



## **Business valuation experts can provide insight during M&As**

### *Ready, set, sell*

A recent survey reported an active merger and acquisition (M&A) market for small businesses in 2017 — and that momentum has continued in 2018. Here's how business valuation professionals can help owners prepare for sale and increase the chances of receiving a premium selling price.

### **Survey findings**

In 2017, small business transactions set records in terms of deal volume and average pricing multiples, according to the *Market Pulse Report*. This quarterly survey evaluates market conditions for businesses with market values of up to \$50 million. It's a joint effort of the International Business Brokers Association (a nonprofit trade association of business brokers), M&A Source (a professional association of middle-market M&A intermediaries) and Pepperdine Graziadio Business School.

On average, sellers realized 99% of the asking price in 2017, compared to a 90% realization rate in 2016. Last year, the hottest sectors were:

- Personal and business services,
- Restaurants,
- Manufacturing, and
- Construction.

Nearly three-quarters of brokers who participated in the survey believe that sales of small businesses will continue to increase in the coming months. Reasons for their optimism include the retiring Baby Boomers, relaxed small business lending requirements, historically low interest rates and increased cash flow from tax cuts.

### **Prep work**

Business owners looking for an exit strategy can take proactive steps to maximize their selling prices. Some small businesses operate in tip-top shape, but most could use some housekeeping to prepare for sale.

For example, it's common for owners nearing retirement or experiencing burnout to scale back their involvement in their business. That can be a huge mistake! Small business buyers typically base their offers on multiples of the one to three years of seller's discretionary earnings (SDE) or earnings before interest, taxes, depreciation and amortization (EBITDA). Owners who step up

their involvement in the business prior to selling typically sell at a premium over businesses that simply maintain the status quo.

In addition, businesses with clean financials — meaning fewer nonoperating items on the balance sheet and fewer personal expenses flowing through the income statement — are generally more attractive to potential buyers. For instance, owners should consider selling underperforming business segments and assets that are unrelated to the core business. They also might adjust family member salaries and perks to reflect what a third party would receive for similar services.

During due diligence, prospective buyers will assess the condition of the company's assets. So, it's important to keep equipment and facilities well maintained. They'll also evaluate internal controls. Inadequate controls over expensive equipment and intellectual property can impair selling prices, especially in the retail, health care and advanced manufacturing sectors.

Human capital is another critical asset from a buyer's perspective. So, prior to putting the business up for sale, owners should train employee-managers on how to run the show with the owners' help and, if possible, require employees to sign employment and noncompete contracts. These steps help ensure a smooth transition from the seller to the buyer.

### **Valuable insight**

A business valuation professional can provide objective, real-world insight to owners who are contemplating a sale. In addition to helping owners set reasonable asking prices, they can conduct mock due diligence prior to putting the business on the market. This exercise can help the owners identify weaknesses and risks from the perspective of potential buyers. Taking proactive measures to eliminate or minimize these negatives will likely maximize the selling price and minimize the time to close a deal.

Do you have a  
**Question?**  
or want to speak to  


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