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getting all your ducks in a row

Factors that impact your decision to exit, the value of your business and the exit process

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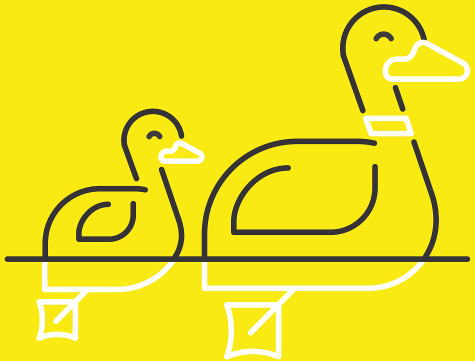

one place to get your ducks in a row and sell up

business broking

businessdepot.com.au/business-broking

Selling your business can be an emotional experience. You may have spent years of blood, sweat, tears and money building your business and the thought of selling it to someone else is almost too difficult to comprehend. Reality is there will come a time to exit and the thing to keep in mind is that to maximise the result you need to control the timing of the decision and the process as much as possible.

Unfortunately, for many business owners that decision is taken out of their hands. A sale is either forced upon them by some life trigger event or they decide that they have simply 'had enough''. In both cases it is likely that the value of the business is negatively impacted by a failure to have the business sale ready.

To maximise your exit position it is essential to: plan ahead, minimise risk and protect value. This will maximise the overall monetary outcome available to the owner at the time of exit.

This eBook will explore these issues and a range of other factors that impact your decision to exit, the value of your business and the exit process.

The actual sale transaction is only one part of process that has 6 broad steps:

+ Planning
+ Picking your team
+ Know your numbers
+ Preparing the business
+ Selling and going to contract
+ Settlement

exit planning

The sale transaction is only one element of an exit process and therefore planning is an essential first step. As we have already discussed, the sale process can be challenging. You are dealing with the decision to sell, navigating the sale process and continuing to run your business. Having an exit plan, as an extension of your business plan, will keep you on track throughout the process. The contents of your plan, and therefore your ability to positively impact the sale outcome, will largely be determined by the available preparation time – so start early.

It may be worth considering doing a 'Sale Ready Assessment' with your broker or accountant. This process will involve undertaking a review of the items detailed in the preparation stage below and provide you with a report on those areas of the business that require attention before listing for sale. This information will form an important part of your exit plan and allow you to prioritise those items that will have the greatest impact on the final sale outcome.

putting your team in place

You will need good accounting and legal advisors who are experienced in business sale transactions. There are plenty of advisors out there who are good practitioners but do not have the business transaction experience. You need people on your team that will protect your interests but also understand that at the end of the day, the deal must be completed for you to get money in the bank.

I have experienced deals where posturing by advisors has frustrated the transaction. In one case the buyer received professional advice that was plain wrong. [In that instance I offered to pay for the purchaser of my business to go and get a second opinion and we ended up completing the sale] Don't be afraid to ask questions and speak up if something doesn't seem right to you.

Business Brokers can have a variety of qualifications. Some have only completed an on-line real estate sales course and off they go selling businesses. Others like me, have personal experience buying and selling businesses, hold full real estate licenses and have business & professional qualifications.

Like everything in life, you get what you pay for. Selling a business is not like selling a house. The process is generally much longer, the level of detailed information required is substantial and there are many hoops to jump through to satisfy multiple external parties.

Beware of general brokers that operate a business model based on getting listings for a fee, rather than actually selling businesses. Good brokers will charge you an upfront fee to list a business for sale. This fee not only compensates the broker for the work required to list the business but also demonstrates your commitment to the sale process.

In addition, you will generally pay for advertising along the way and a commission or success fee upon completion of the transaction. Advertising is essential to reach the widest buyer pool and beware of free internet sales sites as they are free for a reason. Expect that the success fee component will be between 7% and 10% + GST of the contract price. Ask your broker about their fees and charges and ensure they are clearly outlined in the document you sign when appointing the broker.

know your numbers

There are two areas you need to understand early on:

1. What your business is worth; and
2. An estimate of your overall financial position after the sale is complete

Let's have a look at each of these in more detail.

what is your business worth

You absolutely must understand the likely market value of your business before you start the sale process. This allows you to properly plan your exit and make informed decisions about what's next. There are several different questions to consider here:

What is the business worth to you?
This should have been considered when making your decision to sell. You might be enjoying a level of income or other lifestyle benefits that will end when you sell.

What is it worth to buyers generally?
This is where professional advice is critical. You must understand how the market views your business and make decisions accordingly. It may be worthwhile investing in a formal appraisal from your broker to ensure you have a real indication of the market conditions.

Is the business worth what you paid for it?
Sometimes the reality is that the market has changed and the answer to this question is no. It is better to understand this from the beginning and make informed decisions than find out later.

Why do different buyers value the same business differently?
One buyer may see a business with consistent cash flows but value the business lower than a buyer that sees a unique opportunity to acquire a business that might be leveraged in some other way. Neither are wrong, that's the market at play.

Sellers must also consider the issue of buyer risk.
Buyers are not only assessing the financial performance of your business but also forming an opinion of the risk inherent in the enterprise. In the next section we look at the parts of the business to be reviewed during the sale preparation process. Optimising these items may not only enhance performance and protect value but will also go a long way to removing questions of risk from the buyer's mind. Basically, a well organised business performing well, will generally be viewed more favourably by buyers than a disorganised business delivering a similar bottom line.

As a seller you need to do everything possible to ensure that all buyers can clearly see the value across your business.

after sale
financial position

To properly evaluate your sale outcome it is essential to consider your overall financial position after the transaction and not just the business sale price.

There are three elements to consider:

1. **The proceeds from the business sale**
   This includes the contract price, debtors collected and settling all your creditors and other obligations after the sale.
2. **Your tax position**
   This can be a very complex area and professional advice is a must before you sign a contract. It can be expensive if your contract is not structured to optimise your overall tax position.
3. **Estate / Wealth / Superannuation Planning**
   This goes hand in hand with your tax advice and again professional advice is required to ensure you maximise your post sale financial position.

This is not the time to take advice from your mates around the BBQ. Getting no advice or incorrect advice might cost you dearly. This is where having professional advisors that have transaction experience will prove their value.

preparing the business for sale

Preparing for sale is about examining your business from a buyer's perspective and taking steps to present your business in the best shape possible. This involves working from the front door to the back door and analysing everything in between.

While having up to date financial accounts is essential, being ready to sell involves taking a much broader view of the business. The more time you allow for this process the better.

Naturally the importance of these factors will depend on the size and complexity of the business however the following are likely to be relevant to businesses of all sizes:

Up to date financials
Financial accounts prepared by an accountant are essential. You will also likely need to provide current information as the transaction progresses, so have these systems organised before you start. Nothing makes a deal go cold quicker than when a buyer can't produce requested information in a timely manner.

Business Plan
Do you have a formal business plan? What opportunities have you identified for the next stage of growth or projects that will improve efficiency? A buyer, and their financier, will want to understand this plan and know there is a future for the business

Balance Sheet Review
This is where you will likely need some assistance from your accountant to ensure that the balance sheet properly reflects the assets and liabilities required to operate the business in its current form. At a minimum debtors, creditors, stock [if any] and equipment should be reviewed.

Business Value Drivers
What are the key value drivers in your business and can they be strengthened to improve performance? What other opportunities have been rattling around in your head but never acted upon? Now is the time to make it all count and do whatever possible to boost your business performance.

Commercial Agreements
Are there key areas of your business that require formal agreements to underpin the value created by your business process? These might include supply agreements, authority to act on a client's behalf or customer agreements.

Licenses & Approvals
Do you have the required authority to operate your business? These might include food safety licenses, environmental permits, safety certificates or council approvals.

Lease of your premises
If you are location dependent, like a retailer, then this is critical as your business value is contingent on your right to operate in that location.

Intellectual Property
Have you created intellectual property in your business that needs protecting or do you use another parties process or system that will require approval to transfer to a new owner?

Staff training
Do your staff hold the appropriate certificates or licenses required to work within the business?

Documented processes
Do you have documented processes and procedures that guide your business and ensure consistent outcomes? These not only help you run a better business, but they also give the buyer confidence that the business will continue to operate when you leave the building.

Employee records & entitlements
Ensure that you have current employment contracts, position descriptions and payroll records. You will need this detail in the handover or to settle your obligations if staff are not being employed by the new owner.

Business website
Your window to the world, make sure it is up to date and relevant to the business you are selling.

Plant & Equipment
Is maintenance up to date and all in good working order? Depending on the business a buyer may insist on evidence of this.

General appearance
If your business has a physical presence then make it as appealing as possible. New external signs, a coat of paint and working lights can often make a world of difference.

Cut any dead wood
Are there things you have been doing in your business just because you always have but they add no value? Get rid of them and simplify the process

Other areas to consider might include
- Privacy & Data Security
- IT systems
- Quality Assurance documentation
- Sales & Marketing processes
- Outstanding legal claims
- Insurances: commercial & workcover

putting up the 'for sale' sign

Now that you have organised your affairs it is time to put the business on the market. Your broker should prepare an Information Memorandum [IM] as part of the listing fee. The IM is a detailed document and will be the primary information source for the marketing of the business. It will include information like:

- Business history
- Overview of the business operation
- Detailed financial results
- Organisation structure if a larger team
- Summary of commercial items including:
  - Summary of the premises lease
  - Licenses & Permits required
  - Other agreements necessary to operate the business
- Market data
- Demographic information
- Photographs of the business

The marketing of the business will occur in three main ways:

- Listing on business for sale websites
- Your broker's database of people that want to buy businesses
- Targeting other businesses or competitors that may be interested

When a prospective purchaser contacts your broker to express their interest in your business they will be asked to complete a confidentiality or non-disclosure agreement. This step is designed to protect your information and provides a first opportunity to assess the suitability of purchasers. Suitable prospects will then receive a copy of your IM for their consideration.

Note: we are now seeing some brokers moving towards virtual IMs where cloud systems like Box & Dropbox are used and purchasers are given a secure log in. These systems work well and allow for easy update of information and access control features that can be set to prevent downloading or printing of information.

Your broker will now work with engaged purchasers to determine their real interest. It is likely you will be asked to provide additional information at this stage to assist the buyer in reaching a decision about proceeding to contract.

At this time you will also need to consider how you will tell your team that you are selling. There is no perfect time but once buyers start looking you can rest assured that they will hear it from someone. This can be difficult and can unsettle some people but they must hear it from you first.

going to contract

When a buyer decides to make an offer the broker will act as an intermediary to negotiate the major commercial terms of the deal. These will include:

- Price
- Deposit amount
- Settlement date
- Due Diligence timeframe
- Finance approval timeframe
- Any other major requirements such as:
  - The assignment of the lease to the new owner
  - Transfer of any mandatory licenses or agreements
  - Any handover period to be served with the new owner

The seller's solicitor will then prepare the contract of sale and send it to the buyer's solicitor for review. There will likely be an amount of backwards and forwards between the legal teams to agree a final form contract before all parties sign the document.

Once the contract is signed the clock starts on the various time frames contained within the contract, including finance and due diligence.

The important thing for sellers to do during this period is respond quickly to any requests for information. Nothing will make a buyer nervous faster than having to wait for information. You want to keep the momentum so respond promptly with the requested information.

Many sellers are worried by the due diligence period. Due diligence is an opportunity to showcase the business and how well organised you are. Preparing in advance for the sale process will hold you in good stead when due diligence comes around.

At this stage of the process you will likely be engaging in arranging the transfer to the buyer of the various services and licences required to operate the business. These will need to be transferred on settlement day and will include phones, internet, domain names, security services, electricity, water, insurance, credit card merchant facilities, food licenses, waste permits and others. Every service provider will have a different procedure for making the transfer and co-operation between the buyer and seller is essential in making this a smooth transition. Your broker will often act as a go between to ensure that this important process keep moving in a timely fashion.

If there is one warning about the contract and due diligence period, it is this...

You haven't sold anything yet. It's important to show the buyer that the business is still performing so don't take your foot off the accelerator and keep driving the business forward. I can honestly say that the hardest I have ever worked in business have been those periods when I have been under contract to sell. It will all be worth it on settlement day so keep your head down.

settlement - getting paid!

The contract will contain a variety of conditions that need to be satisfied before settlement can occur. It really is like a big checklist that the solicitors will work through. Some conditions like finance and due diligence will have agreed timeframes and others will be determined by the process of an external party. For example, the timing of the assignment [transfer] of a lease on the business premises to the new owner will largely be dictated by the landlord and their solicitor.

The best advice is to be prepared, provide all the required information promptly and be patient. If your business carries stock, then there will need to be a stocktake done before settlement as the stock value will form part of the proceeds of sale paid upon settlement. It is best to get this booked in early to avoid a settlement delay.

When all the contract conditions are satisfied the contract becomes unconditional and you are on the countdown to the day when the business will transfer to the new owner. Having made the decision to sell some time ago it can be quite overwhelming as the day approaches. This can be compounded if you have staff and you contemplate your goodbyes to the people that have helped you build the business.

Settlement day itself will largely be handled by the solicitors. You may have some final information to provide that is required to calculate the final settlement sum but after that it will be mostly waiting for the official notification that the contract is complete and the cheques or transfers have been paid. Then it's done, the money is in the bank, the keys will be handed over and congratulations you have sold your business. Let the next stage begin.

As you can see, there are quite a few moving parts in the business sale process. The truth is that as the seller you control far more of the elements than any other party. Therefore, proper planning is essential to maximising the outcome from your exit process.

It's never too early to start planning your exit. In fact, building your business to sell from the start is a sound strategy. I recommend that every business owner read 'Built to Sell' by John Warrillow – not all the lessons apply to every businesses but the basic premise of creating a business that can thrive without you is universal.

If you have a business to sell, would like to know more about preparing for sale or just want to talk about your business I'd love to hear from you.

brad dean

Senior Business Advisor

With broad commercial experience, including many years as a business owner, Brad understands the resourcefulness and skills required to grow a successful business.

Brad has strong transaction experience having established new ventures, managed changing businesses and bought, developed and sold others. This background is invaluable in helping clients achieve successful business sale results. His career has spanned a range of industries including, retail, hospitality, property development, manufacturing, transport and distribution.

Brad combines this practical experience with his accounting background to help owners maximise their exit and succession outcomes. He is a firm believer that proper planning and having a business ready to sell at all times are essential to protecting business value from the impact of life's unexpected events.

So whether you want to sell your business soon, need assistance building a valuable asset for the future or just want to talk about your business plans, please feel free to give Brad a call on **0417 886 352.**

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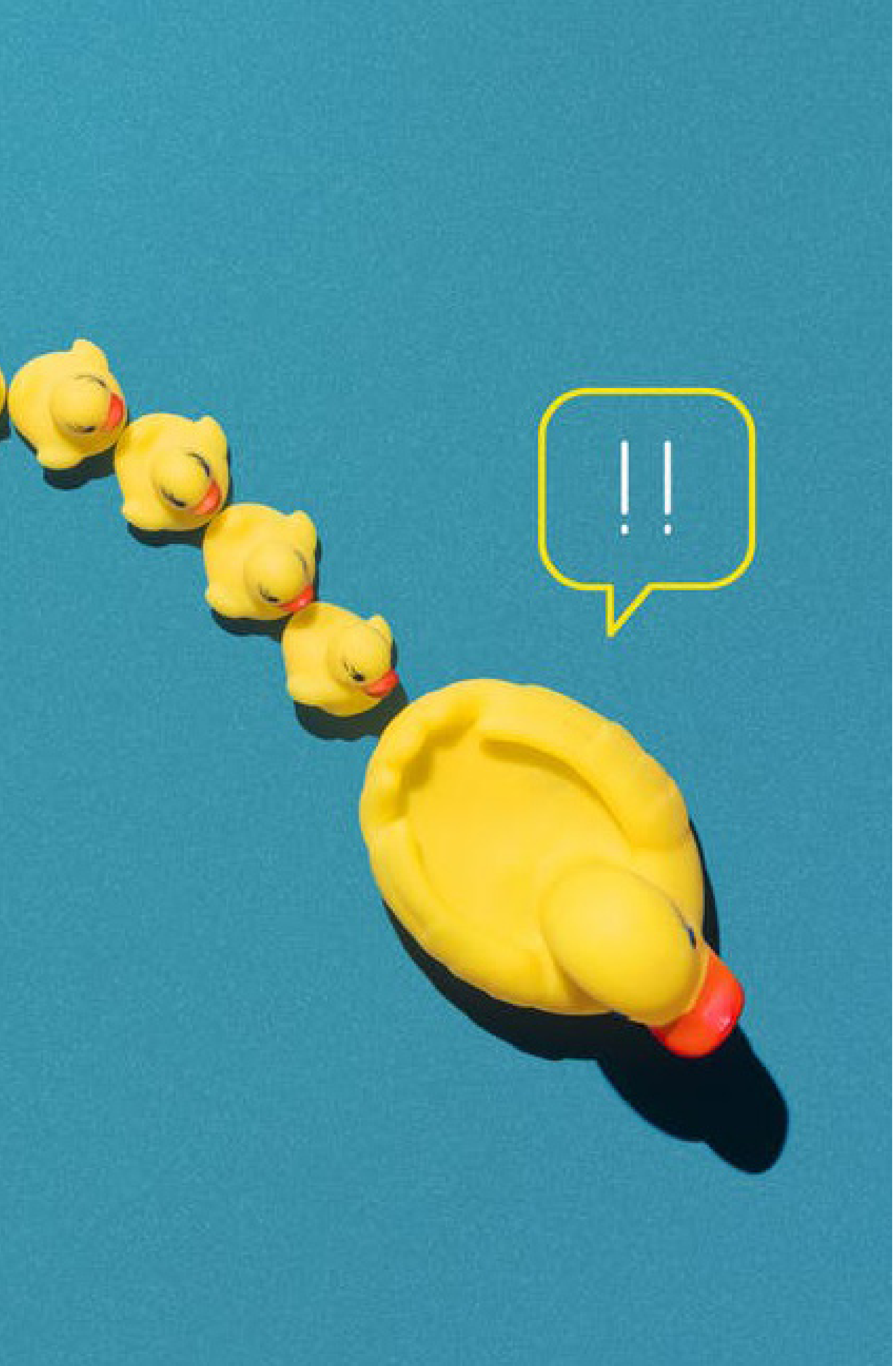

want to
get in touch?

Great! We'd love to hear from you. We're here to help and happy to kick things off with a coffee and a chat about your goals.

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