Understanding the Process Initial Steps to Selling your Drug Testing Business
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Selling your business represents the culmination of your entrepreneurial career. You've worked very hard to build your business and make it what it is today. Now it's time to slow down and enjoy the fruits of your labor.

What will the potential buyer want to look at right up front? And what's next!

The first step is a non-disclosure/confidentiality agreement that protects you and the prospective buyer along with any consultants and/or brokers involved. Without this agreement, nothing should move forward.

Initially the buyer will want to see several items, later they will want to see a lot more; initial items needed are:

1. Narrative of the business—what you do, how you do it, markets served, major vendors utilized, technology used, organizational chart, basic information on key employees, lease or building information, some information about how you started, how you grew and where you are now—and anything else you think is pertinent. Also include information on any long term contracts, your licenses, insurance coverage, organizations you belong to, certifications you have, and your plans post-sale—are you willing to stay on for a period of time with the new owners and for how long.
2. Some generic information on your customer base including a list showing the volume of sales for each of your top 20 customers—do not list the customer names at this time just their sales volume.
3. Current year to day and past five years financials: profit and loss along with balance sheet—both as detailed as possible. The P & L's should include at the bottom the owner add backs—these are the nonoperational expenses that benefit the owner: health insurance, life insurance, pension and then any owner perks, such as personal expenses written off as company expenses. Best to have all five years financials on one spreadsheet for comparison. Later the buyer will require much more detailed records including actual tax returns (3 years) and possibly even 3 years of audited financials.
4. Add to the spreadsheet showing the financial statements, your projections for next 3 years showing educated assumptions of future P & L's (cash flow), fixed and current assets, and liabilities. This should be based on your previous track record, new accounts you have secured, market trends and overall economic climate. These pro forma financial statements are a hypothetical snapshot of the future financial health of your business.
5. Current totals of Accounts Receivables showing current, over 30 days, over 60 days, over 90 days
6. Current totals of Accounts Payables showing current, over 30 days, over 60 days, over 90 days

7. A list of all positions in your company and the annual salary paid for each, add also any information on any employee benefits (health insurance, 401K etc) that you pay for.
8. Identify your asking price for the business, and the general terms and conditions which would be favorable for you to sell your business, if unknown, then you can leave this out for now. Assistance is available to get a valuation on your business and to help you determine the terms and conditions under which you will sell your business.

Once all of the above is presented to the potential buyer, you may get additional questions with the opportunity for you to provide written answers. The next step is typically a site visit by the potential buyer and his/her representatives, additional questions will be asked at this time. You should also be prepared at this time to discuss anything in particular you would like to see included in the deal, perhaps an employment contract for yourself and some of your key employees.

The potential buyer will now make the decision to move forward or to pass on the deal. With moving forward, the buyer will now provide a Letter of Intent outlining the offer to purchase and the terms and conditions of the deal. You should review this carefully perhaps with your attorney, accountant and other business advisors. If you accept the letter of intent, a lot of work still needs to be done. The buyer will now do a due diligence review.

The due diligence review will allow the buyer to complete a thorough examination of your financial, accounting and business records, customer relationships, and the contracts and other legal documents regarding your business operation. You will be required to provide all of this information expeditiously, and the information is still subject to the original non-disclosure/confidentiality agreement previously executed. Get prepared; this is a lot of work putting all of this together. More questions may be asked.

Upon satisfactorily completing the due diligence review, the buyer will present a definitive Purchase Agreement outlining all of the terms and conditions of the proposed transaction. Again time to consult with your attorney, accountant and other business advisors.

Simultaneously with the execution of the Purchase Agreement, a closing date will be scheduled.

Soon, it will really be time to slow down and enjoy the fruits of your labor. Or perhaps you will have a new employer with a guaranteed paycheck and not have to worry about making payroll or having an employee call in sick.

Terms you should know:

- EBITDA—Earnings Before Interest, Taxes, Depreciation and Amortization
- Purchase or Sales Agreement—the key document in buying the business assets or stock of a corporation
- Entity sale—you sell either your shares of corporate stock or your membership interests in an LLC.

- Asset sale—your corporation or LLC sells its assets to the buyer and you continue to own the corporate stock or LLC membership interests.
- Warranties—your guarantees that certain facts and statements are true

Joe Reilly entered the world of drug testing in 1993, heis well known throughout the industry and considered an V expert on workplace drug testing issues. Joe served for J nine years on the DATIA Board of Directors and served as Chairman of the Board from 2004-2008. Joe sold his business Florida Drug Screening in 2007 to CBC Companies (Columbus, Ohio), he retired from the firm in 2009 and currently continues to invest in and manage both commercial and residential properties in Central Florida. He is also active in assisting buyers and sellers in the drug testing industry work through the merger and/or acquisition process.