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September 2018 - In This Issue:

PREPARING TO SELL YOUR BUSINESS - IDENTIFY ASSETS

INDUSTRY KNOWLEDGE

SEASONS/TRANSITION

WHAT IS MY BUSINESS WORTH

SEASONS / TRANSITION

It's September and the "Summer", the period between Memorial Day and Labor day, is over. The transition has started - schools are now in session, sports - College & Professional fall seasons have begun, and baseball is moving toward the post-season.

My first job after college was with a bank. A senior lender told me that while in school there are built-in "breaks" - semester breaks, Thanksgiving, Christmas, New Year's Day, Spring breaks. That was not the case with the banking job and he said we need to set our own breaks - things to plan for, to look forward to. Over the years I've tried to do that, but it's not easy. It's

PREPARING TO SELL YOUR BUSINESS - IDENTIFY ASSETS

In preparing to sell your business it's important to identify the assets you intend to include in a sale and the assets you intend to exclude from a sale.

For example, personal automobiles driven by owners are often titled within the business, but owners have no intention of transferring them in the sale. That's fine, as long as the exclusion is designated on the front end of the sale process. You may have other personal property and assets in the business as well. I've seen expensive artwork, tractors, home furniture and many other non-business assets being acquired and depreciated by the business. In addition, some owners have unrelated business interests within their primary corporation. For instance, I've seen a wood-burning stove business within a custom glass shop. If and when that owner sells, buyers will not be interested in the secondary unrelated business and those assets should be excluded. (In fact, the better solution would be to separately incorporate the unrelated business far in advance of a sale so that revenues and expenses are not co-mingled).

Learn the realistic value of your commercial real estate

For tax purposes, commercial real estate is usually owned personally by the business owner. (If your corporation owns your real estate, consider getting some tax advice pretty quickly.) In most instances it's best to separately sell or lease the real estate to the business buyer and specify it's exclusion from the value of the business. To prepare for a sale, it's important to have a realistic estimate of the value of the commercial real estate. However, imminent to putting the business on the market, it's best to obtain a professional appraisal from a qualified commercial real estate appraiser.

Physically verify your asset list

Buyers, their advisors and their lenders require a list of assets to be transferred in a business sale. Depending on the details in your depreciation schedule, it can be a good starting point to begin the development of a list of assets. But, it's important to finalize the list based on a physical verification of the

too easy to just keep on going and not look very far ahead. I guess planning is the key - we need to take time and plan what we want to do and figure out how we will be able to do it.

Owning a business requires a plan, and many / most businesses don't have written plans or any ideas beyond the day, week, or some other short term. One day we wake up and look around and ask ourselves "Where are we going and why?" This could be the first step in arriving at a point where selling the Business might be worthy of serious consideration. What will life be like without the commitment and demand of owning and running a business? Hopefully a lot better - less pressure and time to do what we want and not only what we have to do.

Most of the business owners we talk to after selling are happy and wonder why they waited so long to sell. And rarely are there regrets! How about you? You don't have to commit to sell, but a conversation with us about the sale process and what you would retain from a sale after paying Liabilities, Expenses, and Taxes should allow you to know if it's time to start the transition from Owner to former Owner.

How about contacting us to set up a one hour meeting at your convenience and

assets. Assets on your depreciation list might have been thrown away and assets in your business might have been expensed in the year acquired and not be shown on the depreciation schedule. If your list includes assets that are not present, it could lead to post-closing disputes. A side benefit of the asset review is you might identify obsolete assets that can be sold, or identify assets that require repairs or maintenance to bring them back to operating condition.

Identify leased assets

When identifying assets, it's especially important to note those assets that are leased, for which there may be an ongoing liability to be transferred to a buyer. If considered 3 - 5 years in advance, it may be advantageous to buy-out expensed (vs. capitalized) leases to improve cash flow by replacing the lease expense with depreciation expense which is added back for cash flow purposes.

Consider selling obsolete assets before selling your business. As discussed throughout our newsletters, the value of your business will be primarily driven by the profitability of the business, not by the assets you transfer. You do have a moral obligation to transfer the assets that create your cash flow. However, many small businesses have old or obsolete assets that may no longer be used. If you have assets that do not contribute to cash flow, consider selling them for salvage value (or whatever value you might receive) before putting the business on the market. It will not affect the value you receive for the business. **CAUTION!** These types of sale transactions may be questioned in due diligence so be sure the assets you intend to sell are not contributing to the business cash flow. A good place to document the reasons/decision to sell assets is in the corporate minutes.

Conduct a physical review of your inventory

You should also conduct a physical review of your inventory when preparing to sell the business. Old and obsolete inventory only raises issues in buyers' minds. Consider segregating the older and obsolete inventory and selling that inventory before putting the business on the market. As mentioned in Preparing to Sell Your Business - Improving Accounting Procedures, it's a good idea to review your inventory accounting procedures many years in advance of a sale.

Identify intellectual property

Your asset list should also include intellectual property and intangible assets such as patents, trademarks, copyrights, proprietary products/brands and exclusivity agreements.

Similar to documenting the systemization of your business, identifying assets provides other benefits. The sale of non-productive assets, including old and obsolete equipment and inventory, can put a few bucks in the corporate coffers. In addition, their removal also eliminates clutter and improves the

location - with no commitment other than to get to know each other and discuss whatever comes up.

WHAT IS MY BUSINESS WORTH

It will cost you absolutely nothing and there is no obligation in giving us a call or an email to request a simple valuation of your business. Relying on a professional that understands your industry is important. It is also wise to work with someone who is aware of current trends; and that is working with both buyers and sellers daily. This approach insures you plan for and receive the maximum return on the transfer of your business.

appearance of the business. In businesses that have accumulated excess assets for many years, the improvement can be considerable.

INDUSTRY KNOWLEDGE & ACCESS TO BUYERS NATIONWIDE

Our presence as a Professional Business Broker is extended nationally as a result of being associated with associates located nationwide. We also bring decades of experience and functional expertise in all the popular market segments as a result. Nothing takes the place or value in that of experience.



We partner with our clients to deliver solutions that help solve their most complicated needs prior to, during, and at the conclusion of the selling process. Our services are designed specifically to help small/medium size businesses and at a small business price. We go beyond the norm to develop new insights, prepare, market and drive results in the sale, thus insuring you receive the most value at closing.

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Next Issue

Preparing to Sell Your Business - Writing The Buyers Business Plan

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