Selling Your Business – 8 Things a Buyer Will Want to Know

Have you thought about what makes your business valuable? Most business owners can explain what differentiates their company from competitors. These differentiators may include brand, product capabilities, key people, technology or aspects of a service offering. However, taking a step back to look at your business through the lens of a prospective buyer – a more objective lens – is something most business owners do not do until the process of selling their business has begun, if even then.

Understanding what a buyer will want to know about your business *in advance* of undertaking a sale process is critical when you decide it's the right time to sell. Why? First, it is important to know what about your business is most valuable to potential acquirers, as well as what may be "deal breakers." These considerations would typically need to be assessed on an acquirer by acquirer basis, as they may differ substantially between interested parties. Second, you will be better prepared to respond to buyer due diligence. Understanding what information will be scrutinized may require internal organizational change; for example, you may begin to track additional business metrics, update certain reporting or organizational processes or proactively address strategic or operating challenges that you realize may be perceived as "weaknesses" by one or more potential buyers.

Summarized below are eight areas potential buyers will evaluate when considering an acquisition of your business. The amount of information that is ultimately shared with potential buyers is extensive, with the depth and detail increasing through each stage of the due diligence process. Strategic matters that have the greatest impact on value will be the main focus during early discussions, while risk assessment will become the primary focus during the later stages of due diligence.

1. **The Story**. What is your "story?" Your story is the first thing any potential buyer will want to know about your business. For a strategic buyer, this will be quickly followed by understanding how your business will add value to their organization. Specifically a buyer will need to assess the strategic impact of the acquisition, including whether your business will, among other considerations, drive growth, provide marketing, cost or operating synergies, or fill a gap in a product or service offering. For private equity firms, a rapid focus on growth opportunities will ensue. Without growth, financial buyers can't achieve their target return on investment. Whether strategic or financial, a weak story that does not address an acquirer's needs will end discussions. A compelling story, however, will increase interest and valuation and lead to multiple acquirers competing to close a transaction.

2. **Financial Performance**. Buyers will spend time analyzing the historical financial results of your business. This analysis is not limited to revenue and margin data, but will include a deep review of the income statement, balance sheet and statement of cash flows (if you don't have a three statement financial model, you need to prepare one!) to understand the true trends and growth drivers in your business. Although most privately held businesses considering a sale do not have audited financial statements, engaging an audit firm to prepare reviewed statements is a good investment. You also will be expected to provide a financial forecast for the next one to three years. When we are representing sellers, we often assist in preparing what we call an "aggressively defensible" forecast. An aggressive forecast can increase interest from buyers, but an inability to support the forecasted growth targets with clear assumptions and specific strategies will erode your credibility.

3. **Product/Service**. A buyer will want to understand the details of each product and/or service offered, including how each is produced and marketed, as well as any and all products or services in development. This information will shape the buyer's perspective on how strategic or complementary your business is to theirs and how it will be integrated post-transaction. This determination significantly impacts not only valuation but also acquisition risk, since integration issues are typically at the top of the list of items that concern buyers.

4. **Geography**. Where you operate and the geographies you serve are also critical considerations for buyers. An acquisition can provide a buyer immediate geographic diversification or a broadening of its customer base. If your business has been expanding geographically, the buyer will want to understand the historical return on investment generated from geographic expansion, particularly if the forecast provided anticipates further expansion. In addition, most buyers will want to separate your company's historical rate of growth between organic and inorganic (i.e. growth via acquisitions) growth since organic growth is more highly valued.

5. **Management Team and Employees**. Your management team is key to your business and typically a buyer will want to ensure that they fully understand the roles and responsibilities of both executive and second-level management for purposes of forward planning and integration. Identifying and addressing any gaps (e.g. key open positions, under-performance, etc.) within your management team prior to undertaking a sale process is advisable. Additionally, during due diligence a buyer will collect key employee-related information all the way down the organization chart, so ensuring that proper employment policies, procedures and best practices are documented and in place prior to conducting a sale process will save time and money (and may preserve the deal) during due diligence. Finally, there will be discussions about your future role with the business post-closing. Often buyers will not want to undertake an acquisition without at least a medium-term (two to three year) commitment from the owner/CEO to stay on; in other situations, however, the buyer might have more flexibility. In transactions with financial (e.g. private equity firms) as opposed to strategic buyers, the continuity of the management team is of critical importance.

6. **Technology**. Depending on your product or service offering and delivery method, technology may be a significant component of your business. If so, buyers will spend substantial time (and often money) during their due diligence to assure functionality, scalability and legal protection. Internally developed software and other forms of protected intellectual property that provide a competitive advantage is likely to be of significant value to a buyer. Given this focus by buyers, you should take the necessary steps prior to commencing a sale process to ensure your company's technology assets will withstand extensive due diligence.

7. **Customers**. During the initial stages of a sale process, customer information should be presented generally and on a no-names basis. This presentation should include historical trends among top customers, turnover and retention rates, key wins and losses, the level of concentration of the top ten and top 20 customers, contracted versus non-contracted revenue and the recurring nature of the revenue. Rapid turnover of accounts, high levels of concentration, lack of recurrence or contracted revenue, etc., will hurt the valuation of a business and often eliminate interest from certain buyers (including many private equity firms). Non-disclosure of these facts until the final stages of buyer diligence is delaying the inevitable and unwise. During the latter stages of the process you should

expect to be required to disclose actual customer names; just prior to closing, expect the buyer to make confirmatory customer due diligence calls.

8. **Vendors**. For certain businesses, a buyer may want to assess your vendor relationships and concentration, also often initially on a no-names basis. Buyers may be, for example, concerned with alternative sources of supply, pricing levels, and the nature and length of purchase commitments. If you are evaluating a sale to one of your larger competitors, there is often immediate accretion to operating margins due to their ability to gain greater pricing leverage with suppliers.

Although company characteristics and specific acquisition criteria may differ across industries, the items listed above are consistently discussed during a transaction because the topics cover the most basic "must know" information a buyer requires. Rarely is there a "perfect" fit between a buyer and seller. If your business fits a buyer's acquisition criteria, they only need determine whether the valuation is fair and within an acceptable range of risk. If the buyer's risk-reward requirements are met, the sale of your business will be negotiated and finalized.

The breadth of the information you will be required to share when selling your business is both broad and detailed. Although many items are quantitative (e.g. size, growth rate, margins, customer concentration, etc.), the ultimate value of your business is about more than just "the numbers." Being prepared to address the above eight items will strategically and successfully position your business for maximum value to interested acquirers.

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