VAC

VALUE A COMPANY

How to Sell Your Business

AN ENTREPRENEUR'S GUIDE

HOW TO **SELL YOUR BUSINESS**
AN ENTREPRENEUR'S GUIDE

My number one piece of advice for entrepreneurs is to plan your exit three to five years in advance. It might sound obvious, but you'd be amazed at how many successful business owners neglect to consider what they're eventually going to do with their company.

Selling a business is the most valuable transaction any owner will ever make. If you compare it to selling a property, naturally you'll always want the best price. We spend time presenting it in a way that is more attractive to potential acquirers . So it's always a surprise that when business owners sell their most valuable asset, they often miss the opportunity to enhance the value and increase their chances of success. What many business owners don't realise is that there's a right time to sell. The biggest hurdle is that often, businesses are just not ready for sale.

It is so often the case that most business people are so consumed with the day-to-day running of their company that they leave their exit planning until it's almost too late. If you haven't built your business to sell it, then it will be that much harder to find a suitor. Don't make this mistake, as it is the difference between success and failure.

Viewing the intricacies of your business from an outside perspective is typically the best way to identify areas within your business that could possibly reduce overall value upon an eventual exit, and to rectify them in good time.

The best way to do this is to undertake a due diligence process on your own company. In layman's term due dilligence is basically taking an in-depth look at your business, covering all areas including operations, financials and human resources etc.

Upon entering acquisition negotiations, acquirers will always look to chip down on the value and, as such, any uncertainties or lack of clarity with regards the business will always act to strengthen the acquirer's negotiating stance and, as a result, will inevitably reduce eventual value.

Undertaking thorough due diligence on your business prior to sale will enable you, as a business owner, to identify any underlying issues and ensure that everything adds up. This will also grant you the opportunity to address anything which may arise, potentially preserving value.

There are certain things to pay particular attention to when undertaking internal due diligence which acquirers tend to look out for. First, always ensure that you have comprehensive contracts in place with clients and suppliers. It is surprising how many businesses operate without firm contracts in place and, if this goes unaddressed, it will reduce the value an acquirer is willing to part with significantly.

Continuing the topic of contracts, it is also important to consider the business property lease agreement that's in place, should this be relevant to your business. Upon purchase, an acquirer may seek to relocate the business in order to integrate it into existing operations. If there are significant obstacles which prevent an acquirer from doing this, it could affect value or even prevent a deal alltogether.

Another important thing to consider is the overall dependency the business has on its owner or other key individuals. Many businesses are intrinsically linked with the business owner's skills, knowledge and relationships, which hugely affects an acquirer's perceived value. It is imperative that overdependence upon certain individuals is eradicated, and the most effective way to do this is through the implementation of well-documented systems and processes.

When you're heavily involved in the day-to-day running of a business it is difficult to take the time out to consider something which may seem so far away: however, given the potential financial implications it is hugely important. Spend a full day once a month - with your office door closed! - planning and reviewing your strategy
for the business, including your exit tactics. Even if you don't want to sell your business now, you should still be considering what your eventual plans are for your company.

Procrastination when it comes to considering and planning an exit strategy will more often than not cost owners hugely in terms of lost value. It pays to plan ahead and considering a business tends to be the majority of an individuals most valuable asset, the value of considering and planning for your exit in advance will be hugely rewarding when the time eventually comes to sell.

So how do you go about building your business with a view to selling it in the future?
The answer is quite straightforward. Track previous acquisitions in your sector. It really is that simple! You will probably already be aware of a rival firm that has been sold. Take a closer look at what made that company appealing to the acquirer. Carry out your own research by using search engines such as Google, newspaper websites and trade publications that write about your sector.

You will start to assemble a good background understanding of the business that has been acquired. Invariably you will note that the company that was acquired had a dynamic managing director, a great website, had won national industry awards, was a national commentator in its sector, had great clients, employed brilliant people, appeared in annual sector rankings and announced year-on-year growth in turnover and profits.

Remember, the CEO with that seven-figure sum with your name on it will only want to acquire your business if it adds value to their company, is complementary to their own service or product or if it helps with expansion into an existing or new market that they can exploit.

If you track previous acquisitions in your sector you will begin to understand what an acquiring business is looking for. The next stage is to draw up a bigger list of 10 companies that have been sold in your sector. Observe what made these 10 businesses appealing to the purchaser. This will give you a clearer understanding of what made these companies attractive to the acquirer.

Your strategy should also include who you would like to sell your business to. Draw up a list of three companies that you feel would be an ideal fit for your own organisation. Then start to work out what would make your business particularly attractive to those three companies. For example, by selling well before patents expire- as patents are often where the true value lies - but bear in mind that they do have defined time spans.

Next, concentrate on building your business so that it delivers three years of healthy profits in excess of 25% per annum. Without demonstrable ongoing profits, it's going to be virtually impossible to sell your business.

The preservation of cash in the business is also pivotal in impressing a buyer during the due diligence stage. It's worth remembering the adage that "turnover is vanity, profit is sanity and cash is reality". Therefore, try to ensure that in the run-up to the sale you have conserved money and that your cash flow is strong.

Don't forget, acquirers want something with value. Sell the unique points of your business. Put yourself in the shoes of an acquirer and ask yourself some key questions. How easy is it to copy? How many competitors are there?

To ensure that you get maximum value, preparation is essential and the detailed planning needs to start early. Speak to experts and select a specialist who will walk you through the sale process. They will draw you to some key areas - for example, if you are looking to leave the business, you must ensure that the people who will run it are credible and can ensure that the business continues to be successful.

Give yourself a year - at the very least, three months. That's true whether it's a company with a modest turnover or a company with a substantial one. As part of the due diligence process your prospective buyer will want to access a number of your documents; start by pulling these documents together in one place. For example, your M&A consulant may use an electronic data room, which is a confidential online storage facility dedicated to your company, where you can grant the acquirer's consultant access at a time to suit you.

Your intellectual property (IP) is another key area that is vitally important. You definitely don't want IP issues to arise at the due diligence stage of the sale process. Such issues will inevitably result in costly delays, price chipping, or worse scenarios such as the acquirer actually withdrawing.

Business owners often assume that their buyer will be a competitor of theirs and, of course, that could well be the case. However, spending time identifying acquirers where there is some clear synergy between your businesses can be an invaluable exercise. Try to think outside of the box and consider acquirers who may currently be in a different market altogether. This may help sell your service or product through different channels. The right acquirer, and typically one that is not your closest competitor, could be the one that pays the highest price. Once you know who will be interested, you can tailor your preparation to suit their needs.

In summary, selling a company isn't easy. It takes time and commitment as issues will inevitably need addressing before you start the process of selling the company. Acquirers need to be confident that you have built something that is sustainable, that has a good reputation and, most importantly, they know has a strong future under their ownership.

The only way to achieve this is to plan your exit by preparing your business for sale. So seek the advice of experts - you will reap the rewards, both emotionally and financially.

VAC

VALUE A COMPANY