

GETTING YOUR BUSINESS READY FOR SALE



GIVEN A BIT OF TIME, THE VALUE OF JUST ABOUT ANY BUSINESS CAN BE ENHANCED PRIOR TO SALE THROUGH SOME FAIRLY EASY STEPS.

Preparation is the key to successfully selling a business. When you are properly equipped for the sale process, you should remain in control until the sale is completed.

Here are some steps that can help maximise the value of your business and assist with a successful sale.

FINANCIAL ISSUES

PREPARING FINANCIAL STATEMENTS

Your accountant can assist here. The figures of most interest to an intending purchaser are the business' actual income and how it is derived less all the expenditure incurred in deriving that income. Get in the habit of producing regular cash flow reports which show where income is coming from and where it is going. Most modern computer based accounting programs can do this easily. Having a clear and concise Income &



Expenditure Statement is an invaluable selling tool.

Financials prepared for tax purposes are generally designed to show income as low as is possible. But to maximise the sale price of a business it is important to account for every dollar of income. Undeclared revenue cannot be brought into the mix when valuing a business that is for sale.

CONTRACTUAL ISSUES

EXAMINE CONTRACTS

Take a close look at any contracts with suppliers or customers. Those that would be beneficial to a new owner should be locked in and extended if possible. However, if there are contracts that you renew because of habit, or for other reasons that are not financially beneficial to the business, do something about them. Contracts that are not helpful to a buyer won't add any value to your business.

REVIEW YOUR REAL ESTATE LEASE(S)

If yours is the type of business that depends on location, make sure that you can assure a buyer that they will be able to stay there for a reasonable period of time. Above all, make sure that your lease isn't set to expire or be renegotiated while you are actively selling your business and finalise any overdue rent reviews.

Negotiating a lease when you are all set to sell gives your landlord unnecessary sway over proceedings. Likewise, if your location might not be that appropriate for a buyer, consider moving to a more appealing property or be prepared to take over the lease obligations.

EXAMINE EQUIPMENT LEASES

If you are leasing equipment and the lease will remain in place after the sale, look at the rationale of the lease(s) from a buyer's perspective. If a lease will saddle the buyer with an interest rate well above very low current rates and any tax advantages have already accrued to you, the lease may hurt the business' value. Your accountant can advise you here.

STRUCTURAL ISSUES

GET IT WRITTEN DOWN

Many smaller businesses rely on a mix of clearly documented procedures and procedures that exist only in the owner's head. Your company will be more saleable if procedures are clearly systemised and documented so that a competent owner or manager can take over with minimal training. Get it out of your head and into an operations manual and make sure procedures are tested and refined before the sale.

SEPARATE OUT THE REAL ESTATE

This applies to Freehold Going Concern businesses. It can make sense to own real estate as a business asset. But when it comes time to sell, including it



as part of a business sale may increase the price considerably as well as the complexity of the sale and make a business less attractive.

Sophisticated buyers like to transact real estate separately from the business itself. In other cases, they might not want large amounts of capital tied up in bricks and mortar. Be prepared to sell the business and property separately because in many cases the sum of two halves won't necessarily add up to more. Or consider retaining the property as an investment. In many cases your business purchaser will value the security of a long term lease and this may help you secure a better price for the business. And from your perspective having a business you know well as a tenant can provide greater investment comfort.

THE RIGHT OWNERSHIP STRUCTURE

If you are operating as a sole proprietorship or a partnership now may be a good time to incorporate into a company for two reasons.

Firstly, it is better to have a limited liability company responsible for payables and other debts. Otherwise you might find yourself embroiled in a new owner's liabilities. Make the change well before marketing your business for sale because it takes time for creditors to change their records. Also take legal advice. Incorporating just before a sale to distance one's self from obligations is not foolproof.

Secondly, incorporation provides a clean vehicle for transferring a company in part as well as in whole.

DILIGENT DOCUMENTATION

Entrepreneurial businessmen and a lot of small "hands on" business owners are not known for their fastidiousness in keeping records and documentation. But potential purchasers and their advisers will want to examine these as a matter of course. Have all appropriate documentation on hand and current such as leases (both real estate and plant), Income & Expenditure Statements (month by month if available), sales graphs, employee records, supplier register, GST and bank statements etc.

A well organised business in which all parts of the operation are tidily, fully and accurately disclosed and documented, in an easily accessible format, will be much easier to sell at a good price.

BUSINESS SELLER'S CHECK LIST

Here's a summary of key things to bear in mind at the outset of the business sales process:

PRICE IT RIGHT

It's important that a business is properly valued and priced if you are to attract buyers but also achieve a price that represents a fair return for the work you have put into the business. Based on market knowledge and sales transacted, Bayleys' business division can advise as to what sort of return on investment the market expects to receive on buying a business like yours.

HAVE UP-TO DATE FIGURES

Buyers and their advisers will want and appreciate being supplied up-to-date figures. This also sends a signal your business is well run.

MAKE THE BUYER FEEL COMFORTABLE

List and briefly profile all your key customers, suppliers and service providers. Outline the major tasks in the business and how you handle them.

HAVE THINGS LOOKING GOOD

Businesses for sale are like anything for sale - presentation counts. Make sure the entire premises are clean and tidy, not just front of house. That includes the office, amenities and any storage/warehousing.

BE HONEST

Tell it "warts and all" - purchasers won't be expecting to find a perfect business. Err on the side of over disclosure. If you lie about or hide something that a purchaser uncovers as part of their due diligence you either won't have a buyer any more or will provide ammunition for them to negotiate the sale price down. Due diligence is a process whereby the purchaser is looking to verify everything they think they know or have been told about the business - not discover new issues that could affect the risk profile of the investment.

GIVE IT TIME

Businesses generally take time to sell - months rather than weeks. Trying to sell in a hurry sends the wrong market signals and puts you in a weak position which makes it unlikely you will achieve the best possible price.

CAN YOU TALK THE BUSINESS?

Buyers respect vendors who know their business and can talk knowledgeably about it, and are more likely to respect their asking price. Be prepared to discuss profit and loss accounts from the previous three to four years, abnormal or non-recurring costs in the accounts, personal drawings, staff and any agreements that are associated with future maintainable earnings of the business.