

# MarketWise



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## Questions to Consider Before Selling Your Business

The process of preparing to sell your business is not just a significant financial undertaking, but an emotional one. It's best to begin the preparation process far in advance of selling--we recommend that, if possible, clients begin planning for the sale of their business as early as five years prior to their target sale date. Because emotions will play a role, it's helpful to invest time up front to resolve key issues before formally moving forward with the sale process. A few items to come to resolution on include:

- What will my employees think when they find out the business is on the market or sold?
- What will I do with myself after the company is sold?
- What "skeletons are in the closet"?
- Is the company in good enough shape to be sold?
- What needs to be fixed, and what can be fixed?

The best way to resolve these emotional issues is to understand your own motivations and goals, and to make an honest evaluation of the strengths and weaknesses of your business. With the help of an experienced advisor, identify key areas where you can make improvements (whether financial, operational or physical) that will have the greatest impact on your business' value. Then, take action. Lay out a strategy and timeline for accomplishing those changes prior to selling. Recognize what can be changed, and know what your limitations are.

Once you're ready to begin the formal sale process, a new set of concerns comes into play. You'll need to consider the following:

- **What are you selling?** Some sellers will want to package the business and real estate together as

part of their exit strategy. Others keep the real estate as a source of income, selling just the assets of the business.

- **Who should we sell to?** Generally there are three types of potential buyers:
  - **Synergistic buyers** can be competitors or other companies in your line of business or that use your business as part of their process. Typically, the synergistic buyer is looking for the opportunity to acquire your customers, workforce and possibly location. The edge the synergistic buyer has over the other types of buyers is the potential to reduce costs through the elimination of duplicate functions.
  - **Financial buyers** include private equity groups and other buyers with the financial backbone to finance a deal. Typically, the financial buyer is looking to enhance the cash flow and the corresponding value of the business. Many times the financial buyer has a 5 to 7 year time horizon to hold the business before selling it.
  - The third category comprises all other types of buyers. These buyers generally have one thing in common--they do not have much money to put into a deal. Therefore, they rely heavily on seller financing. As you can imagine, this type of transaction is the most risky.
- **What is our company worth?** Here, you'll definitely want to get an experienced business valuator and M&A advisor involved. Their knowledge of the many and complex factors that comprise business value, and the business sale process, will be invaluable as you move through the process.
- **How do we find a buyer?** While you may have contacts within your industry or region who you'd consider good candidates to purchase your business, again, the expertise of an M&A advisor

can greatly expand your opportunities and help you think "outside the box" in this area.

- **What do we share with potential buyers?**

Typically, a confidential information memorandum is prepared and made available to all parties that sign a nondisclosure form. The information in the memorandum is detailed enough to allow a potential buyer to make a decision whether to continue the negotiation process. You want to be careful not to disclose trade secrets or customer names in the memorandum. This information will be provided upon the signing of a letter of intent.

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## IRS Reaches Out to Millions of Employers on Benefits of New Health Care Tax Credit

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WASHINGTON — The Internal Revenue Service this week began mailing postcards to more than four million small businesses and tax-exempt organizations to make them aware of the benefits of the recently-enacted small business health care tax credit.

Included in the Patient Protection and Affordable Care Act approved by Congress last month and signed into law by President Obama, the credit is one of the first health care reform provisions to go into effect. The credit, which takes effect this year, is designed to

encourage small employers to offer health insurance coverage for the first time or maintain coverage they already have.

"We want to make sure small employers across the nation realize that — effective this tax year — they may be eligible for a valuable new tax credit. Our postcard mailing — which is targeted at small employers — is intended to get the attention of small employers and encourage them to find out more," IRS Commissioner Doug Shulman said. "We urge every small employer to take advantage of this credit if they qualify."

In general, the credit is available to small employers that pay at least half the cost of single coverage for their employees in 2010. The credit is specifically targeted to help small businesses and tax-exempt organizations that primarily employ low- and moderate-income workers.

For tax years 2010 to 2013, the maximum credit is 35 percent of premiums paid by eligible small business employers and 25 percent of premiums paid by eligible employers that are tax-exempt organizations. The maximum credit goes to smaller employers — those with 10 or fewer full-time equivalent (FTE) employees — paying annual average wages of \$25,000 or less. Because the eligibility rules are based in part on the number of FTEs, not the number of employees, businesses that use part-time help may qualify even if they employ more than 25 individuals. The credit is completely phased out for employers that have 25 FTEs or more or that pay average wages of \$50,000 per year or more.

Eligible small businesses can claim the credit as part of the general business credit starting with the 2010 income tax return they file in 2011.

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## Upcoming AMR Workshops & Group Meetings

May 24-25	AE BootCamp 4.0 – AE of the Future*	Baltimore, Maryland
September 20-21	AMR Management Roundtable*	Chicago, Illinois
October 22-23	AMR Management Roundtable*	Scottsdale, Arizona

\*Check the AMR website for details on these meetings, including agendas, costs, and more.