Whether you are a corporation looking to sell off a non-core business holding, or an owner looking to sell the company you’ve built, you want the same thing:

First, to intelligently consider, compare and evaluate all your options.

Then, if it is a sale you desire:

To sell at an optimal value.

To ensure your employees are fairly treated.

To achieve the sale without endangering the business, its competitive position, or its intellectual property.

To canvas all the possibilities with utmost discretion.

To do it all in a time- and resource-efficient way.

To get back to your core business. . .

. . . or to your new life.

Then there are the many tactical questions and considerations.

The following are only some of the questions and concerns we have gleaned from our clients and personal experiences over the years, as advisors, principals and private company executives:

What is my company worth?

If need be, how do I increase the value of my company?

When is the right time to market and sell the company?

How do I do it, exactly?

What is the optimal process for me?

Where do I start?

What are the key steps?

How do I protect myself and my company?

How disruptive will this process be?

Can I do it with my team, or do I need an advisor?

What are the costs of this process and the terms of engagement?

What are the timelines of this process?

Which of my employees do I bring into the loop?

Are the market conditions right for a deal?

What are the current deal terms?

How should I structure the transaction, cash vs. shares for example?

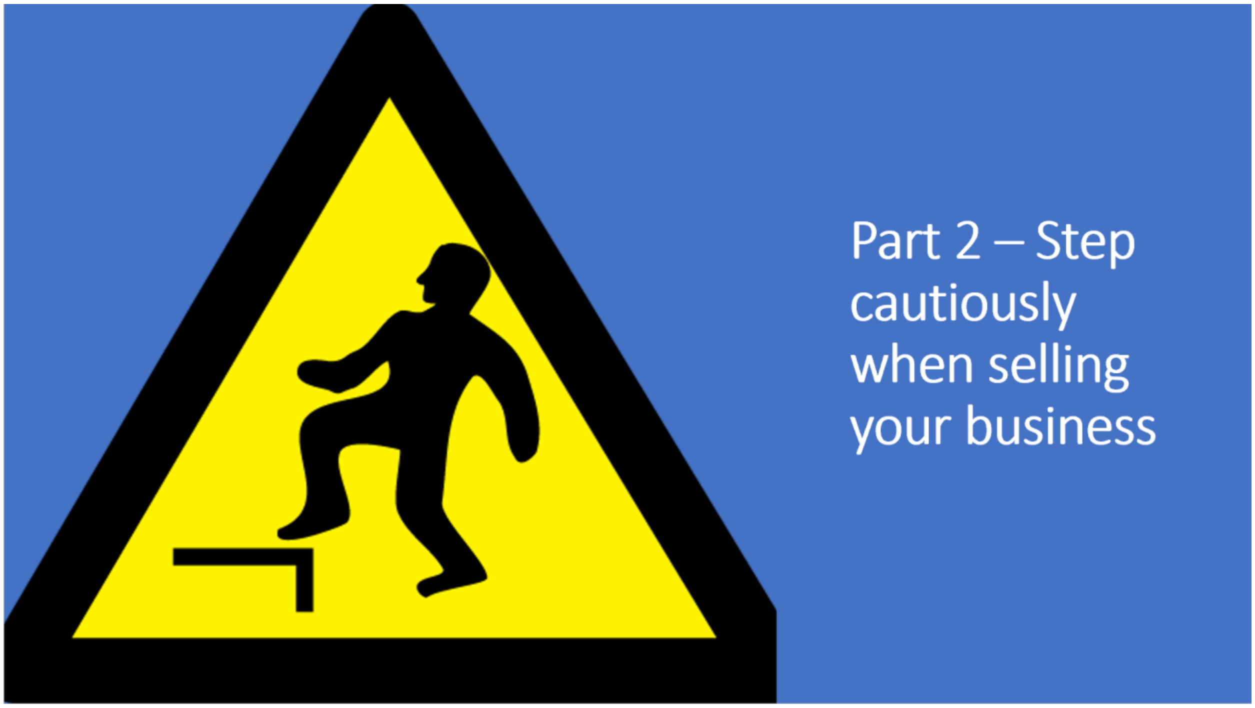
What can I be doing now to get prepared?

Where do I go from here?

Over the next ten instalments, we will attempt to provide insights on many of these and other important questions.

We can't cover all the bases here, but hope we can illuminate the topic of selling your private, mid-sized company and planning for the exit, and providing insights on areas for further examination.

Watch for upcoming instalments, and happy reading!



The first golden rule to selling your company is to treat your financial information like money — don't hand it out to everyone, and don't leave it hanging about.

Once small to mid-sized businesses are in position to confidently field unsolicited calls and indications of interest in buying their companies, the next step is knowing what information should be shared, and when.

As a preliminary step, all SMBs should do a thorough scrub of their corporate and sales presentations for sensitive financial information.

It is surprising how much of this information is included in presentations. In the heat of the hunt for a sale or a hire, employees can give away too much in trying to convey the strength of the company.

Often, there is no central vetting at smaller companies about what is fair game to disclose.

It is equally surprising to see where such presentations end up.

As people move from role to role, company to company, they often take and share these documents with colleagues and investment bankers.

Once presentations are scrubbed, you can more meaningfully control what information gets into the hands of potential suitors.

The second rule is that the most treacherous thing you can do with your business is to try to sell it.

This is particularly true when selling to players in, or close to, your industry.

There are plenty of stories about business owners that compromise their business or its value by getting too excited about the prospect of a sale and leaving caution to the wind.

They soon begin treating the interested party like a partner, and the deal as done, and stop filtering what they share.

It is a delicate balance.

If you have a good business, the more information you share, the higher the likelihood of a deal.

The corollary is the more you share, the higher the likelihood the information is misused.

This can include companies:

- Copying proprietary software code or using the core logic and architecture to hasten development of their own product.
    - Many companies have used acquisition discussions as an excuse to do unauthorized research and development.
    - You may think you are selling your company, but actually you are giving your recipe to another restaurant for free.
- Getting customer or price lists, and profit margins by product or customer in order to better compete with you.
- Finding out your company's financial condition and using it to spook customers or prospects, or poach employees.

So, how do you proceed, given all this?

Share virtually no specific financial information in the early phases of an unsolicited discussion, or speak in broad ranges if you need to.

Serious buyers will want to talk first about fit (by market, product line, strategy, or even personalities) and be willing to wait for full disclosure.

Those with other agendas will tend to jump right to asking about specific customers and profit margins.

If things continue, the discussion will organically get to sales and EBITDA.

These are the two most common metrics for assessing and valuing private companies, although certain industries will have specific metrics.

Make sure you speak in fairly wide terms even at this phase.

The prospective buyer should also be talking about their acquisition criteria in terms of the ideal target sales, EBITDA margins and historical growth rates.

At this point or even the previous step, you should be asking the party to sign a nondisclosure agreement.

But keep in mind you are still relying on the kindness of strangers, even after the NDA is signed back, when you disclose sensitive information.

It is customary to provide more detailed information once you have the NDA, including financial statements for the past several years, product information and specs.

. . .

It is generally best to have a formal Confidential Information Memorandum (or "CIM") prepared ahead of any serious discussions.

What should still be left out or redacted are customer names and source code, or other proprietary blueprints to your product or service offering.

Sensitive information on margins by product or customer could also be aggregated in a way that it is not obvious who or what the information specifically applies to.

You should only be conveying the strength and health of your business, not its secret sauce yet.

Around this time, the parties should be entering into a formal Letter of Intent.

It is important to note that in any sale discussion there is a point where you need to drop the kimono completely, to allow full and final due diligence on all aspects of your company.

This may include having the buyer's or outside third party software engineers review your code and testing your platform in-depth, and the same with reviewing specific and sensitive financial information.

Even speaking directly with some of your customers. Including your best ones.

There is no guarantee having done all this, that you will not fall prey to hidden agendas. But this way, you at least have the opportunity to get a feel for the prospective buyer, and for imposters to slip up and show their real hand.

And they often will if you know what to look for.

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If you want to discuss selling your company further with us, contact:

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