MAXIMIZE BUSINESS VALUE PODCAST - EPISODE 60 Transcript

Announcer (5s):
Welcome to the maximize business value podcast. This podcast is brought to you by mastery partners, where our mission is to equip business owners, to maximize business value so they can transition their business on their terms. Our mission was born from the lessons we've learned from over 100 business transactions, which fuels our desire to share our experiences and wisdom. So you can succeed. Now, here's your host CEO of mastery partners, Tom Bronson.

Tom Bronson (36s):
Hi this is Tom Bronson and welcome to maximize business value. A podcast for business owners who are passionate about building long-term sustainable value in their businesses. So in this episode, we're going to walk through the timeline and an anatomy of a business sale. Other types of business transitions like insider transitions, family transitions will differ from this process. Although many of the steps will be the same, but this podcast is specifically designed for business owners who want to eventually sell their businesses to a third party. Selling a business takes more time than most business owners realize there are about 10 steps to a successful exit strategy, and they fall into three major categories, transition planning, prepare preparation, and exit process and the closing and beyond.

Tom Bronson (1m 28s):
So under transition planning, there's two steps define the exit strategy and the presale preparation under the preparation and exit step. There are a number of steps, six steps, broker banker selection, marketing preparation, marketing process, the letter of intent due diligence and the retrade and final negotiation. And in the final group, there are two

steps. The final group is closing and beyond the two steps are closing and then post acquisition integration. So let's run through each of these and discuss the details and the timeline.

Tom Bronson (2m 9s):
So step one is define the exit strategy. We always recommend that this start three to five years before the intended exit. Whenever I meet a business owner, one of the most common questions is how long in advance should they take? Should they take to start planning their exit strategy? Of course, the simple answer is three to five years before the intended exit event. However, it is never too early to really start thinking about your exit strategy. Most owners don't take the time to do this until it's too late or becomes mandatory because of health or age or worse death.

Tom Bronson (2m 53s):
The simple fact is 83% of attempted business transactions fail to reach the finish line because business owners that take the time to really plan in advance have a much better chance of success when the time comes. Unfortunately, also most business owners don't know what the real value of their business is. They don't understand how businesses are valued in their industry and they don't understand how to value their own business. So this is a great starting point to exit process is to get a valuation on the business.

Tom Bronson (3m 33s):
Now, I don't recommend getting a certified valuation, which can be very expensive and is also something that can be used in a dispute in a court of law. Rather, I strongly urge business owners to get a valuation that would tell them what the business would be worth if they transitioned it. Now you can get one of these by the way, for free, right on our website. Or you can engage with us for the first step in our four step process, which is called the transition readiness assessment or tra in it. We complete a 360 degree assessment of the business, identify the things to work on and provide an opinion of enterprise value.

Tom Bronson (4m 16s):

But I digress a great exit strategy includes the ideal desired outcome, which should define the desired type of exit, a target date and the exit valuation. Once you understand those three components, you're well on your way to defining a solid exit strategy. The next step is the pre sale preparation, which takes typically three to five years to execute actually sometimes shorter than that one to three years, but typically around three years to execute. Once you understand the current value of the business and have defined the ideal desired outcome, you'll have clues as to what needs to be done in order to prepare the business where the ultimate transition.

Tom Bronson (5m 7s):
Now for our clients in step two of our process process, the roadmap for value acceleration or RVA as we call it, we provide a step-by-step customized plan to get the business ready for transition. The RVA typically runs 12 to 36 months, which is step three in our process, the relentless execution phase by first identifying the things that need to be done and then developing a strategy to complete those things. You can prepare the business for the ultimate exit strategy. Now, most business owners don't take the time to step back and look at their business objectively the way a buyer would.

Tom Bronson (5m 53s):
It is so vital in this step to give fresh eyes on the business in order to identify the things that will improve the enterprise value and improve the chances of arriving at the ideal desired outcome. And it just takes time to prepare a business for a transition business owners should not short change this step in the process because it is critical to building long-term value and achieving the desired result. After all this podcast is called maximize business value, isn't it. The next step is an investment banker or business broker selection.

Tom Bronson (6m 37s):
And you should do this well to 18 months before the target date that you defined in your exit strategy. Now picking the right broker or investment banker is essential to achieving the desired outcome. Business brokers typically work with small businesses and investment bankers work with larger businesses in the lower middle market and in middle market businesses, which is usually defined as over 20 million and revenue.

Collectively, both brokers and bankers are known as seller representatives. Now they could be buyer representatives if they're representing a buyer, but in this case, they're a seller representative.

Tom Bronson (7m 17s):
There are many factors to consider, including industry experience, marketing strategy, success rate, and cost. Yes, it does cost to have someone represent you, but it is well worth the investment. And it's so important to select someone that the business owner really likes and trusts because they're going to spend a great deal of time with their broker or banker. And a great partner will have valuable info industry knowledge about how the industry is trading and they can provide a fresh opinion regarding valuation. Now it's not uncommon for seller representatives to have specific industry knowledge and relationships with prospective buyers.

Tom Bronson (8m 4s):
That's a big one once you've selected them. Now it's time to move on to the next step. The marketing preparation, now that you have the right seller representation, it's time to prepare the marketing effort. The time it takes to prepare the marketing effort as a function of I'll prepare the businesses for transition. Now, frankly, most business owners skip the first two critical steps above and jump right to selecting a broker or banker huge mistake. In my opinion, if the business owner takes the time to carefully plan the exit strategy, then relentlessly works to prepare the business.

Tom Bronson (8m 43s):
This step can be a breeze, brokers and bankers who step into an opportunity with one of our clients are always pleasantly surprised that the data room has already been assembled, which makes it so much easier to prepare the marketing material. Sometimes in as little as 30 days. Normally this step can take as long as three to six months. So once you've completed the marketing stuff, now it's time to start the marketing process and the marketing process can take several forms, including a broad scope marketing effort. Think of it as a shotgun approach, all the way down to a targeted rifle approach that targets a specific audience in a specific campaign.

Tom Bronson (9m 33s):
Now it's really up to the business owner and the seller representative to decide which marketing process works best for their business. Confidentiality is key because no business owner wants his employees, vendors, or customers to know that the business is for sale. And the best outcome of a Welmont run marketing process is a bidding war where multiple buyers are trying to buy the same business. The more attractive the opportunity, the more likely a bidding war. The next step is a letter of intent. Now that you've been out there marketing it's time for a letter of intent. This will come typically three to six months before the anticipated closing date.

Tom Bronson (10m 18s):
Now, depending on the timeline of the process, the type of sale desired, and the first shot across the bow from a buyer, maybe in the form of an indication of interest or an IOI, but it also may be a letter of intent or LOI. And IOI is simply a letter from the interested buyer offering a range of value who needs more information to get to a letter of intent. Now, skilled broker or investment banker will be careful to provide just enough information to get to the LOI. Now it's really, really, really, really important not to hide anything from the buyer before he submits a letter of intent.

Tom Bronson (11m 5s):
Yes, that's for release. If you disclose everything in advance warts and all, you can reduce the likelihood of a retrade at the end of the process after due diligence, more on that in the next two sections. Now you're ready for due diligence. Now that you have negotiated a letter of intent due diligence typically lasts from three to six months. I've seen some that are shorter. I've seen many that are longer than that. Now I'm really sorry to keep beating this drum, but a well-prepared business and a clearly defined with clearly defined processes, solid data, and ways to slice and dice that data will make the due diligence process so much easier.

Tom Bronson (11m 51s):
Now the objective here is to complete due diligence as quickly as possible. However, if you don't have the data required or the business is not prepared, due diligence can brag on or longer than six months. And by the way, the longer due diligence drags on the

more likely the deal will fall apart. It's just that plain and simple. If the buyer is an individual expect to do Dylan's to be relatively easy. If on the other hand, the buyer is a sophisticated buyer, like a strategic or financial buyer, expect them to bring a microscope of the due diligence process.

Tom Bronson (12m 34s):
Again, the faster a business owner can provide the information requested the faster due diligence will be complete. The next step is the final negotiation, which I like to call the retrade. This usually comes about 30 days before closing. After the due diligence process is complete. It is very common for buyers to come back and renegotiate the terms of the letter of intent. We call this the retrade. In fact, for many buyers due diligence is nothing more than an exercise to uncover things that had not been previously disclosed, thus giving the opportunity to renegotiate the deal buyers that are not ready for this step in the process are typically very emotional.

Tom Bronson (13m 28s):
And this is where a deal can explode. Now. However, if you understand that it's coming, although it's never going to be a pleasant experience, it will be over quickly. And hopefully you'll be on the path toward a final close. We advise business owners to come up with a hard floor. Number, a hard floor is the absolute bottom price that they would accept in order to do the deal. I also advise them to come up with this number, not on their own, rather include their financial planning professional in that process. So let's say for an example, a business is worth approximately $5 million.

Tom Bronson (14m 10s):
They've gone through all the steps outlined above, and they arrive at an LOI from a buyer for $5 million or in the $5 million range. If the seller has taken the time to establish the hard floor, which he hasn't communicated to the buyer, by the way, in this example, our hard floor is $4 million. When the read grade comes and the valuation goes down from 5 million to 4.3 million, for reasons that certain things were not disclosed before the LOI, that number is still above the hard floor and therefore is still a good opportunity to exit the business business owners that don't, that typically get very emotional when the retrade comes and oh, it's coming.

Tom Bronson (14m 58s):
And that's where they walk away from a deal angry and hurt. Now we're all about educating buyers on the process so that they can take all of the emotion out of the deal and make the best possible decision for their future and for their be the future of their business. The next step we're not done yet. The next step is the closing, which is hopefully right on target. Now that the final purchase agreement is in place. It's time to close the deal. This day in the life of many business owners is the best day of their life, as well as potentially the worst, perhaps the best, because they've now sold their business at a valuable ax or at a value acceptable to them, perhaps the worst, because they don't know what they're going to do.

Tom Bronson (15m 48s):
Next. It is so important to really define what comes next as part of step one. In this process, a business owner that clearly understands what comes next is ready to move on and as excited about the opportunities that lie ahead, business owners, that aren't prepared, find themselves waking up the next day, wondering what to do. Don't let that happen to you, make the closing the best day of your business life. And you can do that by really preparing an advance. And the last step, don't forget this one post acquisition integration.

Tom Bronson (16m 30s):
This starts on the day of close and can last for 12 to 24 months after closing. Don't forget this one. It is critical for the success of the transaction and many business owners remain with the business for some transition period, if not long-term, if the buyer is a financial or strategic buyer, there is much to do in order to integrate this business with potentially a larger business or the financial buyers models. If the buyer is an individual, the former owner should spend time to give them everything they're going to need to know in order to operate this business.

Tom Bronson (17m 10s):
So there you have it and the steps to a successful business exit and a sale process. Again, very specifically, this is the 10 steps for a business sale. Were any of them

surprising to you? Are you prepared to walk through all of the steps and not skip any of them? If you do, you'll be well on your way to a successful business transition. If not, you're just rolling the dice with your most valuable asset. So I encourage you to start today, call me for a free consultation, get started on our four step process or join one of our mastery classes today.

Tom Bronson (17m 53s):
Prepare like your business value depends on it because it does. This is the maximize business value Podcast, where we give practical advice to business owners on how to build long-term sustainable value in your business. Be sure to tune in each week and follow us wherever you found this podcast and be sure to comment. We love your comments and we respond to every single one of them. So until next time, I'm Tom Bronson reminding you to follow all the steps to create a great and satisfying exit experience while you maximize businesses.

Announcer (18m 34s):
Thank you for tuning in to the maximize business value podcast with Tom Bronson. This podcast is brought to you by mastery partners, where our mission is to equip business owners to maximize business value so they can transition on their terms. Learn more on how to build long-term sustainable business value and get free value building tools by visiting our website, www.masterypartners.com that's master with a Y masterypartners.com. Check it out.

Announcer (19m 4s):
<inaudible> that was perfect. I wouldn't make any changes on that.