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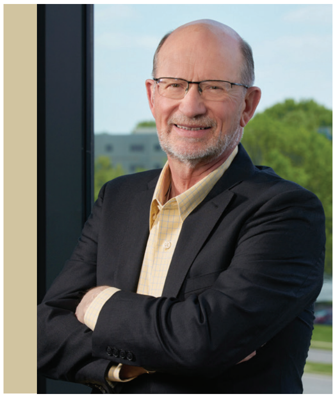
THINKING ABOUT SELLING YOUR BUSINESS?



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Five Tips to Enhance Your Company's Value Leading Up to the Sale

If you're considering selling your business in the next one to three years, now is a great time to enhance your company's value. Whether you plan to sell your business to a family member or an outside party, the following five tips can help you add value leading up to the sale.

Tip #1 – Update your corporate balance sheet

Take a detailed look at your corporate balance sheet and clean it up as much as possible. Are there any assets or liabilities that should be corrected? If your business maintains a lot of inventory, conduct a count to make sure it is accurately reflected. Over time, some businesses find they have obsolete or unsellable items a buyer would not want to purchase. These should be removed from the balance sheet.

Similarly, a buyer may not be interested in purchasing account receivables that are more than 90 to 120 days old.

If your balance sheet reflects any loans either from shareholders or loans to shareholders, you should be ready with a good explanation of why these are necessary.

Tip #2 – Review your profit and loss statement

The profit and loss statement plays an important role in the sale of your business because it shows the potential buyer how much cash flow the company can generate. While inventory, furniture, fixtures and equipment are important, cash is what's needed to pay for those items.

Typically, a business owner's largest expense is payroll. It's important to make sure your payroll doesn't exceed the national averages for your industry. For example, if the national average gross margin for your business type is 40%, your payroll should probably not be more than 20%. This number includes all employees and owners. Over the years, I've worked with business owners who have a 38% gross margin and a 28% payroll expense. They are probably not making a profit.

In the three years leading up to the sale of your company, try to grow your gross margin by 1% each year. Not only will this allow you to add to your profits while you own the business, it can also increase your future selling price.

In addition to increasing your gross margin, also set a goal of reducing your expenses by 1% to 2% each year.

By keeping your payroll and other expenses within national averages, increasing your gross margin and reducing your expenses in the years leading up to the sale, you will be able to present potential buyers with a more profitable picture, thereby maximizing the value you receive.

Tip #3 – Identify "add-backs"

Add-backs are typically expenses the company pays and deducts for the benefit of owners and family members. Common add-backs include gasoline and other auto expenses, cell phones, health and life insurance premiums, travel and entertainment, inventory for personal use, country club dues, etc. These expenses can quickly add up. When preparing valuations for our clients, it's not uncommon to encounter add-backs of $10,000 to more than $100,000. These add-backs can increase the value of a company significantly. For example, $30,000 in accumulated add-backs may increase the value of the company by more than $100,000.

In each of the three years leading up to your sale, work with your accountant to make a list of all the add-backs you can come up with and be prepared to show that list to the potential buyer.

Tip #4 – Showcase your employees

In a buyer's eyes, the quality of your employees is second only to your company's financials. As you approach the sale, it's vital to have the right people with the right training and the right salaries working in the right positions at your company. You may need to realign your people to make sure each employee is fully optimizing his or her talent and training.

As you assess your workforce, ask yourself the following questions about each employee:

- How long has the employee been with the company?
- What is this employee's specialty?
- What specialized training or experience does this employee have or need?
- Is this employee better suited for a different role at the company?
- Is the salary I'm paying in line with national averages for others in similar positions?

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Tip #5 – Clean up

After assessing your financials and your employees, a buyer will want to see your facilities, equipment and inventory. Similar to staging a home prior to listing it, it's important to make sure your buildings and equipment are clean and well maintained.

Add a fresh coat of paint to the inside and outside of any buildings. Trim up the landscaping and make sure the parking lot is in good shape. Make sure all equipment is clean and functioning. Organize the office and clear away any clutter.

I recommend implementing these five tips at least three years prior to selling your company. By doing so, you can potentially increase the value of your business and make it more appealing to interested buyers.

At Castle Valuation, we can help most business owners increase the value of their businesses prior to selling. We are a division of Creative Planning, a nationally recognized wealth advisory firm that delivers a team of credentialed, educated, experienced and action-oriented advisors, including CERTIFIED FINANCIAL PLANNER™ practitioners, certified public accountants, insurance specialists, attorneys and other professionals dedicated to helping you achieve your goals. We work together to help ensure all aspects of your business and personal finances are well cared for. If you'd like help with succession/exit planning for your business, or for any other financial concerns, please schedule a call.

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