

## Keep Your Business Financial Shape in Mind When Selling Your Business

Judgment day has come...

You have decided it is time to sell your business and get out of what you've been doing for the last 20+ years. You feel it is time to move on and start retirement or something different.

Here are 3 reasons you shouldn't just go into retirement mode and let the business slack before selling:

1. **Prospective buyers are looking for positively increasing revenue and income businesses.** If you let your business slip in the last couple of years, and in the year you are looking to sell your business, there isn't going to be too many hard pressed buyers that are going to get excited about purchasing your business. Buyers are looking for a bargain and to get the best deal they can, but if you've slacked off the last 2-3 years and haven't made the effort to increase revenues, or keep them steady, and sucked all the profits out of the bottom line, many "good" buyers may pass your business over even if you have it "priced to sell." Even positive trending businesses have a difficult time selling. Don't make it any harder on yourself.
2. **Lenders looking to finance the buyer will want to see the business isn't diving.** Working for one of the 4<sup>th</sup> largest SBA lenders in the nation, I had firsthand experience with this. Whenever I received a business acquisition request, the first question I had was, "What are the revenues doing?" If they were on a downward trend, or if I had a couple years down, it always set off alarms and concerns for my underwriters. This is important to you, the seller, because it can be the determining factor if the business qualifies for the loan or not. You may be forced to take back more money than you anticipated due to the trends in your business. It may even delay the sale of your business. Revenue trends and profitability should be some of your biggest concerns when you have decided to sell your business.
3. **Your sale price depends on it.** In many companies, the historical earnings trend is the most important financial variable used to determine the value of the company. A company's future earnings should reflect either an upward or a downward trend from the previous year's earnings. This will be the incremental base that a valuator will use to determine what the company may be worth. Not only will this serve as an indicator for a business valuator to determine the business's market valuation, but it will also be the main due diligence the buyer will delve into when determining what they want to offer for the business. You may have one price in mind, but if your revenues and net profits can't support this price, then there may have to be room for negotiations.

Whether sales are trending upward or downward, have some documented evidence that shows the reasons for the trends in the business. Upward trends require less documentation, but having this in place will help a prospective buyer, and lender, get comfortable with what is happening in the business.

Best regards,

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