PLAN FOR SELLERS CHECKLIST

FP TRANSITIONS®

INTRODUCTION

Making the determination to sell is a complex decision. Once the decision is made, you are then confronted with a selling process that encompasses many important considerations including where to start, what to expect, and how to succeed. A high-quality, valuable exit strategy is one in which you command the entire transition process, from valuation, to listing, to documentation, to taxation, to closing – an overall process that requires in-depth evaluation, extensive planning, and precise execution.

Most sellers only go through this process once, so it is imperative that this is done right the first time. This checklist is designed to help you:

- Prepare yourself and your business for the selling process.
- Identify and evaluate your preferences and expectations of the sale.
- Consider the realities of the journey: your investment of time and resources, secured confidentiality, accurate valuation, proper documentation, and rigorous due diligence.
- Avoid any surprises during the buyer-selection process.
- Determine when hiring third-party professionals is the right path for you.

Addressing these considerations now will pave the way for a smooth and stress-reduced sale of, what is for many, their most valuable possession.

PLAN AHEAD

Step 1) Your Work Week Trajectory

Complete the fields below to determine how much time you currently spend in the office and how much you plan to spend in the future.

Today hrs/wk in 5yrs hrs/wk in 10yrs hrs/wk

Business owners, through time, begin to spend less time in the office. When an owner works less than 30 hours a week, the practice will lose its potential for growth and begin to decline in value and enter attrition. Ideally, you should plan to exit the business before you drop below a 30 hour work week.

Step 2) Who is Your Ideal Buyer?

Similar sources of revenue between your practice and a potential buyer will help ensure a smooth transition. Ideally, you should consider selling to someone who has higher revenue than you do (think at least 1.5-2 times your revenue) and who will be able to immediately incorporate your operation into theirs, to help support continued growth.

Personality is one of the most important factors for a successful transition. Describe the perfect personality to match with your clients:

Step 3) Prepare Your Clients

What successor attributes, decision making processes, and other leadership qualities will make your unique clients comfortable with the change?

How do your clients prefer contact?

Download our Plan for Sellers Workbook to help clarify your priorities and goals for the sale, the future of your business, and your own life after advising: **fptransitions.com/sellers-workbook**

CONFIDENTIALITY

Confidentiality is the single most important concern when considering the sale of a practice. The last thing you need is for your clients, employees, or competitors to be alarmed that you're selling.

What information do you feel must be protected legally or professionally?

Do you plan to safeguard the documents exchanged in due-diligence?

- [ ] Yes
- [ ] No

Do you have a Non-Disclosure Agreement prepared?

- [ ] Yes
- [ ] No

Do you plan on sharing your decision with your staff?

- [ ] Yes
- [ ] No

> Do not talk to anyone about the sale of your business without a proper Non-Disclosure Agreement (NDA).

Which scenarios might make your clients nervous?

If clients hear about the possible sale, which ones might look elsewhere for services?

VALUE

Understand that your sale price isn't a question of "how much do I need from this transaction?" or "what is my past 30 years of work worth?" Shift your mentality to "What exactly is the value of my practice?"

Is the value of your practice assessed by an independent, unbiased source? *Note: Broker Dealers are not unbiased.*

☐ Yes ☐ No

TEST YOUR KNOWLEDGE: Rank in order from greatest to weakest what you consider to be the most important value drivers?

A) Revenue 1) ______

B) Deal Terms 2) ______

C) Client Demographics 3) ______

D) Expenses 4) ______

Client relationships (at the most basic level) create value in an independent financial services or advisory practice.

ANSWERS: The industry considers these -from greatest to weakest- to be A,C,D,B

Traditionally, a formal business appraisal uses a standardized format and one or more of the following valuation techniques. Which will you use and why?

- Asset Approach ....
- Market Approach ....
- Income Approach ....
- Discounted Cash Flow ....

Remember, factors that will impact value will include the owner's agreement to facilitate the transition, as well as his or her willingness to grant non-compete/non-solicitation/no-service agreements upon retirement or exit.

DUE DILIGENCE

This list is not by any means a complete list. But it is intended to cover a few steps that may apply to common situations between buyers and sellers.

- ☐ Obtain form ADV if applicable, along with proof of filing. Confirm filing status and any disciplinary history using FINRA's, or the SEC's online verification process.
- ☐ Call potential buyer's office and see how you are treated as a prospective client. Were you treated well by the buyer's staff? Did you appreciate the level of customer service your received?
- ☐ Obtain satisfactory, written evidence that your potential buyer has the financial ability to purchase your practice.
- ☐ Determine the general terms of the sale? Consider:
  - + Down payment
  - + Seller or Bank financing
  - + License continuation
  - + Non-solicitation agreement
  - + Variable Payments
  - + Dispute resolution
  - + Transition period
  - + Closing date
- ☐ Review any correspondence from customers or suppliers relating to complaints about your potential buyer's practice.

Does your potential buyer have a clean U-4?

☐ Yes ☐ No

Be sure to obtain:

- A credit report to back the guarantee.
- Copies of each report, including other documents filed with governmental investigations, or inquiries pending or threatened against or involving your potential buyer.
- Copies of federal, state, and local tax returns and reports from buyer for the last three years.
- Written record showing number of clients, their states of residence, and the number of years each client has been with practice.
- A written breakdown or production record of the revenue sources to buyers practice, including types and frequency of revenue generated.
- A schedule showing the total number of employees, their job classifications, licenses held, average compensation, bonuses, benefits, and location of employment agreements/bonus arrangement/employee stock ownership plans.
- A summary of pending litigation or administrative matters involving employees, including discrimination charges, grievances, arbitration cases, workers, compensation cases, and similar matters.

NOTE: Both buyer and seller should perform due diligence on the other party. This checklist is not a complete list, but is intended to cover many common steps. A comprehensive Due Diligence Checklist is included with FP Transitions consulting services.

LEGAL/COMPLIANCE

The buyer and seller should initially focus on the match, and then focus their attention to the transaction itself. A successful deal structure is one where both the buyer and seller are motivated to work together.

What contracts/documents are provided by your current legal counsel?

- [ ] .... - [ ] ....
- [ ] .... - [ ] ....
- [ ] .... - [ ] ....

Common sales typically include the following necessary documents:

+ Asset Purchase Agreement
+ Security Agreement
+ Consultation Agreement
+ Promissory Note (if seller financed)
+ Personal Guarantees
+ Non-Compete/Non-Solicitation

What are the current market standards that govern a sale?

....

....

....

How much do you expect to spend on documents and prep?

Your attorney's hourly rate *Avg rates range from $300-400/hr*		$ .... /hr
Hours you expect attorney to review contracts and documents	X	....
TOTAL	=	....

It's best to have a deal structured before an attorney review. If the attorney needs to re-write contracts, the fees may be higher than expected.

Have you agreed on the tax implications during (and after) the transition?

☐ Yes ☐ No

FINANCING

Most deals continue to be seller financed, although some buyers will use bank financing to complete the sale. Bank financing is best when used as supplement to seller financing. Generally, the more recurring revenue the buyer has, the larger the down payment, and the shorter the financing terms.

Before allowing a buyer to use bank financing, ask yourself, are you comfortable with receiving payment over:

3 yrs? ☐ Yes ☐ No

5 yrs? ☐ Yes ☐ No

8 yrs? ☐ Yes ☐ No

Lending protocol: Bank financing will generally fall within these limitations

- Loan amount typically between $400,000 to $5M
- Interest rates often between prime plus 1.75% to 2%
- Loan decisions in less than 30 days; loan funding in as little as 90 days
- 25% “equity infusion” is often required, whether from a cash down payment, seller carry-back, or both
- Borrower credit score(s) of 620 or better
- Up to 10 year repayment terms

BANK FINANCING V. SELLER FINANCING

Both will help a buyer complete a purchase. Bank financing is a quick cash-out, although is difficult to maintain high level support and motivation post-closing. With seller financing, the terms may be longer since it’s contingent on client retention, but both options are typically tied to the transaction for up to one year post-closing.

HIRING A CONSULTANT

A consultant can guide you through the process and help prevent important steps from being overlooked. Finding a consultant that best understands you and your unique situation is important.

When looking for a consultant, be sure to look at their:

- ☐ Work history with buyers & sellers and ability to understand the needs/demands of both parties.
- ☐ Understanding of the industry rules and regulations. Does the potential consultant have designations, and what are they? Do they have legal & tax experts as a part of their team?
- ☐ Understanding of the emotional aspects of selling a business. Do you feel comfortable talking to them about your individual concerns?

Are the consultants familiar with FINRA & SEC Compliance?

☐ Yes ☐ No ☐ N/A

What tax structure do they recommended in your asset sale?

Does the consultant work for you?

☐ Yes ☐ No

How do consultant fees compare to potential attorney fees?

Consultant $ Attorney $

Where do the fees come from? What are you getting in exchange for their services?

THINGS TO CONSIDER

Don't <u>ever</u> advertise the sale of your practice yourself. This risks confidentiality and may result in a total loss of your clients and employees. Common bulletin board sites do not protect your confidentiality and should be approached with caution.

How do you plan to execute the sale of your practice?

A) Broker Dealer
B) Internal Sale
C) M&A Consultant
D) D.I.Y.
E) Other ....

Consider and rate from 1-10 (1 being least confident) :

If selling through a **Broker Dealer**, how confident are you that they are working for YOU and not the interests of home office?

1 .... 2 .... 3 .... 4 .... 5 .... 6 .... 7 .... 8 .... 9 10

If selling **D.I.Y.**, rate how confident you are that you've covered all the required steps to correctly move forward?

1 .... 2 .... 3 .... 4 .... 5 .... 6 .... 7 .... 8 .... 9 10

If doing an **Internal Sale**, how confident are you that your buyer will be able to pay for the company in the desired time-frame?

1 .... 2 .... 3 .... 4 .... 5 .... 6 .... 7 .... 8 .... 9 10

If using an **M&A Consultant,** rate how confident you in their abilities and expertise based on their history of transactions in the industry?

1 .... 2 .... 3 .... 4 .... 5 .... 6 .... 7 .... 8 .... 9 10

Improper valuations may adversely affect the outcome of your sale. Consequences may include large sums of money left on the table or pricing and terms outside of what a buyer is able to–or is willing to–deliver.

FP Transitions' experienced consultants will work with you to help determine the value of your business, market to the industry's largest database of qualified buyers, arrange finance terms, and prepare the contracts. FP Transitions' Open-Market-System provides independent financial advisors with more than 50 qualified buyers to choose from, ensuring that you receive the best successor, business value, and end result for your life's work.

For more information about our services, feel free to contact us at **800.945.3303** You can also find more resources and information at **fptransitions.com.**

FP **TRANSITIONS**®

4900 Meadows, Suite 300
Lake Oswego, OR 97035
www.fptransitions.com
800.934.3303 • 503.452.4203