



NAHB Building Business Briefs

A Service of the Business Management & Information Technology Committee

Preparing To Sell Your Business

By Richard M. Rodnick

One of the most daunting tasks an entrepreneur may face is selling a business he or she has labored for years to nurture and grow. Good advance planning can increase the opportunity for a smooth, financially rewarding transaction. Here are some key points to keep in mind while you are preparing to sell your business:

- **Know when to sell.** Timing is the most critical consideration, as delaying the decision can erode your company's value. Average owners sell three to seven years too late. Astute owners develop exit strategies years before they expect to sell so they are prepared when the time arrives. They anticipate the market and factor into their plans the 12 to 18 months it typically takes to complete a transaction. A new owner may want you to remain with the company for several weeks or months after the sale.
- **Determine the true value.** Because every business is unique, there's no simple formula for determining value. The valuation process involves extensive research and analysis. You'll need to recast historical financial statements and build pro forma financials. This requires require in-depth market research to determine reasonable assumptions regarding revenue and profitability trends, growth rates, and other factors.

Identify intangible assets--attributes that contribute significantly to the company's value but aren't necessarily represented in the financial statements. For construction companies, these may include commanding a significant share of the local market, holding hard-to-get permits and licenses, possessing favorable supplier contracts, or operating near major transportation corridors. Use all of these elements--adjusted historical financials, intangibles, and pro forma financials--to produce a valuation range that informed buyers likely would be willing to pay.

- **Seek a variety of buyers.** Local competitors or major customers are not very desirable as potential buyers because their purchase decisions are often driven by a desire to acquire assets, consolidate redundant functions, and cut costs. Wise business owners look beyond these players and seek the largest possible pool of strategic buyers who may be willing to pay a premium for the future potential and intangibles of the company--not just its assets.
- **Get help.** Get advice from a professional mergers and acquisitions (M&A) advisor. You may think these professionals only work with huge companies that buy other huge companies, but they work with businesses of all sizes in various types of transactions. Most entrepreneurs sell only one business in a lifetime. That's why it's important to seek the help

of a qualified, licensed M&A advisor who has a track record of delivering premium values to companies the size of yours.

Richard M. Rodnick is CEO of RSM EquiCo, a global investment banking firm serving private middle-market companies and a subsidiary of H&R Block. For more information, visit www.rsmequico.com.

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