Now that you've contemplated your exit options, Glenn Bowman outlines a plan of action to help maximize the value of your business before selling. In the third of a four-article series, Glenn reveals the three key things to consider—helping to ensure your business is as appealing as possible for potential buyers.

When it comes time to exit your business, you want to ensure you're receiving top dollar for it. However, determining that amount—and then finding the right buyer to pay it—takes a bit of legwork.

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As mentioned in our previous articles, the right exit strategy is one that will help you achieve your liquidity goals and leave the business on your preferred terms. To find a group or individual to help make that happen, you need to conduct a bit of market research to determine what buyers are looking for, what your business is worth in today's climate and what you need to do to receive a bid at the higher end of that range.

Whether that number ultimately lines up with your original goals and exit plan will depend on your timing, valuation and ability to enhance your business's appeal.

Get the timing right

Given that it’s virtually impossible to predict which way the market will turn, or what type of demand will exist for your business in any given period, determining the right time to exit will ultimately be more of an individual decision, rather than one that hinges on market forces.

Most importantly, to the extent possible, you want to aim for a time when the principal owners are able to control the process. Waiting until someone is hit by unexpected circumstance, such as an illness or until your business is floundering creates a sense of urgency—and puts the ball in the potential buyer’s court.

Because of this, if circumstances allow, it’s much better to agree on an exit timeline as early as possible—and leave your business on a high note.

Conduct a thorough business valuation

Determining the true value of your business isn’t an exact science. This is because a financial statement alone isn’t enough to tell a business’s entire story—such as its relationships in the marketplace, its potential for growth or how it measures up against the competition.

For this reason, it’s important to assess your business from various angles, if you want to obtain an accurate estimate of its theoretical value in the marketplace. This can be done in a number of ways:

1. **Comparable company analysis.** This type of analysis compares your business to data from other similarly-sized businesses in your industry. By gathering statistics from different businesses, and transforming them into consistent valuation multiples, analysts essentially create a common playing field—and use that playing field to see where your business measures up and whether it’s worth more, or less, than your competitors.

2. **Comparable transactions analysis.** Just as you would determine a house’s selling price based on recent (and similar) transactions in the area, a comparable transactions analysis looks at similar M&A transactions to estimate the potential value of a business. This type of analysis typically compares companies with similar business models and strives to accumulate as much comparable transaction data as possible to ensure the valuation is fair.

3. **Discounted cash flow.** The discounted cash flow method is a useful tool for buyers in that it helps them understand what your business is worth today by factoring in what it will earn in the future, while simultaneously addressing potential risks. It also allows them to better visualize their expected rate of return, as well as their equity share. For the discounted cash flow method to carry weight, your company must have robust financial data—and, even then, it’s important to remember that all numbers are based on assumptions of future performance.

In addition to these valuation methods, it’s also important to consider a buyer’s ability to pay. For instance, if your exit option of choice is an employee or management buyout, your buyers may not have the financial capacity to pay top value for your company. In this type of situation, you’d have to decide whether it’s more important to leave your business in the trusted hands of your managers and settle for a lower price, or consider another exit option.

Pick the low-hanging fruit

Regardless of what your business is initially valued at, there's almost always room for improvement. In some cases, it may be worth your while to review your company's operating expenses and eliminate any unnecessary charges from the books. For instance, if you have a spouse that is no longer working in the business but is still claiming non-corporate expenses, it would make sense to eliminate these practices so as to normalize your maintainable earnings. Similarly, addressing any operating inefficiencies—such as a larger-than-necessary headcounts—and ensuring things like customer lists, innovative service offerings, unique skillsets and management depth are protected (and will remain with the business after you leave) could also stand to increase the value of your business.

As an example, imagine you had a very healthy business in the service industry that was built, primarily, on the charisma of the owner or CEO. It was this CEO's personable nature that allowed the company to win key client contracts and develop countless relationships with trusted and reputable suppliers. However, to maximize its sales price, the company can't rely solely on the value the CEO brings to the table. So what steps could you take to enhance business value?

Well, one step may be to augment the management team by hiring a CFO or other executive talent. Next, you could take further strides to "corporatize" the company by signing some key clients to long-term contracts. While this type of strategy could cost money upfront—primarily through the CFO's salary—the future success of the business would no longer hinge solely on the CEO, and the reduced risk would ultimately warrant a higher sale price.

Ready for action

With the timing right, and your company at top value, it's finally time to execute your liquidity event. But how can you ensure the event allows you to realize your company's worth—and maximize your liquidity? Well that all hinges on a seamless execution—which is a story for the final article of the series.

Ready for the seamless exit?

Glenn Bowman concludes his series, discussing how to seamlessly execute your exit plan—leaving you with both profit and peace of mind. Learn more

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