



# GUIDE TO SELLING A BUSINESS

With our dedication to efficiency, collaboration and deep knowledge of succession financing, we'll take you where you need to go. Through our years of industry experience, our team at Live Oak has learned a thing or two about what makes a succession successful.

# DEDICATED TO THE DOERS™

Congratulations, sellers. You have started down a new path. After investing years of hard work to build a business with value, it is now time for you to consider your options.

This is an exciting time filled with possibilities, but it can also be a time of stress and uncertainty. Usually, an owner sells their business only once, either in stages or a single transaction. Live Oak Bank has worked with hundreds of business owners, and we created this guide with you in mind.

**Capital is just one way we invest in you.**

## Why Live Oak



### Service

We strive to provide unmatched service and an unwavering dedication to your success.



### Know-How

We'll take you where you need to go with our deep industry and product expertise.



### Efficiency

Our commitment to efficiency and transparency helps you avoid costly mistakes.

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## THE CHALLENGE OF SELLING

Throughout this process, there are two primary risks to be aware of: the risk of choosing a buyer who does not align with your company culture and your customers, and the risk that the buyer fails to pay you. Much of this guide will focus on mitigating these two potential pitfalls.

You must be clear and honest — with yourself and with potential buyers — about what is most important to you in terms of who you would consider an ideal buyer, the type of transaction you'd prefer, your vision of a transition, and how you're thinking about life after the sale. Taking time to prepare now will help you secure the maximum value for your business.

## PREPARING TO SELL YOUR BUSINESS

Taking time to research and prepare for selling your business could yield many benefits.

- It increases the odds of getting what you want in terms of buyer profile, price, deal structure, transition, and life after transition. You will be able to negotiate more effectively from a position of knowledge and preparation.
- It can help relieve fears and anxiety in both your staff and your customers and helps you better articulate the timing, transition and benefits for each of them.
- It can help you filter out the noise and distraction mentioned above.
- It boosts confidence that your search will end well and make for a more satisfying transition process.

Below we will discuss preparations for yourself, your business, your staff and your customers. Let's start with how you begin.

The first step is a bit of crystal ball exercise. Start with the end in mind and imagine a perfect day after you sell your company to a successor. Knowing where you want to be in retirement helps develop the roadmap for getting there. Next, create a retirement budget to make that end dream a reality. What will your living expenses be like once you complete your succession plan? What are your revenue sources? Will you receive any income from other employment? How much income can you count on from sources such as Social Security, annuities or your investments? Will your spouse earn income? It's important to ensure there is not a gap between your projected income and your projected expenses. Use your projections to inform the way you plan for a succession.

You have options when it comes to your succession strategy. A staged succession is one way to preserve the business that you worked so hard to build. The staged strategy allows your successor to gradually step into ownership and provides you with a gentle path toward exiting the business. This strategy tends to create a positive client experience since clients have time to get to know your successor. As a result, attrition is usually very low.

Selling your entire business is probably the simplest option. This is typically the fastest way to transition the business, and you can invest your proceeds. You may decide to stay on as an employee, or you may choose to engage in your post-succession life right away. If you have an immediate need, health issue or family issue, a straight-on sale can be the most satisfying strategy. Again, you must find your qualified buyer and communicate the change effectively to staff and clients.

# PRICING YOUR BUSINESS

It's essential to think through deal structure and determine what is most important to you. There are three key components to any deal structure; price, terms and taxes.

## Price

Companies have a price to earnings multiple and those multiples vary. For example, the average price of all homes sold in the US in 2019 was \$123 per square foot, according to Realtor.com. That number may or may not apply to your home. The same is true for your business. The multiple is just a starting point, not a valuation.

At Live Oak Bank, we strongly recommend hiring an experienced valuation specialist. You need to know what you've got before you go to market. Often, a valuation specialist can give you good ideas for increasing your business's value as you prepare.

Keep in mind that even the best valuation is not the same as a price — and it typically does not equal the final amount paid. Think about how important your company's price is to you. Here are some questions to consider:

- Would you sell to a buyer who does not fit your culture to get a higher price?
- Are you willing to accept a long-term payment plan from a buyer, with all its inherent risk, to get a higher price?
- Are you ready to take a less favorable tax structure to get a higher price?

## Terms

It is just as important to think about the deal's terms as it is to think about the price you want. Deal terms govern how a buyer will compensate you for your business and how the buyer and seller will distribute risk. If the buyer bears most of the risk — by paying for the business quickly — they usually can ask for a discount. If the seller bears most of the risk — by maintaining equity in the business for an extended period — they can usually ask for a premium. How much risk in the transaction are you willing to bear?

## Taxes

Taxes are another critical component of the deal. Some tax allocations, such as goodwill, are subject to long-term capital gains treatment. Other allocations, such as consulting, are taxed as earned income and may be subject to federal and state income tax, FICA and Medicare tax. Are you willing to take a lower price or increased risk in the deal in exchange for a favorable tax allocation? These are important issues to discuss with your accountant and attorney, as well as your spouse or partner. Your accountant and attorney will have a lot to say about what an optimal deal structure for your specific situation and desires looks like.

# MAXIMIZE THE VALUE OF YOUR BUSINESS

Buyers are looking to acquire revenue that is affordable, transferable, predictable and lasting. How your business is structured, your clients' demographics, growth potential, and other factors will influence your business's value. You can take steps now that will prepare your business for acquisition and possibly create a premium for yourself.

Start with the mix of products and services — ensure that your products are easy to understand and create recurring revenue. Next, assess your expense structure. Identify any expenses that you can reduce or eliminate so they won't transfer to the buyer. Review your service models and make sure they are easily transferable and efficient. Be sure to document your workflows and other business processes. Some buyers find good business systems very attractive and will pay more to learn them and adopt them for their entire business.

These are some of the items that will create a **premium** for your business:

- Strong business potential
- Accelerating or steady growth
- Ease of transition
- Ease of business
- Efficient, well-documented workflow and integrated systems

These are a few of the items that will create a **discount** for your business:

- Declining revenue
- Expenses that the buyer will be required to accept (lease, staff, etc.)
- Service model that is difficult or expensive to replicate
- Concentration in customer demographics

# PREPARE YOUR TEAM FOR A TRANSITION

Staff can make or break a business, and staff can make or break a business's sale. It is essential to take time to think about your team and prepare them for the transition.

A highly skilled team is considered an asset, and the buyer may be interested in retaining your people. Take time to assess your staff and determine who should possibly stay through a transition—then secure them with retention agreements or non-competes. Members of your staff who have strong relationships with customers, who know your business systems or know your product suite may be good candidates for remaining with the business through the sale and transition.

Take some time to assess the skill level of your staff, as well. Identify those who may benefit from training, which could make the business more attractive to buyers. A motivated team can be the key to a successful sale and transition, while unmotivated staff can delay the transition and possibly even sabotage the sale. Now is the time to determine the level of enthusiasm and dedication you can expect from each

staff member. Take steps to create the best possible environment for a transition.

Communicate with your staff about the sale of your business. Here are several topics to discuss with your team when you announce the transition.

- Why you are selling
- What you envision happening to them
- How involved they will be in decisions
- How this can be a positive development for them

Be open and available for honest, hard questions from your staff. It may take a while for the news to sink in. Remember, most people need time to process change.

It's also important to prepare your customers as well as your family for this change. Develop key messages for your customers and be prepared to discuss your reasons for selling and how this will be a positive step. Your family may be an essential part of your support system, so take some time to talk through this transition with your loved ones.



# DEFINE YOUR IDEAL BUYER

When you announce that you plan to sell your business, you may have an abundance of interested, but unqualified buyers approach you. Their attention can be very distracting, which is why it's crucial to define your ideal buyer.

There are several ways to assess a potential buyer and determine whether they are actually qualified. Consider the questions below:

- Are you expecting the buyer to hire your staff? What if they already have enough staff and do not want yours?
- How much experience does the buyer have?
- Is there a cultural fit between your business and the buyer's business?
- Do you have similar value propositions? Do you have similar business models?
- Do you have a similar ideal client or target market?
- What can you note about the buyer's character and integrity?
- Is the buyer competent and able to take on your customers and serve them well? Do they have the capacity? Do they have the capability?
- Can the buyer afford your business? Does he/she have any bankruptcies, tax liens, foreclosures, or short sales?
- Does the buyer already have a relationship with Live Oak Bank or another financial institution that ensures he/she has access to financing?



# SOURCING BUYERS

To find the right buyer, start by considering your sources. The source of the buyer will drive the type of deal. Here are a few references to consider:

## Your Staff

Selling to the next generation in your office usually provides the best cultural fit and client experience. Keep in mind they may not be the top bidder or most experienced buyer.

## Natural Market

Industry connections that you know and respect usually allow for a good cultural fit and can make for an easier transition.

## Listing Services

This option tends to broaden your scope and focus on price — but may not provide the best cultural fit or transition.

What are you looking for in a buyer? Culture, character, competence and capital — these four elements can help you find your best-fit buyer.

## Culture

This refers to the key elements that make up your business, such as your value proposition, business model, service model, advice philosophy, etc. Even your office dress code counts.

## Character

This refers to honor and integrity. Put your customers into the hands of a successor who will treat them with honesty and ethics.

## Competence

Determine whether the buyer has the capability and capacity to serve your customers. The buyer should be ready to demonstrate their competence to your satisfaction.

## Capital

Tells you whether the potential buyer is a browser or a buyer. Live Oak Bank can assess your buyer's ability to acquire before you get too far into negotiations, saving you time and frustration.



# FINDING THE RIGHT BUYER

Work to identify and prioritize the characteristics of your ideal buyer. The attributes you may want to consider include:

- Number years of experience
- Number of current staff
- Credit score
- Percent of revenue that is spent on overhead
- Other important considerations

There are three stages you can work through to filter potential candidates into three buckets:

1. Top Candidate - *Move on to the next step*
2. Maybe - *Worth another look if a Top Candidate does not work out*
3. Filtered Out

Here's how you begin to bucket the candidates:

1

## Buyer Questionnaire

- Start by sending out a buyer's questionnaire to all interested parties.
- Set a firm but fair deadline for buyers to return the questionnaire.
- Responsiveness is a key indicator of the quality of the buyer. As you receive the completed questionnaires, compare them with your prioritized ideal buyer profile.
- Place each buyer that completed a questionnaire into one of the three buckets.

2

## Initial Background Check

- This is a high-level background check. It does not replace the deeper due diligence you will do when you have identified one or two qualified buyers.
- Review the prospective buyer's website and do an internet search of the prospective buyer.
- Make notes on anything that either verifies or counters their questionnaire responses.
- Place the buyers who made it to this stage into one of three buckets above.

3

## Interview Top Candidates

- By now, you have most likely had several conversations with potential buyers, but do not make a final choice without a formal interview.
- The objective of your interview is two-fold: to rectify any potential conflicts and gather additional information on attributes that could be a key factor for you.
- Get a feel for the candidates' presentation style and how they respond when challenged.
- Listen to those who will best help you achieve your post-transition goals, who will best serve your customers, and who are the most financially qualified.
- Typical interview questions you may want to ask include:

- |  |   |   |
|--|---|---|
| 1. Tell me about your ideal client.      | 4. What is one thing you would change about your business if you could? | 6. Tell me about your capacity to serve my clients. |
| 2. Tell me about your value proposition. | 5. Tell me about your product and service offerings.                    | 7. Ask about anything you found on Google.          |
| 3. What do you like about your business? |   | 8. What is your credit score?                       |

4

## Assess Ability to Acquire Through Live Oak Bank

- Before negotiating the deal, it is prudent to understand a potential buyer's financial strength. The process can often be completed in just a few days. You will ask the buyer to reach out to Live Oak Bank and we will help them determine what they can afford.



## TRANSITION: YOUR LAST ACT OF SERVICE TO YOUR CLIENTS

You have spent years delivering exceptional customer service, so you want to ensure that your successor lives up to those standards. Start planning for the transition in the early stages of negotiation. It's also essential that your employees understand your motivation behind selling the business and selecting the buyer.

Typical key messages to your staff could include:

“I'm planning for a fulfilling retirement...

“I have done rigorous due diligence and have identified [buyer] as my successor.

“[Buyer] will do a good job because [list attributes]...

## CONCLUSION

In this guide, we helped you plan and execute a succession that will ultimately benefit your clients, your family and you. We're succession experts at Live Oak Bank. Across all regions and in nearly every industry, Live Oak's lending team can accompany you on the journey to selling your business. You deserve extraordinary service and expert advice. Let us guide you through the succession process and together, we'll ensure a seamless transition.

To learn more, visit [liveoakbank.com](https://liveoakbank.com)