



Our recent M&A Outlook 2016 revealed that one third of the 600 CEOs surveyed are currently selling or open to selling their business. If you're part of this group – say a baby boomer looking to retire or a business owner seeking liquidity to move on to new ventures – it's essential for you to have a strategy in order to successfully sell your business. Based on our experience, here are four key components to consider.

HIRE ADVISORS EARLY

Many middle market owners are hesitant to hire advisors because of the high fees, as well as the mistaken belief that advisors are merely networkers helping business owners find a buyer. The fact is the return on investment from hiring experienced M&A advisors – investment bankers, consultants, attorneys and accountants – is typically extremely high. The complexity of trying to sell a business, coupled with the distraction of running a business at the same time, is a key reason why hiring an advisor is in a business owner's best interest.

Ideally, it's recommended that business owners begin preparing their business for sale at least 2 years before they're ready to sell. Unfortunately this timeframe is not always realistic. What's important is to work closely with legal, accounting and financial advisors to evaluate the company's worth, develop specific goals, determine the timing of the sale, create an ideal sale process plan and prepare the correct marketing materials for attracting serious potential acquirers.

M&A advisors can even protect business owners from themselves. While owners are experts at how to run their business, they don't necessarily know how to realistically price, market and sell it. Hiring a professional team helps give business owners the emotional distance and objectivity they need to successfully sell their business.

SET REASONABLE PRICING EXPECTATIONS

All too often, many business owners are overly optimistic about their business' worth. They believe they can get top dollar for their company and thus go to market with unrealistic expectations. An advisor can help them perform a valuation based on strong due diligence, which allows them to ground the potential sale – and their expectations – in reality. Advisors will look at the business and apply one or more of the following valuation methods:

- **The Asset Approach** focuses on valuing the business based on its assets – both tangible and intangible. While valuing tangible assets is simple enough, intangibles, such as trademarks and copyrights for internally developed products and proprietary ways of doing business, can be extremely challenging. This approach typically involves asking the question, “How much would it cost to replace all of these assets to produce the same profit for the new owners?”
- **The Income Approach** focuses on the business' income potential in a certain number of years. The question typically involved here is, “If I invest time, money and effort into owning this business, what will the economic benefits be?” This method is more risky than others because while it works off the expectation of greater income in the future, it must be translated into today's value – capitalization and discounting are used to account for this risk.
- **The Market Approach** focuses on determining the business' worth in the current marketplace. It requires an answer to the question, “What are other businesses that are similar to mine worth?” This approach is typically based on the principle of fair market value – the expectation that the market will bring about equilibrium between what buyers are willing to pay and what sellers are willing to accept.



Valuation is both a science and an art, so it's important to have an experienced advisor who can apply the different approaches to arrive at a fair and accurate valuation. Businesses whose asking price is in line with market expectations can easily defend their valuation and are more likely to experience a quicker and more painless sale.

PREPARE AND PRESENT YOUR COMPANY

When prepping a business for sale, owners should ensure it looks its best. This means all financial statements must be current and audited, and any legal statements – incorporation papers, permits, licensing agreements, leases, customer and vendor contracts, etc. – must also be up-to-date. It's also critical to have documents pertaining to employee onboarding, including at-will work agreements, intellectual-property contracts, confidentiality and non-compete agreements, as well as equity, options and vesting agreements, readily available.¹

In addition to having all business process, accounting and legal documents in order, the business must look its best when searched in the public domain. Potential buyers will Google the company they're considering acquiring. When they do, it's important that the company presence project the following:

- **Strong Appearance.** The company should have consistent and attractive branding as well as a strong company website.
- **Visibility.** The brand should appear in a Google search, whether it be the website or articles published about company content, people, etc.
- **Integrity.** Buyers want a brand with integrity and minimal liabilities. They do not want to see pending lawsuits, scandals, class actions or scams. Ensure the business settles any outstanding items, including tax payments, before putting it up for sale.
- **Social Media Following.** Buyers want a company that has a strong following. Activity on social accounts helps show the popularity of the brand.²

ENSURE YOU HAVE MULTIPLE POTENTIAL ACQUIRERS

With the help of an advisor, companies should build a list of potential acquirers. This list should be diverse and include buyers from different industries with varied strategies and interests. Some buyers offer strategic benefits while others provide financial benefits. Different types of buyers typically make less uniform offers, which in turn provide the seller with a wider swath of offers to consider when the time comes to sell.

Having a diverse list also helps to ensure that the goals of the business owner are honored. In the beginning of the selling process, an owner and their M&A advisor determine the owner's goals for the sale. With different types of buyers, the business owner can gauge the offer from each potential acquirer against predetermined interests and strategies. When sellers fully understand all available options and how they align with their goals from the sale, they will feel a greater sense of satisfaction with the process as well as greater conviction that they have chosen the correct buyer.

Our recent survey found that being undervalued was the top concern for sellers going into 2016. That's why advisors are a necessity. Sellers seek the most for their business, but it's critical that they maintain realistic expectations for what their business is worth in the current marketplace. Advisors will be with company owners every step of the way, working to ensure the business looks its best to potential acquirers while bringing forth a diverse and practical list of potential buyers.

And it goes without saying that selling a business can be stressful and emotional for a business owner. Having expert advice and understanding all their options can give owners the peace of mind that, in the end, they have made the best possible decision for themselves and their business.

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¹ 5 Tips for Selling Your Tech Company, <https://www.entrepreneur.com/article/269501>

² 4 Ways to Get Your Business Ready to Sell, Forbes, <http://www.forbes.com/sites/neilpatel/2015/10/22/4-methods-to-sell-your-business-for-a-huge-profit/#1017da7d35b4>