How Long Will it Take to Sell A Business?

Unfortunately, it is impossible to identify the exact amount of time necessary to complete a business sale transaction. The length of time required depends on the complexity of the transaction, financing required, the seller's ability to provide information in a timely manner, and a multitude of other factors. In a recent survey of investment bankers and business intermediaries by businessforsale.com, an overwhelming majority (63 percent) stated that the entire sale process from start to finish can take anywhere from ***nine to 12 months, and possibly longer***. Of course, this is only an average and it is important to realize that every transaction will require different approaches and timelines will vary.

In considering the timeline for completing a business sale, it is helpful to look at the various phases or components that make up the overall process. The initial steps center around the important decision whether to sell the business. There are numerous financial and personal factors that must be assessed and satisfied before comfortably moving forward with a sale transaction. The personal reasons are unique to each individual business owner. (Please see our white papers "Why Should I Sell My Business?" and "When is the Best Time to Sell My Business?" for a more thorough review of business sale decision and other timing considerations). This white paper focuses on the process and timeline once the decision to sell has been made.

Assemble Advisory Team

Once a business owner has made the decision to pursue a sale of all or part of their company, one of the first steps is to assemble an advisory team to assist throughout the transaction. This team should consist of an investment banker, a transaction attorney, a Certified Public Accountant (CPA) and may also include a financial planner and the Company's corporate banker. Each should have experience in concluding transactions equal to or larger than the seller's business, and each must be committed to assisting the owner in concluding a sale of the Company that meets the owner's objectives. It is important for a business owner to assess the experience of their existing advisors in completing business sale transactions. A seller's business attorney or CPA may be excellent for general business and accounting matters, but may not have the requisite experience in concluding comparably-sized business sale transactions. Obviously, a seller's comfort and trust in their advisors is also of paramount importance and the relationship may outweigh other considerations for a particular business owner. If desired by the business owner, the investment banker can typically recommend competent transaction attorneys and CPAs to facilitate the seller's decision process.

Prepare Confidential Information (1-2 Months)

Once the advisory team is identified, the next step is assembling the marketing materials to be used by the investment banker for presentations to potential buyers. Investment bankers typically expend considerable time preparing a comprehensive overview and analysis of the company, its growth potential as

well as a summary of the overall industry. The importance of this marketing document cannot be overstated – it is the basis by which buyers make their initial go/no-go decision whether to proceed with further evaluation of the seller's business. While the investment banker typically takes the lead to prepare this document, it is because of its critical importance that the seller must also invest time and effort to make sure that the document best highlights all key attributes of the business in order to maximize value in the transaction. As the old adage states, "you only have one chance to make a first impression", and in the process of selling a business this marketing document serves that purpose. Take the time with the investment banker to best articulate why your business is different from the competition and why your company deserves a premium valuation.

This process typically takes at least four to six weeks and may often be extended to two months or more, depending on the transaction, the amount and quality of available information, and the seller's responsiveness.

Preliminary Due Diligence (1 month)

As information is assembled for the confidential materials being prepared by the investment banker, a preliminary due diligence review should be performed by the investment banker, attorney, and CPA to ensure that all business records and documentation are in order. This upfront review can potentially save a substantial amount of time and money in addressing buyer questions and in completing the eventual buyer due diligence process in a timely and efficient manner. Preliminary reviews avoid transaction delays and significantly reduce the possibility that the buyer will back out of the transaction as a result of issues arising during the buyer's own due diligence. The investment banker typically coordinates with the transaction team to begin this review process as early as possible. This preliminary due diligence may include collecting financial, legal/regulatory, employment, contractual, tax, technology, market, environmental, real estate, insurance, and liability information of the company. Based on this information, the investment banker may advise or coordinate with the attorney and/or CPA to point out potential areas that should be investigated or addressed before moving forward. If the financial and legal documents are accurate and any operating issues are addressed with the investment banker at the early stages of preparing preliminary presentation documents, the sale process can be completed with minimal delay arising during the buyer's due diligence. Having a CPA audit the business also adds valuable credibility to the transaction and helps reduce the due diligence timeline.

Buyer Identification and Preliminary Qualification (1 month)

In the process of identifying potential buyers, the investment banker will start with the natural strategic best-fit industry players and then research and analyze less obvious candidates who may become opportunistic buyer options. The list of qualified buyers will then be refined with the seller to avoid any buyers that may pose concerns and add other potential buyers as appropriate. Once the list of qualified buyers is assembled, the investment banker will then move forward with contacting, vetting, and providing confidential information to interested buyers. This is an area in which the investment banker can offer significant added value to increase transaction terms and certainty of closing.

Buyer Presentations and Pre-LOI Discussions (1-6 months)

Upon providing the confidential information to interested buyers, the investment banker will then undertake a series of discussions with each buyer to further gauge each buyer's financial capability and interest in the transaction, address buyer questions, and assess each buyer's ideas on valuation, potential terms, and structure of a possible transaction. The investment banker will promote the value drivers of the business and position the company with each potential buyer to enhance fit and therefore justify higher value. Throughout this phase of the sale process, the investment banker further vets the buyers, possibly eliminating some that do not have the capability to conclude a transaction or do not represent a good fit with the seller's objectives. This phase will also typically include conference calls between the buyer and seller and/or site visits for the most capable and best-fit buyer(s).

Negotiate Letters of Intent (LOI) (1-3 months)

Once qualified and interested buyers have been identified, negotiations with capable buyers continue with the Letter of Intent (LOI). An LOI may be preceded by a less formal Term Sheet. The investment banker will increase the value and fit of the transaction for the seller through simultaneous competitive negotiation with the most serious and best-fit buyers. The LOI typically identifies the buyer and seller, the purchase price, the method of payment (cash, promissory note, employment agreements, etc.), the structure of the transaction (stock, asset purchase, merger), and often includes certain basic contingencies such as financing, real estate leases, and due diligence. The LOI may also include other requirements (confidentiality, exclusivity, etc.). The LOI will be negotiated on behalf of the seller by the investment banker and the seller's transaction attorney. Typically, only one LOI will ultimately be signed by the seller and buyer; however, the investment banker ideally will simultaneously negotiate Term Sheets with several buyers to create competitive tension and maximize value.

Due Diligence, Definitive Purchase Agreement, and Closing (60-120 days)

After an LOI is agreed to and signed by the buyer and seller, the buyer will conduct due diligence on the company. Throughout the buyer's due diligence, questions will certainly arise that require responses, clarification, and/or additional information. Concurrent with the buyer's due diligence, the investment banker will lead and direct the transaction through to a successful closing. The terms of a definitive purchase agreement will be negotiated by the investment banker, including the seller, the buyer, and their respective transaction attorneys. Once the buyer has completed due diligence to their satisfaction, has necessary financing in place, and all pre-closing conditions are met, the definitive purchase agreement is ready to sign. From that point, the sale is closed and the transaction completed.

Some of the common reasons for a transaction to be delayed are issues arising or expanding during due diligence, problems obtaining third party consents, and extended definitive agreement negotiations. Regarding third party consents, every business is unique and requires different approvals from suppliers, manufacturers, bankers, landlords, and even large customer accounts. The seller's transaction attorney is typically responsible for obtaining consent from all necessary parties. The earlier the seller's transaction attorney begins this process, the shorter the closing timeline will be.

The buyer's financing can also be an impediment to a timely transaction closing. The seller's corporate banker can help or impede the loan process, especially in a challenging economic environment. It is important to coordinate with the investment banker to inform the seller's corporate banker about the intent to sell, thus including them in the transaction. The corporate banker knows the specific business, industry, and management team and is a logical choice to consider for obtaining financing for some buyers.

The most important factors affecting the timeline to closing are the complexity of the business and availability/necessity of financing. Every transaction is unique and is influenced by different factors when determining the length of time to closing. While coordination and preparation with your advisory team, as outlined above, can help greatly reduce the timeline and avoid obvious delays, it is important to remain patient and have realistic expectations for the timeline to a successful transaction.

Please contact Aaron, Bell to confidentially review your unique circumstances and any questions you may have.