



Grooming Your Business For Sale

When considering the sale of a business as a going concern there are a number of things that can be done in order to enhance it's value. The following points are not intended to be exhaustive but are listed for consideration. You may feel that some of them are not appropriate to your particular business but we hope that they assist you in a preliminary appraisal.

Try to see things from the perspective of a potential purchaser and how they might view an acquisition target.



Sales

Review prices for any possible improvement on any product. Any increase will directly improve profits and hence the company's perceived value.

Trading relationships should be reviewed, identifying informal relationships that could be formalised by trading contracts. This provides security, for any future purchaser, that earnings can be maintained and will not be lost on acquisition.

Cost of Sales

All possible reductions in costs must be identified and implemented to improve profits.



Review your overheads, subscriptions, insurances, etc. and re-tender where appropriate. Due to the multiplier effect, a saving of £1,000 could yield several £000's on realising the share sale.

Stock should be reviewed and tightly controlled to ensure that there is no obsolete stock and stock

levels are not unnecessarily high – this will make the company seem more efficient and avoid any value disputes on disposal.

Reconsider overhead absorption and other bases used in valuing work in progress. You may consider this inappropriate for implementation but it could be useful to be able to illustrate the effect to a potential purchaser.

Administration Expenses



Review overheads to identify all non-operating costs which would not be incurred by incoming purchaser.

It is possible to persuade a purchaser that these costs should be added back to adjust profit but the argument is stronger if a business can run for a period without these costs.

Maintainable Earnings

Depreciation policies should be reviewed and put in line with industry norms – this provides assurance to a purchaser that the company assets are reasonably stated.

Provisioning policies and accruals should be reviewed to ensure that they are reasonable and not overly prudent. Over prudent charges will reduce profits and hence value.

Any area which is judgmental in the accounts should be audited, so that any changes to make your company more attractive can be implemented before a disposal. Such areas may include revaluation policies, research and development or accounting treatment of any rent free properties, etc.

Balance Sheet

Consider obtaining current valuations for assets (such as property) where the net book value is believed to be below market value. This will immediately enhance the net asset position of the company. It will also save time negotiating such values later.

Review any assets which may not be fully appreciated or utilised by a purchase and consider removing before starting a sale exercise.

Review debtors and creditors and try to ensure that there are strong management systems in place to provide reassurance for a purchaser. The risk of bad debts should be reduced, increasing value and avoiding disputes about old debts on disposal.

Leases should be inspected and formalised – they will be more attractive if formal and of a standard format. It will also save time when the disposal does take place, as a purchaser will want to review leases anyway. Ensure leases are transferable and identify any personal guarantees for early highlight in the sale process. This will avoid complications arising on any future disposal.



Management and Employee Review

Your management structure should be reviewed and strengthened where possible. You need to be able to show the strength of the management and to demonstrate to a future purchaser that, if you sell the company and reduce your involvement, the business will still function effectively.

Consider recognising the input of management formally by:

- minuting management meetings
- issuing formal job descriptions and/or
- considering job titles

Potential cost savings with regard to staff may be identified to improve profits. It may also be possible to identify positions that may be redundant. Once negotiations with a third party have commenced any redundancies can in cer-

tain circumstances be treated as unfair dismissal.

Accordingly, you should review staffing levels before the sale exercise starts. A position created by a leaver in the period could be filled by “reshuffling”.

It may also be worth considering how you may be able to tie in any key employee to the company. This will eliminate the risk of key personnel leaving on acquisition.



Tax Review



Review Corporation Tax, VAT and PAYE to ensure that compliance is up to date and any outstanding matters are settled – this will remove any issues which may be blown out of proportion by an acquirer in

negotiations.

Consideration could be given to tax reliefs that the company has and if it is appropriate to claim these. This would include any tax losses and capital allowances.

Legal Review

Ensure that all statutory filing is up to date.

Review your Memorandum and Articles of Association to ensure that there is no problem with selling the company and completing a disposal.

Locate and review all leases.

Consider your existing trading contracts – terms, duration and enforceability, particularly continuation on change of ownership – this will save time and eliminate problems later.

Review your software rights to ensure clear ownership and that no dispute exists.

Ensure any agency agreements are renewed, particularly in light of European legislation, and determine cancellation costs.

Check that all trade marks and patents are properly filed

and up to date.

Check your employment contracts and directors' service contracts to avoid any possible dispute. Formalise any agreement with employees over overtime and bonuses – if these are not thought to be binding but are customary, get the employees to agree. This will reassure a future purchaser that they will not incur liabilities on these and similar commitments.

Review any existing or potential litigation to ensure there is no uncertain contingent liability.

Check your health and safety policy and records, insurance cover and compliance with data protection, consumer credit and other regulations – a future purchaser will look at these and clearing any issues now will save time later and avoid points for negotiation.

