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“Tip of the Month”

How to Make Your Business More Valuable for Acquisition

With the improving economy comes growth in mergers and acquisitions. Mergers are few; acquisitions are many, usually in the form of asset purchase agreements. Buyers want the assets of the business, not the liabilities. By crafting an exit strategy, sellers can make their assets more valuable to recover a better return on their many years’ investment of hard work when selling the company assets.

Buyers are usually looking for good cash flow based on earnings. Good earnings derive from a large variety of customers and customers who pay promptly. Buyers and investors also want reliably recurring revenue.

To enhance and accelerate the due diligence process, a seller should maintain finances on an accrual basis in accordance with GAAP if feasible, and be ready for CPA analysis, so the seller’s CPA should be involved early. A CPA audit is most the expensive and most reliable confirmation of a company’s financial health. The CPA’s review is less expensive, but is more limited to assure the financial reports are not misleading.

When taking on the risk of an acquisition, the buyer seeks as much assurance of financial health as possible, which is an indicator of continued profitability. The seller might seek to identify a niche market that is scalable, because investors often look for an opportunity for big growth into that market sector. To pay off the equity or debt capital investment, the business must dependably sustain profitability so the buyer can realize an adequate return on investment. This usually depends on the strength of the management team.

The most valuable assets are often the human resources. The best managed company is the one that does not need you there to run it. Among the seller’s best investments is engaging and cultivating good people. The team should be organized to operate the business like a well-oiled machine with appropriate rewards and incentives for those who make things work. Such an organization represents quality to the purchaser.

That quality is reflected in high production standards such as ISO international standards. Value is also amplified by the registration and protection of intellectual property such as trademarks, copyrights, patents, and trade secrets. The seller should be able to demonstrate superior quality control protocol, which the seller can write up in proprietary operating manuals.

If you need help buying or selling a business, please do not hesitate to give us a call at 668-1971 or contact us by e-mail at *mailbox @ biz-patlaw.com*. We are here to help.

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