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SELLER BEWARE: Put Your Financial House in Order
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Are you planning to sell your business for big dollars in the near future? In order to pull off this enormous feat, your business must be in top financial shape. Attempting to sell a business without first putting your financial house in order will limit your chances of a truly successful sale. Think of it this way: You wouldn't attempt to sell your house without first spending some time and money to make it presentable, so why wouldn't you do the same for your business?

Selling an HVAC business in today's economy is challenging. Preparing your business for sale takes significant effort. Only the most well prepared businesses stand a chance to complete a transaction — let alone at a premium. Here are seven key points that you should take into consideration when planning to market your business for sale. Paying careful attention to these points will enhance your chances of selling at the price you want.

1. Positive operating and cash flow results. Does your business deliver positive operating results at a minimum of 12 consecutive months? Better yet, have the last three years been profitable? The inability to produce profits puts a seller at a monumental disadvantage. Equally as important, can a potential buyer be convinced that your business generates positive cash flows? Without proof of positive earnings and cash flows, your business is not ready for market.

2. Financial adjustments. Commonly referred to as "addbacks", these financial adjustments represent expenses that your business has incurred, but that will be eliminated upon the sale of your business. Addbacks include discretionary expenses (expenses not necessary for the continual operation of the business) as well as extraordinary expenses (expenses that are business in nature, but are not likely to reoccur).
Would-be buyers expect a certain amount of addbacks and will give a seller the benefit of the doubt when adjusting the operating results of the business. However, financial statements inundated with hard-to-prove addbacks will quickly sour shrewd buyers.

Brandon Jacob owns and operates *Contractors Financial Opportunity, LLC* (www.Contractorscfo.com), a financial consulting firm which specializes in business valuations, transactional support and exit strategies catering specifically to HVAC and plumbing businesses and business owners. He is a certified public accountant (CPA) and a certified valuation analyst (CVA). Jacob can be reached at 713/426-4041, or by e-mail at Brandon@Contractorscfo.com.

3. Accounts receivable. Aged accounts receivables throw up multiple red flags to potential buyers including:

1. Customers accustomed to lax collection terms
2. Undisciplined service technicians who do not collect when the job is finished
3. A business owner disconnected from the well-being of his own business.

Accounts receivables should be in check prior to presenting your business for sale, and should be maintained through the completion of the transaction. No one is going to assume your stale (and more than likely uncollectible) receivables.

4. Debt and accounts payable. Excessive debt and accounts payable suggest to a would-be buyer that your business is not as financially strong as desired. An abundance of debt and accounts payable is an indicator that the business lacks positive cash flows. No buyer wants to inherit your aged accounts payables and the harmed vendor relations that often come with these delinquent accounts. In addition, debt must be paid off by the seller at close. In many cases if the debt within a business exceeds the sale price, a cash flow problem for the seller could result. If your business is heavily burdened with debt and accounts payable, lay out a plan to reduce liabilities now.

Brandon Jacob specializes in assisting family owned HVAC and plumbing contractors in businesses in maximizing the value of their businesses. Contact Brandon at Brandon@contractorscfo.com for the additional key pieces of understanding that you <u>must</u> be familiar with in order to prepare your business for a profitable sale. All conversations are treated as highly confidential.

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5. Inventory. Chances are you do not conduct an annual physical counting of your inventory. While many contractors choose to estimate their parts and materials balances, this laissez-faire approach to inventory will cost you money during the sale of your business. Conduct an annual physical inventory and retain all count sheets as proof to your inventory counts. During the physical inventory, take time to discard old and or obsolete junk. When representing your business to a would-be buyer, do not over-promote your inventory levels, as this will certainly lead to a reduction in the offered purchase price late in the negotiations.

6. Assets. The assets booked to your balance sheet should tie out to the actual assets on hand. Your balance sheet should be carefully scrutinized; write down any assets that are no longer physically present in your business to enable your balance sheet to accurately reflect the assets of your business. Verify assets that were expensed when purchased and never booked to the balance sheet. Conduct a physical inventory of all assets and maintain a list that specifies all assets individually and an estimated value. Failure to do so will result in a reduction in any offers received for your business.

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7. Retained earnings. Retained earnings reflected on your balance sheet documents the accumulated earnings of your business over the period of its operating history. Wise buyers will study your retained earnings to learn your business' operating profit history and to confirm the retained earnings balances roll forward year to year. Retained earnings that do not roll forward from one year to another will raise suspicions of financial statement inaccuracy.
Finally, owner's distributions made from accumulated retained earnings proves that your business is generating excess cash, and businesses that generate excess cash excite buyers.

Do You Want to Sell a Mansion or a "Fixer-upper"?

Pulling off a successful sale of an HVAC business has never been easy. Today's uncertain economic times multiplies the effort required. If you are considering selling your business, your financial house must be in order. If your business requires some attention (and most do) dedicate the time and money required to demand a purchase price that fairly reflects the fair market value of your business.

Depending on the state of the financial condition of your business, getting it ready for sale may take a year or more. However, be aware that prematurely marketing your business can taint the opinions of potential buyers, which greatly reduces your chances of successfully selling your business.

You have undoubtedly spilled gallons of blood, sweat and tears into the building of your business. To help ensure that your investment pays off, take the time to make sure your business is prepared financially before seeking a buyer. Doing so will mean the difference between unloading a "fixer-upper" and selling a mansion.

"For many contractors, selling a business will be a once in a lifetime event. Enlisting the support of a professional who not only knows how to successfully navigate through the sale process, but also one who knows how to prepare your business is the most important move you can take to guarantee maximum value for your business".

Dave Aiken – Former Owner of Mr. Air (Houston, TX)

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