

Selling Your Business

Why Sell?

The desire to realise capital, either for financial security or new projects is the most cited reason for considering a disposal.

In reality, however, there is rarely just one reason to sell, but often a combination of the following:

- Old age or ill health with no scope for family succession.
- Realisation that the company is currently at a premium value.
- Future growth is not possible without significant funding, which the current owner cannot provide.
- Increased size of the business such that the owner no longer wants to, or is unable to manage it.
- The original rationale for owning and managing the business is no longer relevant after changes in market conditions.
- Customers and/or suppliers are in a dominant position and changes are required to overcome this.
- New technology, markets or product lines cannot be reached without becoming part of a larger group, possibly international.
- Present owners are unable to resolve their conflicts.
- Sale is the only option to avoid action by an administrator, receiver or liquidator.



Strategic Tips

Build up a clear understanding of why the disposal is being made. Do not be coy about this reason – purchasers will ask, so be prepared.

Put yourself in the purchaser's shoes – when and why would they want to buy?

Timing



The timing of the sale can have a critical effect on success and rewards. Factors affecting the

timing will be both internal and external. It is important to understand them for decision making.

What to Sell

Consideration needs to be given as to whether the entire business is sold or just certain aspects. If the whole business is for sale, should it be a share sale or asset and trade sale?

Factors affecting this include the buyer's objectives and various tax considerations. Monahans can help you with these decisions.

External Factors

Monahans can help you research the environment for a proposed sale including:

- The economic climate.
- Market conditions and recent transactions.
- Technological advances.
- Merger and acquisition activity in the market, particularly by the key participants in the sector.
- Recently impending changes to legislation affecting the business.

Internal Factors

The valuation of your business will be affected by:

- Recent profits – a buyer will place more confidence in profit history than profit forecasts.
- Seasonality – plan a sale around this to take in the most profits and maximise the business value.
- Year end – audited accounts will be available and due diligence work can be combined with an audit visit to avoid confusion and suspicion by company staff.
- Tax reliefs – time the sale to maximise these.
- Need to sell – this should be avoided as a purchaser will detect this and use it to their advantage. The best time to sell is when there is no need.



Time Scale

The following rough guide to the timings involved can help with planning the sale:

Agreeing strategy with your advisor	1-2 weeks
Writing a sales memorandum and identifying potential purchasers	2-4 weeks
Approaching and obtaining confidentiality agreements from purchasers	2-3 weeks

Commercial negotiations:

-Initial offers	6-8 weeks
-Final offers	2-6 weeks

Monahans can help each step of the way and, also, with any necessary tax clearances etc.

Grooming

In planning a disposal, a number of things can be done leading up to a sales exercise that can enhance the value of the business.



- Maximise maintainable earnings
- Reduce or stop non-essential expenses
- Tidy the balance sheet to reflect only business assets
- Maximise sustainable sales levels
- Reconsider proposed expenditure on investment or marketing
- Secure beneficial contractual relationships

For more information on grooming, including tips to consider see the Monahans Help Sheet "Grooming Your Business for Sale"

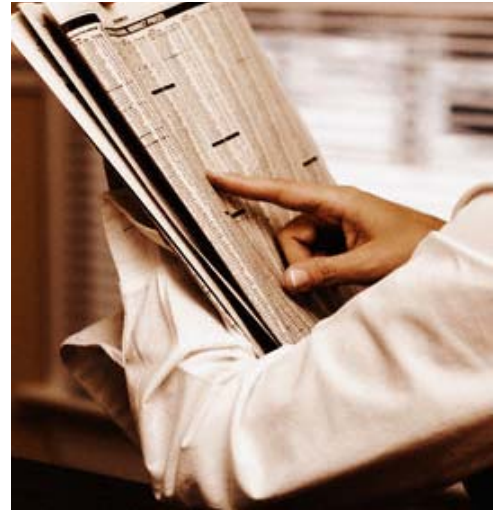
Valuation

The only true valuation will be that which a willing purchaser is prepared to pay a willing vendor.

Placing a value on the business requires consideration of many factors. The starting point is understanding the business being sold and the criteria that a potential purchaser might use in valuing it. Understanding the business's perceived value to an outsider will assist in determining price expectations that can be justified internally and externally.

It is important to consider the personal objectives of all parties at an early stage and consider any potential conflicts of interest. One such area of conflict could be the acceptability of deferred consideration against immediate payment.

Our free Business Valuation Calculator can provide an instant estimate of the value of your business - visit our website to try it out.



Tips

If you are to be successful with your business disposal:

- Valuations must be realistic
- Agree a bottom-line figure, below which the business will not be sold.
- Realise that offers come in various forms and not all offers will be for cash.
- Understand the value of non-cash consideration.
- Understand the impact of other terms of the deal that may affect price, such as the level of warranties.

Identifying and Contacting Buyers

The process for determining who might want to buy the business and how to identify them will have been made easier having analysed the business and the reason for sale.

Advertising the business in a broadcast manner should be avoided as this can be interpreted as a sign of a distress sale. Anonymous approach to targeted buyers is better.

In contacting potential purchasers, confidentiality is most at risk. All potential purchasers should be asked to sign confidentiality agreements before being given the identity of the vendor and receiving the sales memorandum.

Negotiating and Completing The Sale

Negotiations will have effectively started once interested parties have been identified and contacted.

It is normal practice for the outline terms of any transaction to be set out in an agreed document called the Heads of Agreement. These are not binding but cover all the important points to be addressed. At this point exclusivity is often agreed for a non-refundable sum.



For further advice and assistance

Our specialist Corporate Finance Department will be pleased to help.

Please contact Peter Lugg on 01225 472800 or e-mail peterl@monahans.co.uk