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Top Tips from Cole Associates

TOP TIPS ON PREPARING YOUR BUSINESS FOR SALE

If you're contemplating selling your business within the next 2-3 years, here are some tips on how to prepare your business so as to attract the maximum number of good quality buyers and achieve the highest valuation. You've heard the expression "if you fail to plan, you're planning to fail" – well this is one situation in business where it definitely applies.

1. Plan well ahead

It's almost impossible to plan too far ahead for the sale of your business. Ideally, the planning process should start at least 18-24 months ahead of the start of the sale process which, itself can take 6-9 months. The sale process is like many other business processes (such as moving to a new factory); the investment in planning will pay dividends in the form of less stress and a much more successful outcome.

2. Line up your advisory team early

Given that I'm a corporate finance adviser, you may be thinking "well, he would say this, wouldn't he?" but, honestly, the appointment of your key advisers early in the process is a good first piece in the jigsaw. For the selling shareholders the three most important advisers are your corporate finance adviser, your lawyer and your tax adviser. A top corporate finance adviser is effectively 'master of ceremonies', project-managing the entire process for you as well as delivering advice on valuation expectations, preparing the business for sale, preparing & managing information, finding buyers, negotiating with buyers on your behalf, and managing the timetable. Your lawyer's job is to manage transaction risk on your behalf, aiming to ensure the legal agreements relating to the sale minimise the risks and uncertainties for you post-sale. Your tax adviser's role is to prepare the tax affairs of the business ready for sale and ensure the sale is structured in a way that minimises the tax charge for you arising from the sale.

3. Consider your own objectives

Before you launch into the detailed stages of the sale process, it's vital to ask yourself "Why am I selling? Why now?" Get clear on your personal motivations and aspirations. If there are several shareholders, are their objectives aligned? (to prevent conflicts and issues arising later in the process). Take good quality advice on valuation to make sure your expectations are realistic and achievable.

4. Focus on profits

As you probably know, the value of a business is mainly determined by its profitability. This is what the buyer expects to acquire – ideally a reliable, sustainable, hopefully growing stream of profits. In planning for a sale the focus should therefore be on maximising profits in the period leading to sale (but not boosting short term profits artificially by inappropriate cost cutting etc), and being able to explain, honestly the trends in profits during the last few years, and future prospects.

5. Growth strategy

Related to the previous point, having a clear growth strategy helps potential buyers to understand the business and the scope for improving the financial performance post-sale, which can only help with valuation. They will also be impressed by the initiative and ambition of an owner who plans ahead in a structured way. The eventual buyer may adopt a slightly different growth strategy after acquisition, but they'll be impressed if the owner has a credible, ambitious growth strategy to improve profits

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6. Plan to maintain strict confidentiality

Your advisers should help you ensure that the transaction process is run in the most discreet, professional way, with all buyers signing non-disclosure agreements and information on the business treated with great care. Remember that many potential buyers may also be competitors, so divulging information in the right order in the right form is important. This control of information should be included in the planning stage of the sale process.

7. Reduce vendor-dependency as much as possible

Probably the number one factor that worries buyers about SMEs is the extent to which the business is dependent on the selling shareholder(s). In planning ahead for the sale, use the time to make changes in the business that tangibly reduce the dependency of the business on the owner(s). These changes must be real, not 'window dressing', and should leave the buyers with the perception (= reality) that the business can operate successfully in the absence of the owners, or at least as close as possible to that ideal.

8. Get your house in order

Planning for the sale of your business is an opportunity to subject the business to your own form of 'due diligence'. Look long and hard at all aspects of the business, as if you were looking at it from the outside or from above. Make improvements on the back of this review. Every aspect of the business should be included; for example, working capital control, management information, IT systems, HR & pensions, intellectual property protection, legal agreements, customer and supplier Ts&Cs and relationships, brand & reputation, marketing materials & website etc.

9. Be realistic on timescales

The typical duration of the sale process (from when potential buyers are first approached) is 6-9 months. It can happen more quickly if everything flows smoothly, but you don't want to be seen to be in a hurry or desperate. So, you need to be realistic in your expectations. Despite your advisers' best efforts to project-manage the transaction process, at certain stages it will be distracting, frustrating and exciting. Make sure your senior team and family know what to expect before the process gets going, which will help them support you during the sale process.