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Top Ten Seller Misconceptions

1. Sellers think that selling their business is like selling their house. Nothing could be further from the truth. See the companion piece in *For What It's Worth*: "**Why Selling Your Business is Not like Selling Your House**". You need to get professionals involved to assist in the process if you want it to be successful.

2. Sellers think they get a "**free bite at the apple**"—that they can entertain a possible bid to buy their business and, if it doesn't work out, they can go back to business as usual. This is a fable. Once you embark on this effort there is no turning back. With the speed of today's communications, everyone of interest—managers, employees, customers, competitors, vendors, etc.—will know before your first meeting with the potential buyer is over. Then the fallout begins and you end up with a lot of empty spots in the employee parking lot and a lot of lost customers. Pursuing a sale alternative is like jumping out of an airplane. There is no going back. Your parachute has to work. So don't start what you are not prepared to finish and let professionals guide you through the process to help mitigate some of these issues.

3. Sellers believe that all approaches by potential buyers are genuine. Another fable. It is highly probable that the potential buyer has approached your business along with many others like it. The potential buyer will window shop until he has learned enough to benchmark your business, and then he will cherry pick the best of his possible acquisition candidates. You may not be that cherry. What is your **Plan B** if that buyer disappears? Do you have a back-up bidder?

4. Sellers believe that the **high initial valuations** placed on their businesses by potential buyers will be the actual transaction value. What do you think this valuation is based on in the absence of any real financial information? Even if the valuation is only expressed in terms of a multiple of EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization), it is not necessarily real without further information on growth, margins, customers, products and markets. Take preliminary valuations for what they are worth—not much.

5. Sellers believe that running a **competitive process** for the business will be expensive, time-consuming and damaging to the business because of the market exposure. Another bad instinct. Running a process not only produces a higher value in most cases, it also gives a seller the flexibility to pursue a

number of different alternatives if the first choice does not work out as planned. With respect to exposure, there will be some no matter how you proceed.

6. Sellers believe that their business is **ready for prime time** (a possible transaction) without making any effort or spending any money to prepare for the running of a transaction gauntlet. See the companion piece in *For What It's Worth*: "**Is Your Business Ready for Prime Time?**" Simple questions to ask yourself are whether you can close the month's financials in three days and whether you can produce detailed monthly financials going back 2-3 years along with detailed customer and product profitability information. Remember that every "adjustment" made to your EBITDA numbers will have a multiple effect on the transaction value. In a 6x EBITDA multiple deal, a $50,000 bust in EBITDA will be a $300,000 reduction in value. Also remember that late in the game, these adjustments are all negative. There are no "add-backs" at the end of the process.

7. Sellers believe that the price is the only really important factor in their consideration of a buyer. Another myth. The **terms of the deal—**including continued seller involvement in the business, escrows, contingent consideration, post-closing liabilities, the fate of the company and its constituents under a new owner, non-compete agreements, etc., can all influence the overall attractiveness of the deal. Many of these terms only come to light late in the process. Another reason to have a backup bidder who might be more reasonable.

8. Sellers underestimate the **financing risks** presented by some potential buyers. Among the earliest questions you should ask is whether the buyer has financing lined up for the deal. Even though this may be a relatively attractive market for arranging financing, all deals are not created equal. Smaller, lower middle market deals will not support the same kind of leverage as larger deals reported in the press. If your buyer cannot demonstrate committed financing, this is a major red flag. You may end up being the bank on part of the deal and holding seller paper.

9. Sellers underestimate the intensity and completeness of the current **due diligence process**. They believe that their business has no weaknesses and, if it does, the problems will be undiscovered. This is fantasy. The wonder of computers and analytical software has demonstrated time and again that if there are any anomalies or inconsistencies or errors in the financials, they will be uncovered. By the time the buyer is done with his due diligence, it is possible that he will know more details about your business than you do. There will be no secrets and you will have to try to explain things you never knew about the business at a level of detail you never contemplated. Best to be prepared for this exercise. Remember: there are no secrets.

10. Sellers think the process will go by quickly and that they will be on the beach in three months. That **timetable** is not even close. Think in terms of six to nine months to cash your check. And don't forget that you have to run the business during this transaction period so that it does not miss a step. You will have to be a multi-tasking expert to balance all the demands. Any missteps in the business or the process will be expensive, and you may be asked to continue with the business after closing so don't pack your bags too soon.