How to Maximize Value When Selling Your Business

By Tina Wei, Director, Jonathan Moore, CPA, Partner and Eric Gelb, CPA, Senior Managing Director

While buyers may be attracted to your company's industry, profitability and growth potential, you can increase your company's exit value by enhancing certain business fundamentals, including the actions recommended in this article.

Use a Reliable Accounting System

Many smaller privately owned companies tend to rely on time-intensive, manual processes often Excel spreadsheets, to perform accounting analysis and financial reporting. This may lead to higher error rates thereby impacting the accuracy of the data.

Investing in an accounting system is "money well spent" as it provides reliable data to potential investors and can speed up a future transaction process, including due diligence. A more robust accounting system enables the creation of useful key performance indicators (KPIs) which help management make more informed decisions. And, it supports the idea that your company is sustainable – e.g., that it can operate without the founders.

Maintain a Stable Finance and Accounting Team

The accounting and finance departments of many privately held businesses are usually limited in size requiring each employee to take an important role. Challenges of this model are high turnover rates, and overworked staff leading to errors and reporting delays. Frequent team changes may result in inefficiencies in work product and processes and incomplete knowledge of what happened in the past.

One of the key factors potential investors want to know during due diligence is what drives the fluctuations in operating results. A complete story can help the investors assess the company's true value through "normalized earnings."

Financial Statement Audits

Small businesses often consider audits to be expensive and unnecessary. Business owners typically underestimate the value of a financial statement audit. The primary benefit of an audit is trust and reliability of the financials, which are the key elements in the valuation of a company. An audit can also:

- identify areas to enhance the company's accounting and internal control processes or signify that the company's system of internal controls is robust;
- help the company comply with generally accepted accounting principles (GAAP); and
- validate the financial data.

Institutional buyers look for companies that report under the "accrual basis of accounting" which is part of GAAP. They consider GAAP financial statements to better reflect the company's results of operations and financial position. This can streamline the due diligence and negotiation processes and lead to a higher exit price. Many buyers want to see at least three years of audited financial statements. As you consider selling your company, be sure to interview public accounting firms qualified to perform financial statement audits.

Budgeting and Forecasting

Many privately held companies do not employ a dedicated financial planning and analysis (FP&A) function. As a result, budgeting and forecasting processes are limited or nonexistent, making it difficult for a company to project future growth and/or create a sound action plan. In order to attract potential buyers, a detailed and practical budget will provide investors the visibility of future growth and profitability. One key benefit of a robust budgeting process is that it helps build faith in the company's ability to forecast performance more accurately.

Supporting Financial Analyses

In order to prepare for the due diligence process, the company will need to generate various supporting financial analyses, reconciliations and schedules. Key supporting financial analyses include:

- gross margin analysis,
- sales analysis by various metrics (product, customer, etc.),
- segment operating results analysis,
- reserves analysis (bad debt allowance, inventory reserves, warranty claims, etc.), and
- net working capital analysis.

Investors want to see these detailed analyses to gain a better understanding of the business' quality of earnings and quality of assets. Having them ready before due diligence will definitely save time for the transaction and help you increase your company's value. A comprehensive sell-side due diligence process can help collect this information and present it in a format that is useful for buyers. Act now and stay ahead of the game!

The Takeaway

By analyzing your back-office functions and increasing your financial reporting capabilities, you can improve and more accurately reflect your company's value. These efforts also facilitate a buyer's due diligence, which can accelerate a sale.

Contact Us

PKF O'Connor Davies specializes in pre- and post-merger consulting; buy- and sell-side due diligence including quality of earnings (QOE) analysis; accounting advisory and tax planning and compliance.

For more information, contact Tina Wei, Director (twei@pkfod.com or 646.699.2897), Jonathan Moore, CPA, Partner (jmoore@pkfod.com or 201.639.5746) or Eric Gelb, CPA, Senior Managing Director (egelb@pkfod.com or 914.341.7049).

www.pkfod.com

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