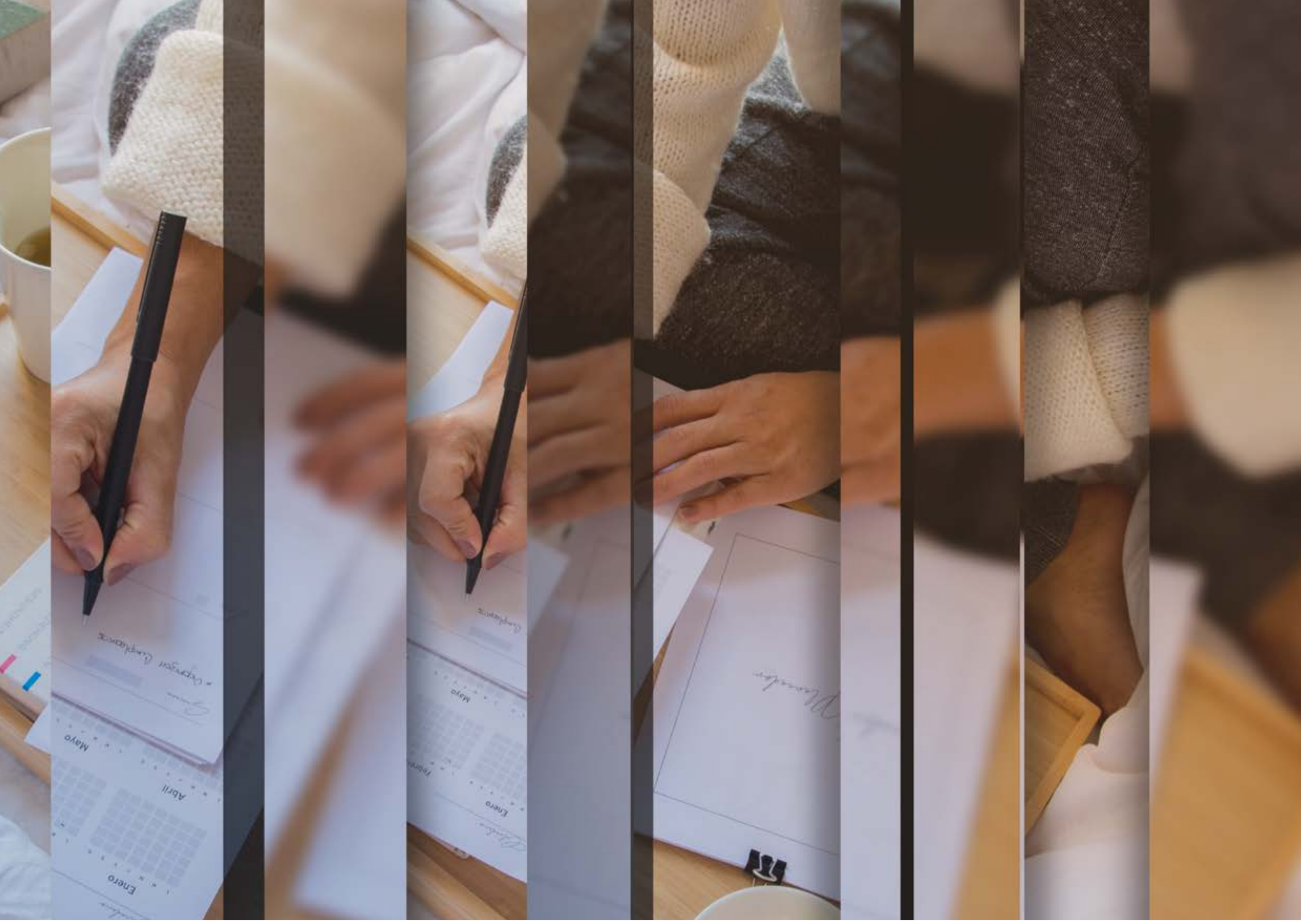

So you want to sell your business?

A simple checklist, designed to help business owners prepare their business for sale.

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What is this document, and why was it written?

I often meet with clients who are going through, or who have just been through the business sale process.

In talking to these clients, I noticed that their professional advisers (accountants, lawyers, business brokers, etc) do a great job supporting the business sale in line with their respective focus.

But selling a business can be a complex and nuanced activity. Often important considerations (especially the qualitative and non-financial considerations) can fall through the gaps.

Sometimes these gaps build up and ultimately lead to the business not selling, selling for less than what it is worth, or selling but the owners are left unhappy and with regrets.

So, I prepared this checklist to help business owners who want to sell their business to pause and consider some common issues and opportunities that can arise during the business exiting process.

Where do I fit in?

I help business owners like you plan for life after the sale. I help you answer questions like, how much do I need to sell my business for so that I can afford to live the lifestyle I want? I also act as a catalyst, encouraging you to consider topics in this check list, and discuss them as appropriate with your wider 'business sale team'.

Dominic Sheehan | *Financial Adviser*

Plan your sale and establish your team

While most of this checklist focuses on work you need to do on your business to achieve a successful sale, an important first step is to establish a support team and prepare a plan to sell your business.

☐ Establish your business sale team

Selling your business will require input from your Lawyer and Accountant. Depending on the nature of the sale it is likely you will also need the services of a business broker and financial adviser. Larger business sales may require the services of an Investment Banker and/or Deal Advisory Consultant.

Role of Your Lawyer: Your lawyer will prepare all legal documentation for the transaction (e.g., sale and purchase agreements). They should also review any contracts you consider signing during the process (e.g., broker engagement agreement) and they may also help you to prepare other business-related documents in preparation for the sale (e.g., shareholder agreements, covenants, company constitution).

Role of Your Accountant: Your accountant will prepare your financial statements, and they may be able to provide you with an indicative valuation. They can also provide you with advice on your tax strategy (e.g. do you have any imputation credits to clear prior to the sale, and will any assets be exposed to the bright-line-test or other capital gains tax?), advice regarding the timing of spending or the deductibility of expenses, and discuss options with you regarding the parameters of your sale (e.g. is it best to include or exclude any commercial buildings you own in the sale).

Role of Your Business Broker: Your business broker is the person that sells your business. They typically deal with the sale of privately owned businesses worth around the ≈$50,000 to $10 Million range. Your broker will also provide you with a valuation, and they will work with you to prepare any documentation and information packs they require as part of the sale process.

Role of Your Financial Adviser: Your financial adviser will help you to prepare for life after the sale including forecasting your cashflows, helping to invest the proceeds from your sale, and considering the financial and non-financial implications of exiting your business.

Role of Deal Advisory Consultants and Investment Bankers: Deal Advisers and Investment Bankers effectively take on similar roles to that of your accountant and business broker respectively in large business transactions (e.g., businesses worth more than $10 Million). Investment Bankers also have the capability to publicly list your business on a stock exchange.

☐ Develop a business exit plan

A business exit plan is where you discuss and document the objectives of your sale, define roles and responsibilities, develop a list of everything you need to do, and establish a roadmap or timeline that you plan to follow.

This will help to keep you and your business sale team on track towards achieving your objectives.

Get at least two valuations

To ensure you have a good understanding of the value of your business, it is recommended that you get at least two valuations from different advisers (three is better). Ideally you want at least one of these to be from an independent source (e.g., an accountant who specialises in valuations who will not stand to benefit from the sale).

There are many different methods of valuing a business so working with your accountant to understand the methodologies used will help you to understand the differences you may see between values.

Set up a due diligence data room

A due diligence data room is a database that you can share with your business sale team and prospective buyers to assist them in their due diligence processes. This typically contains your financial statements, asset records, and relevant legal documentation.

Make sure this data room is appropriately password protected and make sure you only share relevant information (you don't necessarily want all your records to be publicly available).

Identify your non-negotiables

Sometimes, when selling a business, there are some things that you want to ensure the new owner does or doesn't do. This could include keeping on a specific employee, retaining a supply or procurement contract, or keeping your name on the building.

You will need to work with your lawyer to ensure these non-negotiables are appropriately reflected in any relevant documents.

Time your sale

As with all markets, the conditions for business sales can change rapidly. A change in interest rates, consumer confidence, or lending rules can materially impact the price that potential buyers will pay for your business.

As such, the best approach is to get your business ready for sale early and be prepared to move quickly when the environment is right.

You want to avoid selling your business under duress, or before you have properly prepared it for sale, as this will often lead to a discount on your sale price.

Metrics that impact your valuation

When selling a business, there are thousands of relevant data points that feed into a buyer's analysis. However, a lot of this data can be boiled down to a few critical numbers.

If you want to sell your business for a good price, you must get these performance metrics right.

Improve your EBITDA

Earnings before interest, tax, depreciation, and amortisation (EBITDA) is a profitability metric that is commonly used when assessing the value of a business.

A common example of this valuation method is:
'normalised' EBITDA x a multiple

This value is sometimes adjusted to account for PPE (property, plant, and equipment) and net debt. Effectively, EBITDA is your revenue minus business expenses. As such, increasing revenue or decreasing expenses will improve this KPI.

Demonstrate sustainable revenue growth

Buyers like to see that the business they are thinking about buying is on the up. Often, this will be measured by looking at the revenue percentage change from one year to the next.

Ideally, you will want to demonstrate consistent and sustainable growth that the new owner can expect to continue after they buy the business.

Demonstrate sustainable cost management

Net Profit Margin (measured as net income/revenue) is a common method of assessing profitability. Margin calculations like this make it easy for potential buyers to compare your business to other businesses they may be researching.

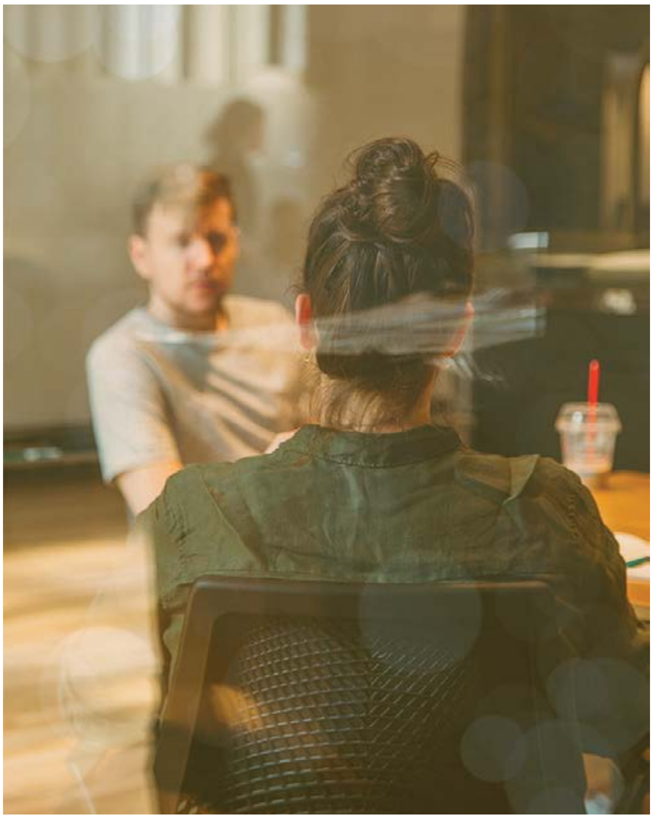
Keeping your expenses in check will increase your net income and subsequently increase your Net Profit Margin.

Demonstrate sustainable cashflow management

Buyers will also want to see that your business has stable cashflows. This will often involve reviewing your working capital ratio (or current assets/current liabilities), checking that you have a history of paying your accounts payables on time, and considering the cyclical nature of your cashflows.

Demonstrating that your business can comfortably cover its account payables will give potential buyers comfort that your business has stable cashflows.

Strategy and market position



While your sales and cost management will ultimately define your EBITDA, your strategy and positioning can strongly influence the multiple that is applied to your valuation.

☐ Have a unique value proposition

A value proposition is the reason why customers choose to buy your product or service. For a restaurant this could be the amazing food your serve. For an importing business, this could be the cost-efficient products you bring into the country.

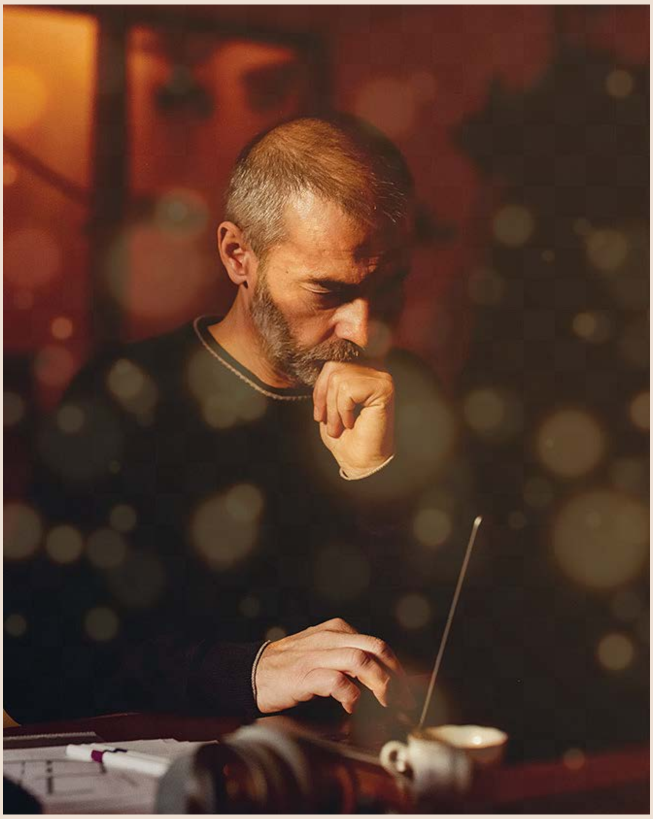
A unique value proposition means you do something different or better than your competitors. It is a reason why customers choose your business instead of the one down the road. This can help to protect your revenue flows for the new owners.

☐ De-risk your customers and suppliers

Potential buyers of your business will want security that the revenue you are earning and the supplies you are procuring will continue. Having a broad customer and supplier base along with clear and robust contracts will help to demonstrate this security.

☐ Position your business for the future

Markets, technology, and customer trends are constantly changing. Company valuations are effectively an assessment of what the buyer thinks they will earn from your business in the future. Demonstrating that you are well positioned to cope with (or better, capitalise on) changes in the market can increase the price they are willing to pay.



Asset management

Depending on the nature of your business, assets can often form a material portion of its value. Potential buyers want to clearly understand what assets they are buying, and they want to see evidence that the assets have been well managed and cared for.

- [ ] ## Record and value your stock levels

This will enable buyers to understand your inventory position. For perishables include age and expiry information in your records.

- [ ] ## Record and value your property, plant, and equipment

Ensure you have property titles, relevant property reports (e.g., LIM), and relevant insurance records available.

Ideally, you want to have legible and complete records that clearly communicate the assets that your business owns.

- [ ] ## Maintain asset maintenance schedules

You want to demonstrate that your equipment has been cared for and that it is in good working condition.

- [ ] ## Clean up your inventory and records

Potential buyers are generally not interested in taking on large amounts of redundant, expired, or damaged inventory. They will also want to see accurate and complete customer and supplier records. Sell or dispose of redundant inventories, clean up your data, and ensure your storage facilities are safe, efficient, and organised.

The easier it looks to walk in and take over your business, the more that potential buyers are likely to pay.

Management and workforce

One of the most critical elements of a successful business sale is ensuring that you have the right team in place.

Regardless of whether the business will be owner operated or fully managed, you need to demonstrate that the business will run smoothly following your exit.

☐ Define and document roles and responsibilities

You should have formal employment agreements and position descriptions in place. You should also document what roles are completed in-house and what roles or functions are outsourced.

☐ Make yourself redundant

Before marketing your business, you will need to decide whether you are selling it as 'owner operated' or 'fully managed'. There are plusses and minuses to both, and ultimately, you will be selling to different markets (some buyers want to buy and run a business, others are looking purely for an investment).

If you are selling your business as owner operated, it may be marketed with an EBPITDA multiple (earnings before proprietors' income, interest, tax, depreciation and amortisation) as opposed to the more typical EBITDA.

If you are currently running your business (or playing a role in it) but you determine there is a deeper market for 'fully managed' businesses in your industry, recruit staff or reframe roles within your business to make yourself redundant.

Ideally, you will want the CEO/GM/Manager of your business to have been in their role for at least a year before bringing it to market.

Process documentation

You likely have years of knowledge and experience stored in your brain that helps you run your business. The buyer of your business will not have this knowledge.

You will need to extract this information from yourself/your team and form it into an organised and complete set of process documents.

- [ ] **Source or create equipment manuals**

This should include operating procedures, maintenance processes, and health and safety controls.

- [ ] **Document your bill of materials**

A bill of materials (or BoM) is effectively the recipe that lists the Stock Keeping Units (or SKUs) that are used in creating a finished product.

- [ ] **Formalise and record management processes**

If your business is being sold as owner operated, the new owner will take over management of your staff. To ensure this transition is as smooth as possible, document the management processes you follow with your team (e.g., performance review dates and frequency, employee KPIs, issue reporting processes etc.).

- [ ] **Document key operational processes**

Create step by step guides of your key processes. Ideally, you will get these to the point that a new owner or staff member can come in, follow the instructions, and complete the processes with little to no additional guidance.

Consider life after the sale

An often overlooked but critically important part of preparing to sell your business is thinking about what the future holds for you beyond the sale.

Not only do you need to consider your future financial position and income requirements, but you also need to plan to replace the non-financial value you currently get from your business (e.g., relationships and purpose).

☐ Have a financial plan

Selling a business can be a major liquidity event. Before you sell your business, you should consider how you plan to treat the sale proceeds.

If you plan to invest the proceeds and live off the returns these investments generate, a Financial Adviser can forecast your future cashflows (based on your business valuation), helping you to determine how much you need to sell your business for to meet your needs now and in the future.

☐ Involve your family

Businesses are often family affairs. Major liquidity events can also have far-reaching impacts on family members. Having frank conversations early in the process of selling your business can help family members to understand your objectives, provide feedback on your plan, and determine where they may or may not be impacted.

☐ Sort out your estate planning and insurances

Before you sell your business make sure you have your Wills, Enduring Powers of Attorney, and personal risk insurances sorted. If you have (or plan to have) a Trust, work with your lawyer to ensure it is fit for purpose and your asset ownership structures are appropriate.

☐ Think about what you will do with your time

Once you have stepped back from your business, you will likely have significantly more time on your hands. Consider what you will do with this time. Do you want to keep working, or study, or travel?

Having a plan in place to help occupy your time (especially during the first year after selling your business) can reduce the chance of you experiencing a feeling of loss.

☐ Think about what you will do with your money

Once you have accounted for your cashflow requirements, you may identify that you have more money than you need or plan to spend.

Consider what you would like to happen to your money. This could involve gifting to family, investing in passion projects, philanthropic sponsorships, or charitable giving.

Notes

Want to learn more?

My name is Dominic Sheehan, I am a Financial Adviser at Cambridge Partners and I specialise in helping business owners prepare to sell their business and prepare for life after the sale.

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