Preparing Your Company for a Successful Sale

By Katie Eisler and Susan Markey

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Selling a business is one of the most significant transitions an entrepreneur can experience, with financial, emotional, and legal implications. At the recent M&A Seminar on Preparing Your Company for Sale, presented by Maslon LLP, Northborne Partners, and *Finance & Commerce*, a panel of industry experts offered valuable insights to demystify the process, particularly for those approaching it for the first time.

The panel was moderated by Maslon Partner and Corporate & Securities Group Chair Katie Eisler, with panelists Susan Markey, Mike Hirschberg, Kyle Orwick, and Becky Krieger.

Assemble the Right Team Early

A common theme throughout the discussion was the importance of building a knowledgeable and experienced advisory team well in advance—ideally three to five years before a transaction. Susan Markey, a partner and board member at Maslon and experienced M&A attorney, emphasized the need to involve legal advisors early. "The most expensive legal advice is the advice you didn't get," she noted.

Clients who seek counsel after a letter of intent (LOI) is signed, for example, have eliminated the possibility of having an experienced lawyer assist in negotiations.

"If someone presents a letter of intent or a term sheet to you, please don't negotiate it yourself," Markey said. Once a seller has signed that document, "we can be bound to deal terms that you might not like, that you didn't fully understand, because you looked only at the big number."

Mike Hirschberg of Northborne Partners, an investment banking firm, said his role on the team is to "make a market… to understand the business and effectively communicate its value to the market." Doing so will create competitive tension that will ultimately drive not just the purchase price but the non-economic terms to ensure the seller finds the best partner, he said.

Understand the True Cost of a Sale

How much will it cost to sell my company? Owners often ask. But Markey likened estimating the cost of a sale to asking the price of a shopping trip without specifying whether you're buying a purse or a car. Costs vary based on the complexity and structure of the deal, but the panelists agreed that engaging specialized professionals is essential to both minimizing risk and maximizing returns.

One vital investment is a Quality of Earnings (Q of E) report, said Kyle Orwick of Eide Bailly, an accounting firm specializing in transaction advisory services. Q of E reports help prepare a business by ensuring accurate, consistent financial reporting, and they give potential buyers confidence in the purchase. "It's kind of like an audit for a transaction," he explained.

Get Ready to Sell

Pre-sale planning is crucial for a successful transaction. Markey emphasized that well-documented processes, updated corporate records, clear ownership structures, and established employee policies can help avoid pitfalls.

"If you're aware that there are issues within your business, the best time to resolve them is before you go to market – not when someone else discovers them in due diligence and gets to dictate what you have to do to clean them up," she said.

The panelists also cautioned business owners about selling when the company can't run without them. "If you set up your business so that no one can operate it but you, you're actually not ready to sell," Markey said.

Don't Neglect Wealth and Tax Planning

Becky Krieger of Accredited Investors Wealth Management works closely with business owners to understand their goals, including post-sale lifestyles, philanthropic ambitions, and family legacies.

"What are those bucket list items that are out there?" she asks clients. "What is the lifestyle that you're aspiring to live post-transaction? And how do taxes figure into that?"

Pre-transaction planning, including gifting shares, establishing trusts, and managing estate taxes, is essential—and timing is critical.

Consider the Non-Financial Factors

Beyond the financial and legal considerations, Krieger noted the importance of finding an adviser who understands the emotional complexity of selling a business. It's important for a seller to consider what they are going to miss and how they will find purpose going forward.

Avoid Key Pitfalls

The panel identified several common pitfalls that can impact a transaction. One is failing to understand the "purchase price waterfall," Hirschberg said.

"You start with a headline purchase price, and that's the number that everybody is talking about, but then you start factoring in how much it will cost to pay off debt, to give some of the proceeds to employees, and so forth," he said. "That headline number is really not what you're walking away with."

Other potential challenges include:

- **Net-working-capital disputes:** Lack of consensus around the amount of cash needed to continue operating the company post-closing; an M&A attorney can explain how the process works.
- **Relying on non-experts:** Assuming your longtime company accountant or general practice attorney can guide you through a sale; specialized expertise is vital.
- **Landlord and employment issues:** Late-stage lease negotiations or poorly structured employment contracts can delay or derail closings.

Selling a business is a complex, lengthy process. With early planning, the right team, and a clear understanding of both personal and business objectives, owners can navigate it with confidence and achieve outcomes that serve their financial and personal goals.

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