

Selling your business

Selling your business can be stressful. If you don't feel confident in your ability to conduct the negotiations yourself, we recommend that you use the services of a professional adviser who will help achieve the best possible price and structure the transaction to your advantage.

Grooming to sell

The state in which a business is sold can make a substantial difference to the price obtained.

The better run a business is, the higher the value a purchaser will place on it, other things being equal.

Once you decide to sell your business you should start the grooming process as soon as possible, as it may take some time.

If grooming is done effectively, it can add substantial value to your business.

Operations

When considering buying a business, a purchaser will pay most attention to the current year's results and next year's expected results – this will give them an indication of the level of return expected on their investment.

Therefore, when selling your business you should consider the following aspects:

- ✦ Sales and margins;
- ✦ Operating costs;
- ✦ Cash;
- ✦ Debtors;
- ✦ Stock;
- ✦ Fixed assets;
- ✦ Bank overdraft;
- ✦ Creditors;

- ✦ Borrowings; and
- ✦ Contingent liabilities.

Business profile

A business profile or 'information memorandum' is a document which provides prospective purchasers with sufficient information to enable them to assess whether they would be interested in making such an acquisition.

A great deal of effort should be put into the preparation of the business profile as it will often be the document which has the biggest impact on the decision of the potential purchaser.

The business profile should contain information on the following:

1. Ownership and history

Date of incorporation, changes in ownership, current ownership, and changes in the nature of operations.

2. Financial information

The last 5 years' summarised profit and loss accounts, projections for the next 2 or 3 years, the last year-end balance sheet, the most recent balance sheet, and (where necessary) commentaries on the results.

The profit and loss account should exclude abnormal or non-recurring items and the interest costs of debt not to be assumed by the purchaser.

The balance sheet should exclude any assets and liabilities that will not form part of the sale transaction.

You must maintain a reconciliation between the financial statements included in the business profile and the actual financial statements.

3. Nature of operations

Information on products, divisions, market share, research and development (including new products or services), significant accounting policies, and major suppliers, etc.

4. Customers and competitors

Major customers and competitors, along with the market share and advantages held over competitors, should be disclosed only if this information is not sensitive and will not jeopardise the business.

This may be part of a more general SWOT (strengths, weaknesses, opportunities, and threats) analysis.

5. Facilities and plant

Location, area size, current state, market value, leasehold conditions (if applicable) of facilities, and the age, cost, book value, and replacement cost of plant.

6. Management and organisational structure

Age, qualifications, and experience (in the workforce, industry, and business) of key management personnel, organisational structure including the reporting structure, number of staff in each area, information systems (including computers and software).

7. Other staff

A list of staff not included above by division and location, particulars of working hours, overtime policy, bonus scheme, holiday entitlement, redundancy terms, and training programmes.

8. Future developments

This is probably the most important section and should include new products, markets, changes in business structure, objectives, and plans for expansion and growth.

9. Reasons for sale

This will be one of the purchaser's first questions, so a truthful explanation of the reasons for selling should be included.

10. Other information

Examples such as financial statements and details of information summarised in above sections may be included in an appendix.

The business profile must be well set out, well referenced, and easily readable. If the document is lengthy, it is useful to include a summary.

Negotiation process

This stage is perhaps the most critical one of the whole sale process. You should prepare yourself by gathering information to try to achieve the best possible result in the negotiation process.

Before entering the negotiation process, you should be aware of:

- ✦ The method the potential purchaser has used to come up with an offer. With this knowledge, you may be able to point out any flaws or misunderstandings in their methodology.
- ✦ The current market for similar businesses, so that you know comparative values and valuation methodologies.
- ✦ Other offers for the business, or lack of them, which will affect the way in which negotiations are undertaken.
- ✦ The price you want for the business, an acceptable price, and the lowest price you will consider accepting. Establish these levels in advance to avoid unnecessary delays.
- ✦ Your available alternatives if you do not sell the business. If you have alternatives available, there is less pressure for you to sell or to accept an unreasonable price. Alternatives could include winding up the business, waiting for another year, and trying again after using different methods to attract offers.

Disclaimer

Important: This is not advice. Clients should not act solely on the basis of the material contained in this fact sheet. Items herein are general comments only and do not constitute or convey advice per se. Changes in legislation may occur quickly. We therefore recommend that our formal advice be sought before acting in any of the areas. We believe the contents to be true and accurate as at the date of writing but can give no assurances or warranty regarding the accuracy, currency or applicability of any of the contents. This fact sheet is made available to our clients as a helpful guide for their private information. Therefore it should be regarded as confidential and should not be made available to any person without our prior approval.

- ✦ Any concessions which you are prepared to give to the potential purchaser. Concessions may include the type of consideration, settlement period, vendor financing, the sale of the assets and liabilities of the business instead of the entity (to avoid any unforeseen liabilities), and taking responsibility for the collection of debts.
- ✦ The potential purchaser's reasons for buying the business. Having knowledge of the purchaser, their business, and their need for your business may help you to achieve a higher price.

An awareness of the above information will enable you to exhibit confidence in the negotiation process – helping you obtain a higher price for your business.

Structuring the transaction

After negotiations are completed, the two parties must determine exactly how and when you as the seller will be paid.

Purchase and sale agreement

The time it takes to complete this final process may be lengthy depending on the particular circumstances. It is important that any possible future tax, contractual, or contingent liabilities be identified and generally indemnified against.

Why use an adviser

Appointing an adviser to help you sell your business will take a considerable burden off you in terms of time and worry. An adviser will assist you in achieving the best possible price and transaction structure.

Which adviser to use

The adviser should be able to demonstrate they have successfully completed a number of similar transactions, innovative ways of

structuring the transaction, an in-depth knowledge of the surrounding tax and legal implications, access to in-house databases and business networks, and a thorough understanding of all aspects of the sale process.

The extent to which the above are satisfied would obviously depend on the degree of involvement required of the adviser and the costs that you are prepared to pay.

In deciding which adviser to use, you should consider:

- ✦ The adviser's reputation and experience;
- ✦ The adviser's fees;
- ✦ Whether the adviser can offer a complete service; and
- ✦ Whether you are comfortable with the adviser, as you could be working together for a substantial period.

Advisers' fees

The way in which advisers' fees are charged varies between advisers and includes:

- ✦ Fees charged on a success basis, ie no sale, no fee;
- ✦ A flat quoted fee;
- ✦ A combination of the above two; and
- ✦ Fees charged on a time-cost basis, with an upper limit.

See us first

- ✦ Before making any business investment or sales decisions.
- ✦ To help assess any business purchase or valuation to ensure that it meets the necessary legal or financial requirements.
- ✦ If you consider that any of the issues contained in this fact sheet may affect you.

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