which can result in an unnecessarily lost sale. A Business Intermediary’s expertise in preparing and submitting

the required documents to the lender is paramount in obtaining favorable terms. This knowledge and experience allows you to achieve your financial goals and significantly increases your chance of closing.

What Benefits Do Owners Enjoy When They Are a Client of Murphy Business?

At Murphy Business, we specialize in various aspects of business brokerage. No other company in the world comes close to our knowledge, expertise and our connections worldwide.

For a faster close, Murphy Business Associates can prepare a professional third-party valuation to determine your company’s fair market value. This will ensure that your business is priced appropriately and will be attractive to prospective buyers.

We also prepare a complete and thorough Offering Portfolio that provides qualified buyers in-depth and confidential information about your business. Most intermediaries use a one page nondescript listing form. Murphy Business Associates provide a comprehensive portfolio detailing vital information about your business which is the kind of information a registered, qualified, serious buyer wants access to in order to make an informed decision about pursuing your business. Our experience is that our Offering Portfolio is unique and exclusive which makes us a favorite with serious buyers. In addition, it means lenders know that when they are looking at a Murphy Business deal there will be less complications leading to more favorable terms. Spending more time and attention preparing the business for sale results in a smoother selling process and yields higher returns for the seller. At Murphy Business, we design a custom plan to promote your business to likely buyers. We directly market your business through global networks and on multiple websites, which means that you have a powerful network of Business Intermediaries working with you to find the perfect buyer



Experienced and efficient...We perform all the work for a swift sale.



We understand the importance of maintaining confidentiality so information about your business is shared with potential buyers in stages as their level of interest heightens. ***We do not disclose confidential information without a signed Confidentiality Agreement and buyer application.*** We work toward full disclosure with either an “Offer to Purchase” or a “Letter of Intent to Purchase. That’s not all! We use our banking and financing contacts to assist the buyer in arranging

Step by Step...Murphy Business is invested in the process and is with you every step of the way.

favorable financing. This includes traditional financing, small business loans, other government backed loans or the use of non-traditional lenders.

Our goal is to complete the sale by removing hurdles, whatever they may be. So, whether we have legal issues, financing concerns or real estate matters we have solutions that can be applied to resolve the matter quickly and effectively.

You’ve taken the first very important step toward sound financial, strategic and tactical planning by reading about the 7 Critical Points Every Business Owner Must Know Before Selling Their Business. This will benefit you greatly and significantly increase your chances of selling your business.

At Murphy Business, we overcome every problem and frustration a business owner might face when it’s time to sell their business. Here is what you can expect from us:

1 Initial Meeting

We’ll execute a Confidentiality Agreement which validates our reliability and integrity of keeping your business information in strict confidence. We’ll want to hear about your situation and discuss the reasons you want to sell, the market conditions, history of the business and discuss goals and strategies. We will review your financial statements and tax returns to ensure that your goals are within reach.

2 Prepare Your Business to Sell

We start the selling process by reviewing your financial data in more detail and will recast income statements and discuss the value of assets on the balance sheet. We will also collect historical and current information regarding the operation of the business. We use this information for two basic reasons: we will supply data to a third party valuator who will value the business and we will prepare a comprehensive marketing portfolio explaining the business’ current status and market information. Based on the information we receive from you, we will prepare:

- ✓ A Confidential Business Profile
- ✓ A Confidential Outline for Listing Services
- ✓ A Confidential Memorandum
- ✓ A “Fair Market” Business Appraisal
- ✓ A Comprehensive Market Analysis

3 Listing Your Business for Sale

We will meet with you and present our comprehensive portfolio, highlighting market position and your business appraisal to determine if the results matched your expectations regarding market value. We will review our Standard Listing Agreement that explains how we work with you on the sale of the business. At this point, we will want to hear from you about the business, your employees, your responsibilities and other relevant issues regarding the transfer of ownership. This meeting is one of the more important steps in the process and your Murphy Business Associate will coach you through any formalities.

4 Marketing Your Business for Sale

The next step in the process is aggressively marketing for serious, qualified buyers. We will place "blind ads" in local and national newspapers and appropriate trade journals. We will actively use internet profiles, letters, emails, phone calls and networking with intermediaries. Our network consists of a vast array of contacts both locally and worldwide and being members of numerous, powerful organizations allows us to attract qualified, serious buyers quickly.

5 Qualifying Buyers

Qualifying buyers is a delicate task but something we do not take lightly. We'll determine a potential buyer's financial capability, experience and time frame, along with their commitment to the process. We are experienced at matching buyers and sellers by reviewing financial goals and determining businesses that are best suited to meet the buyer's profile.

6 Presenting to a Qualified Buyer

We remain in constant contact keeping you informed of buyer interest. When a buyer meets our criteria and executes a Confidentiality Agreement, a full presentation will be made. In our conversations with buyers, we will discover which goals and objectives more closely match the seller's business. We monitor for buying signs and look for "red flags" as we are going through this process.



7 Conduct a Buyer/Seller Meeting

We have found a buyer and he/she has met our criteria, can be financed, has sufficient down payment and is serious about pursuing your business. The next step is to set up a meeting for the buyer to present his/her financial capabilities, interest in the business and experience to you. This will give you the opportunity to discover their style, attitude and personality. Any additional questions the buyer has can be answered during this meeting.

8 Due Diligence

Due Diligence is the process of verifying all the important information in all aspects of a business, especially as it pertains to a purchase. A Buyer conducts Due Diligence so that he/she will receive what they think they're buying - in the condition they expect - and to uncover any unexpected liabilities and eliminate any post-sale surprises. The Due Diligence process should answer the questions: Should I buy it? How much should I pay for it? How am I going to pay for it? The Buyer is responsible for the Due Diligence process, not the Business Intermediary, unless they have been retained to do so. The Due Diligence process should include a close review of the legal, financial and business aspects of the company or business. Depending on the business and/or the Buyer, the Due Diligence process can take anywhere from a few weeks to...whenever.

9 Presenting the Offer and Closing

We will assist the buyer in making an offer to you. We'll present the offer, facilitate any counter offer and present a final and complete package to the party doing the closing. Our closings are thorough and complete and cover the smallest of details. In addition, we assist the buyer with due diligence and work to remove any contingencies. We review closing documents with you, the buyer and the party doing the closing. Finally, we attend the closing with you to ensure all documents are in place, to answer any last minute questions and to address any concerns that may arise.

There's Someone Waiting to Buy Your Business...Are You Ready to Get Started?

Documents You Will Need To Sell Your Business

Note:

When you are interested in selling your business, questions relating to the sale of the business must be answered. This is necessary in order to determine the "Fair Market Value" or range of values for your company.

THE FOLLOWING DOCUMENTS MAY BE NEEDED OR WILL NEED TO BE AVAILABLE FOR A BUYER AND A LENDER IF THE BUYER IS USING OUTSIDE FINANCING (other documents may apply)

FINANCIAL RECORDS

- HISTORICAL FINANCIAL STATEMENTS
(For the most recent three years)
 - Profit and loss statements, balance sheet
 - Bank statements
- FEDERAL TAX RETURNS
(For the most recent three tax reporting years)*
 - Corporate Tax Returns (Form 1120 or 1120s)
 - Schedule C (Form 1040)
 - Partnership Tax Return (Form 1065) Sales Tax Return
 - Payroll Tax Return
- Interim Financial
(For the most recent reporting period)
- Schedule of all indebtedness of the business
- Accounts receivable aging report
- Inventory information
- Summary of job — in — progress report

COMPANY ASSETS AND REAL ESTATE

- List of Assets to be included in the sale
- List of Assets to be excluded from the sale
- List of Assets not appearing on balance sheet
- Copies of leases for real estate and equipment
- Legal description of any real property included in the sale
- Appraisals on real estate and/or equipment (if available)
- Environmental reports/surveys

EMPLOYEE RELATED

- Any employment contracts, representative agreements, etc.
- Organizational Chart
(Job description and rates of compensation)
- Copies of any pension and/or profit sharing plans
- Buy/sell and/or shareholder agreements
- Employee benefits, group health insurance, etc.

CONTRACTS, POLICIES, MARKETING, ETC.

- Copies of all insurance policies
 - Brochures, advertisements, yellow page ads, articles, maps, etc.
List of any contracts for services
 - Copies of any patents, copyrights, trademarks or contracts of value
- *SBA and/or other lenders will require at least three years of tax returns.



Murphy Business?

At Murphy Business we specialize in the transfer of businesses. We are the largest and most successful business brokerage firm in North America with offices conveniently located in the United States and Canada. We are members of virtually all associations, groups, listing services and networks that exist in our industry,

giving us unsurpassed access to buyers and sellers. Our proven processes and systems provide our clients a higher closing ratio than national averages. We promise that you will not find a more complete, thorough and professional experience as the one Murphy Business can provide.

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