Preparing your Business for Sale (Part 2)

In the first part of this series I covered the key steps a business owner needs to take when considering a sale of their business, in order to maximise its value. In this second part I'll share the **10 key questions that most Business Owners ask when they want to sell their business.**

For many, the sale of a private company is the culmination of a lifetime's work. More often than not, this will be a once-in-a-lifetime transaction—with just one opportunity to get it right.

1. How much is my business worth?

It's a truism (but true!) that any business is worth what another person in prepared to pay for it. Of course there are a multiplicity of methodologies available. All have a degree of subjectivity because they involve taking a view of the future, and, logically, not everyone shares the same view. However, to assess the value of your business, you should consider a wide range of factors: track record, future potential profit trends, competitors' actions, risk, succession planning, staff, net assets, quality of supplier and customer base, property values, intellectual property and trademarks, etc. etc.

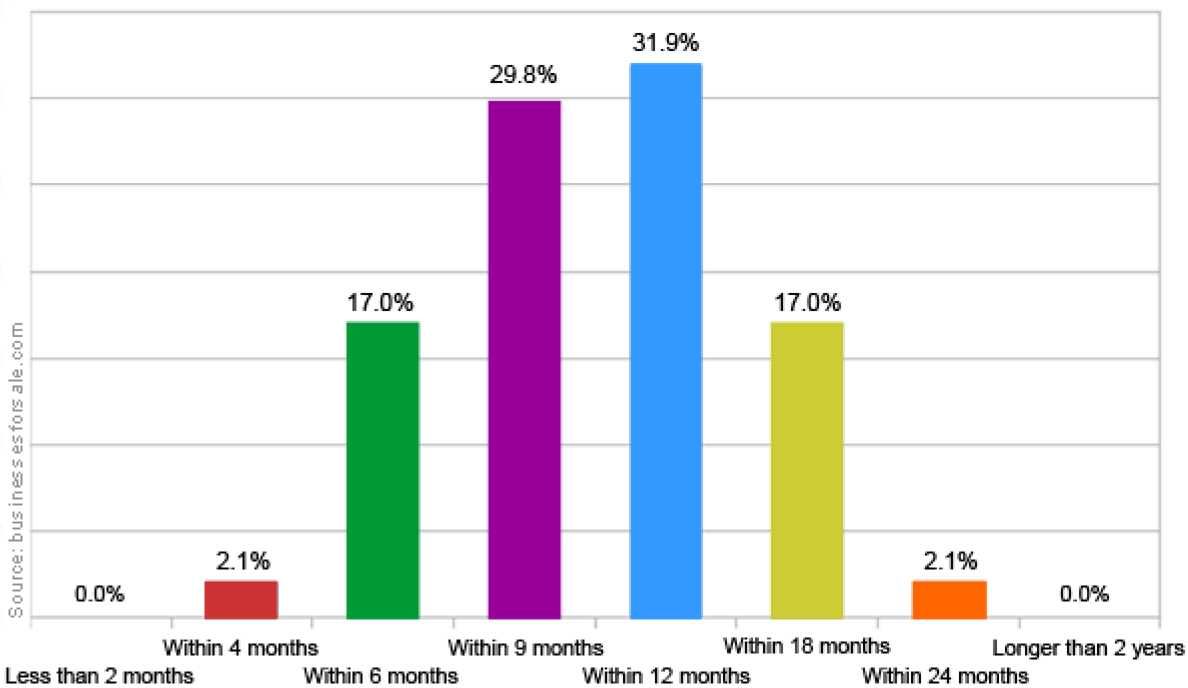
Additionally recent deals in the same sector give a useful indication of the price that potential buyers might pay, as well as Stock Market valuations of the relevant sector. Part 1 covered various areas where value can be created (and lost) through not preparing properly.

2. When is a good time to sell my business?

Timing, of course, is vital. An objective overview should be taken of your business, your industry sector, and the overall economic picture, to assess if and when it is a good time to sell. Some circumstances make it easier to sell a business regardless of timing; for example, if you operate in a niche market with good contacts or have an excellent customer base. Almost without exception, a good quality business should sell.

3. How long does it take to sell a business?

Typically, the sales process takes 6+ months. A survey by businessesforsale.com showed that 80% are completed within 12 months. There is no simple formula to predict how long it will take.



Whatever the time frame, you can benefit from an adviser who will stay involved throughout, enabling you to continue running your business right up to completion, and ensuring that you realise the full value of the business.

4. Do I need to do any preparation?

As discussed more fully in Part 1 – absolutely!

Owners are able to significantly impact the price achieved upon sale by careful planning. It is never too early for a business owner to start to plan for the eventual route out of, or succession to, the business. Apart from the obvious need to sell a business at the point in the economic cycle when company disposals are likely to be successful, owners should ensure the business is appropriately prepared for exit.

5. Can I sell the business discreetly and in confidence?

Yes, in all likelihood, but confidentiality is vital; a fine balance is needed between preventing knowledge of an impending sale leaking to customers and staff, and, at the same time, ensuring that they don't hear the news second hand. Both scenarios can be damaging to goodwill and loyalty.

6. How does the sales process work?

The sales process typically goes through a number of stages:

• **Planning and preparation**—preparing the business for sale, drafting an information memorandum about the business, researching potential purchasers.

• **Negotiations**—distributing the information memorandum, evaluating interest levels, receiving offers, negotiating and reaching an agreement in principle.

• **Contracts and completion**—contract drafting by lawyers, tax planning, overseeing purchaser's due diligence, completion of sale.

7. Do I really need to involve Advisers and Lawyers

In theory no, but in practice absolutely. Knowledgeable experienced professionals will help you avoid "being taken advantage of" in terms of the various potential legal due diligence minefields. They will also be able to give realistic assessments of the proper value of your business, and give additional comfort and balance in the negotiating room. Significant tax savings / penalties can be achieved / avoided with the correct advice.

8. What do I need to tell a buyer?

Great care is required in preparing an information memorandum and controlling the release of information to the prospective buyers. Too little or too much information or the wrong emphasis in the wrong place can have adverse consequences. During a sale, FD4 can help manage the transaction together with your Legal advisors, so that purchasers are provided with correct balance of commercial and financial information, to enable them to determine the appropriate valuation of the business.

9. What about my tax position?

This is potentially a complex area. Working with your Tax adviser your FD4 finance director can help you make the sale of your business as tax-effective as possible for both you and your buyer.

10. Will I have to stay involved with the business?

In theory no, as it's perfectly possible to sell 100% of the business for an agreed sum payable on completion – same principle as when you sell a house. In practice however most purchasers require the key business owners to help manage the transition and ensure continuity of the business. As an incentive for this, deals will be typically be constructed to have an initial payment, and then stage payments over the so called earnout period (generally 1-3 years). Great care and planning needs to be taken in this area.

How FD4 Can Help

For many, the sale of a private company is the culmination of a lifetime's work. Often, this will be a once-in-lifetime transaction—with just one opportunity to get it right. FD4 professionals' experienced knowledge and focus will allow for a better understanding and valuation of the transaction, and therefore speed the overall process.

We can help you:

- Identify and prioritise potential buyers and determine a method of approach.
- Initiate confidential contact with prospective buyers to ascertain interest.
- Develop pricing and valuation analyses to help define expectations.
- Develop financial modelling to review the proposed transaction and the potential return.
- Contact prospective purchasers, disseminate information, and coordinate the receipt and review of offers.
- Lead negotiations or provide negotiating assistance and support, including transaction structuring.
- Coordinate due diligence activities of clients, legal counsel, and other professionals.
- Supervise the transaction through to closing.

In **Part 3** I will cover the **15 realities of what you can expect as you go through the process**

This was written by Neil Dockar, a Commercial FD with over 30 years' experience in business. Following 12 years with Procter & Gamble in a variety of senior, Europe wide, Finance roles he was Group Finance Director at Capespan International plc for 12 years, where he initiated a wide range of new business ventures in addition to leading the M&A activity. Since 2006 he has been involved in a number of Private Company Sales as well as start-up ventures, providing bespoke consultancy to a wide range of clients including Franchising retail shake bars, Internet start-ups, Logistic and Import/Export companies, Care Homes, Digital Marketeers, Financial Services

Neil is a founder director of FD4, which is a network of experienced commercial Finance Directors that are passionate about adding value to Companies. They are engaged Part Time (on an hourly or daily basis) to do the work of a full time Finance Director, but at a fraction of the cost. They specialise in Exit Planning; Cash Generation and Performance Improvement, see more at www.fd4.co.uk