

Deciding to sell your business can be challenging and you may not know whether or not selling is the correct course of action. By methodically analysing your business, you can reach a decision. The process should begin with an overview of the most common reasons why businesses are sold. Some motivations for selling are:

- **Desire for personal liquidity:** If the majority of your wealth is tied to the business, you may want to diversify your source of income by selling it.
- **Partial Sale:** You may consider selling a portion of the business that is not doing so well to allow you to focus on the part of the business that is succeeding. Note: in order to complete a partial sale, you will have to separate the financial information and prepare different statements for the part of the business you are selling.
- **Age and health:** You may no longer be able to run the business as successfully as in the past due to your age or health related issues. Selling could provide you with the time needed to address these issues.
- **Need for a change:** Selling your business can pave the way for you as an entrepreneur to explore new professional and personal opportunities.

1. **History:** Provide a history of your business so that potential purchasers can get a sense of how the business was run and its current standing by answering the following questions:

- How long has the business been in operation?
- How long was your business started?
- How has your business grown since inception?
- How does the location of your business contribute to its success?
- Who are your existing and potential customers?

2. **Products/Services:** Include a detailed description of your products and services.

3. **Assets:** Prepare a complete list of all tangible assets (computers, desks, alarm systems, inventory) that are owned by the company. Assign a current market price to each asset. Be conservative in assigning a market price. Do not attach personal significance to the value of an asset, as others may not see that same significance and negotiate against you accordingly.

4. **Future Growth:** Include a list of recommendations and/or improvements for the business. The purchaser will want to see that the business has a future and areas of future growth. Showing the potential purchaser your future plans also highlights areas of future developments that you may not have been able to accomplish because of certain limitations that may not be limitations to the new purchaser. This exercise will strengthen your goodwill.

Business Sale Checklist continued

- 5. Financial Statements:** Prepare or compile 3 years worth of financial statements. In the absence of financial statements, source documents such as sales receipts, bank statements, and invoices should be provided so that the buyer can confirm sales levels. In addition, a list of major customers should be provided if a high percentage of sales are derived from one or two specific customers. Seek out a good accountant to assist with these tasks if you are unable to produce these statements. Give BSBDC a call if you want us to refer an accountant.
- 6. Articles of Incorporation:** If your company is a limited liability company, then the articles of incorporation should be presented to the potential purchaser for review. This will allow the purchaser to see if there are any potential clauses that may prohibit the sale or impede the buyer from carrying out similar services (i.e. legal deal breakers). Seek adequate legal advice if it is necessary.
- 7. Non-compete Clause:** Give some thought to how you would want a non-compete clause to be worded. Normally when goodwill is included in the purchase price, the purchaser would then want to be protected from the seller starting up a competing business. Sample non-compete documents are available at BSBDC's offices. This matter should be handled at the purchaser's request only.
- 8. Purchase Price:** A guide to determine if the purchase price is reasonable* may be calculated as net assets + 3 to 5 times average annual net income. To demonstrate this calculation, assume that the total net asset value of the company amounts to \$50,000. Let us also assume that average annual income is \$10,000. A reasonable sales price may be, based on our general guide, \$80,000 to \$100,000 (\$50,000 + 3 to 5 multiplied by \$10,000)
- 9. Sale Agreement:** Prepare this written agreement with the help of an attorney. This agreement will form the contract of sale between you and the purchaser whereby you agree to sell your business according to the terms set out in the agreement.

**This calculation is a general guide for use in Bermuda only*

Letter to Prospective Purchaser



Once you've decided to sell your business and determined the appropriate price/value for your business, the next step is to find a purchaser who can purchase at that price. The following letter can be used to introduce yourself and outline the details of your business to prospective purchasers.

In addition to this letter, you may also consider advertising your business in your local paper, sending out feelers to your friends and family, and contacting business associates to see if they know of any potential purchasers.

Private & Confidential

Name of Business to be Sold

Proposal to Sell

Date (date proposal was written)

Name of Business

Address 1

Address 2

Telephone # (or contact #)

Date

Dear [Prospective Purchaser],

It is with deep regret that I have decided to sell **[Name of Business]**. This business has been my lifeblood for the past XX years. Unfortunately, **[Reason for Selling]** is preventing me from putting in the undiminished commitment to **[Industry]** that I have exhibited in the past. I felt it best to close **[Name of Business]** as of **[Date]** rather than risk any damage to the fine reputation that **[Name of Business]** has built over the years. (This sentence can be left out if the business is to be sold as a going concern i.e. a business that is still open.)

Included as part of the business sale is the operating business name of **[Name of Business]**, my numerous XX (describe), an established network for the distribution of my product/s, and all assets listed on an attached sheet. I am asking \$XXX **[Purchase Price]** to sell the business in its entirety. This sale amount can also serve as a negotiation point for which I am willing to discuss any reasonable offer. Along with this letter, I have compiled a few additional documents that may assist you in your decision-making with regards to the purchase of this business. Please find attached a brief background of **[Name of Business]**, a substantially complete assets listing, unaudited income statement and unaudited balance sheet. I hope that this is sufficient information for you to give serious consideration to my offer to sell **[Name of Business]**. If you require any additional information, please do not hesitate to contact me at XXX **[Contact Numbers]** or stop by **[Name of Business]** so that we may discuss your potential purchase.

Yours truly,
[Your Name]
Proprietor

