

Maximizing the Value of Your Business

You have worked hard over the years to build a successful business. It's time to start thinking about reaping the rewards of your efforts. In many cases, you may conclude that the most desirable form of business succession planning for you and your family is to sell your business to a third party.

If you feel that you are ready to exit your business and sell to a third party in the next three to five years, below are five items you may want to consider to maximize the value derived from a subsequent sale of your business.

1. Financial information

Financial statements are the best indicator of the future performance of a business. The more comfortable a buyer feels with the financial information available about the business he/she is purchasing, the less risk associated with the transaction and thus the higher price the buyer is willing to pay. Buyers evaluating your business will generally want to review at least 3 years worth of financial information including annual income statements and balance sheets.

To increase the confidence of a potential buyer, you may want to consider:

- Upgrading the level of certification on your financial statements from Notice to Reader to Review Engagement or Audited Financial Statements.
- Increasing the amount of financial detail you can provide about your company by including information such as internal monthly income statements, sales by product/service line, sales by customer and operating budgets.

2. Business plan

Having a comprehensive business plan to accompany your company's financial information will increase your

credibility with potential buyers. Such a business plan should include the following:

- Brief history and overview of the company (including information such as timeline, milestones and organizational chart);
- Marketing summary of the company (including information such as product/service descriptions, industry overview, customers and competitors);
- Operations summary of the company (including information such as description of facilities, equipment and other physical assets, overview of operational processes, suppliers and description of employees and their roles);
- Financial summary of the company (including information such as historical financial statements and future financial projections).

3. Growth

It is easier to sell your business if it is exhibiting growing sales and profits as opposed to sales and profits that have declined or levelled off. Buyers will believe more in future growth potential if the business is showing increasing cash flow. You may want to consider planning for and implementing changes that will increase the cash flow potential of your company such as:

- Introducing new products/services
- Selling in new markets
- Increasing pricing
- Increasing marketing and sales resources
- Reducing expenses

4. Perceived risks to your business

Each business is unique but there are some general things that tend to increase the perceived risk to the



buyer and potentially lower the price they will pay for the business. Depending on the type of business you operate, you may want to take steps to reduce these perceived risks including:

- High concentration of revenue from a small number of customers
- Revenue concentrated in one product/service or in one industry
- Dependence on a small number of employees

5. Succession management

Your business will have more value to a buyer if you can show that the company's value and ability to produce cash flow is independent of your involvement in it. The value your business will tend to be higher if the employees can operate it without you. Conversely, its value tends to be lower if its performance is expected to suffer without your personal knowledge, skills and contacts.

How can you make a buyer feel comfortable that the value of your company does not depend on your involvement in it? Some steps you may consider taking are:

- Increasing the number of managerial staff in your company to allow for a seamless transition of your role to a management team.
- Focusing your efforts on training, delegating and supporting senior management and employees to assume leadership roles for customers and projects.
- Passing on operational knowledge and key relationships with customers and suppliers.

Talk to your trusted TD Waterhouse advisor about getting the process started to maximize the value of your business and to help you plan for your business succession.

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