Preparing Your Clients for Selling Their Business

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Common Questions from Business Sellers

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Business sellers almost always ask some of these questions when they are considering selling their business...

- How do I increase the value of my business before selling?
- Who will buy my business?
- How quickly can I sell it?
- How do I make sure my staff and customers don't find out that I'm selling?

Today's seminar should answer these questions and others so you are better placed to guide your clients through what is often a daunting process...

Getting Emotionally Ready to Sell

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Business sales will never work if the owner(s) are not emotionally ready to sell…

Reluctant sellers often make demands… they will say things like:

- I'm going to sell my business on a walk-in walk-out basis. No exceptions!
- I'm not negotiating on price.
- The buyer has to pay me 100 percent of the sale price in cash on settlement.
- I'm not showing the buyer any information. The business is good. They should just buy it!
- The buyer needs to pay me for plant and equipment at its replacement value.

It's understandable that business owners may be emotional about letting go of their business. In my experience however, if a seller is not ready to let go it is **extremely unlikely** that the sale will be successful.

How Long Does it Take to Sell a Business?

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On average, 6 months. Sometimes though, a lot longer!

Longer sale timelines are normally caused by:

- Unrealistic price expectations
- Unrealistic expectations regarding transaction terms
- Problems with the business
- The uniqueness of the business

The Importance of Pre-Sale Advice

Pre-sale advice is rendered to a business owner who is considering selling their business

It is imperative for business owners to understand what they are getting themselves in for, and the likely outcomes before they take their business out to the market. Pre-sale advice is designed to do just that.

At a minimum, pre-sale advice should cover:

- The likely sale price
- Due diligence risks
- The best method of sale
- Who the likely buyers are

The Importance of Pre-Sale Advice

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Ensuring sellers know in advance what cash proceeds they will likely generate is vital.

- Will the proceeds be enough to cover their retirement costs or other needs
- What will the tax implications likely be and how can these be legally minimised
- Allows them to plan future investments

This advice may lead sellers to delay the sale of their business.

- If the likely sale price is not consistent with a sellers needs or wants this advice may cause them to delay the sales process
- If sellers are not comfortable with the likely sale price it is normally prudent to delay the sales process, as it is likely that the seller is not truly emotionally ready to sell
- It can also lead to discussions about what can be done to increase the value

The Importance of Pre-Sale Advice

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Too many sales fall over during due diligence…

- Oftentimes, buyers will discover risks in due diligence which make them walk away from a transaction, reduce their price or demand more restrictive terms.
- Pre-sale due diligence can enable these problems to be discovered prior to going to market. The issues can then be fixed, or can be communicated to buyers as part of a sale process to ensure there are no issues during due diligence.
- If the problems are fixed, it will likely increase the value of the business.

The Importance of Pre-Sale Advice

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What method of sale should be adopted?

- Should the business be offered to specific buyers as part of a confidential expression of interest process?
- What about listing the business on business for sale websites or placing advertisements in newspapers?
- Should the business be sold as a whole or split up?
- Should real property associated with the business be sold with the business or held and leased?

The Importance of Pre-Sale Advice

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Who are the buyers?

It's important that proper preparation is done to present the business in the best light to likely acquirers.

- Are there competitors who would gain strategic benefit from buying the business? If so, what can be done to present the business to those competitors in a good light?
- What about staff who may wish to buy? How should you approach that?
- Maybe, the likely acquirer will be an owner operator.

As part of these considerations, it's vital to consider whether particular buyers will have the **capacity** and **capability** to undertake the transaction.

- For buyers to buy, they need the financial resources to do so.
- They also need to have the capability to operate the business. If they do not, the sale may be difficult to complete.

Increasing the Value of a Business

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There are a number of steps that can be taken to increase the value of a business. They all have one thing in common – they take time!

Proven ways to increase the value of a business involve a combination of:

- Holding off on selling the business
- Lowering the risk profile of the business (and thus, increasing the valuation multiple)
- Increasing the profits of the business

Increasing the Value of a Business

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How does holding off on the sale of a business increase the value of a business?

- Among other benefits, it enables the owners to reap more benefit (profits) from the business before completing a sale.
- It also provides the owners with time to work on their business in preparation for a sale
- Clearly though, this doesn't suit business owners who are ready to sell NOW!
- Further, if a business owner is beginning to tire of operating their business, this option can actually hamper the business' future sale prospects in circumstances where the business' performance wanes due to the owner's declining motivation.

Increasing the Value of a Business

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Increasing profitability is the best way to increase the value of a business.

So, how can you increase profits?

- Win new customers
- Increase prices
- Outsource, offshore and automate tasks
- Reduce headcount
- Cut redundant fixed costs
- Reduce variable expenses

Increasing the Value of a Business

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It's also useful to consider what can be done to reduce the risk profile of your business and thus increase the valuation multiple.

So, how do you increase the multiple?

- Update and maintain plant and equipment
- Secure strong "recurring revenue" streams
- Increase profitability
- Win new customers
- Existing customers on contract
- Business under management

Managing Confidentiality

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Business sellers typically don't want anyone to know that they are considering selling their business. Typically, this is a good thing.

Why is confidentiality important?

- Ensure staff morale is maintained
- Ensure customers and suppliers don't leave
- Ensure the business is not jeopardised by the sales process
- Ensure that if the sale is not successful, business as usual can continue

Managing Confidentiality

There are no guarantees when it comes to maintaining confidentiality, but there are some steps that can be taken to minimise risks in this area.

Key steps to manage confidentiality include:

- As a starting point, all interested parties should sign a confidentiality deed.
- You need to carefully consider who you deal with – does the party have the **capacity** and **capability** to buy? If not, then don't deal with them.
- Release information in a careful and considered manner. Question buyers on why they need certain information. Ask them to make indicative non-binding offers based on limited information.

Managing Confidentiality

There is always a risk that people will find out that a business is for sale when you don't want them to know.

What should you do if this happens?

- If you're staff find out, you might consider telling them. Especially if you feel they already know too much. This is risky however, as it may scare them and cause them to consider their future. In some respects however, the damage may already be done.
- You may wish to deflect the question… sometimes comments like "the business is always for sale if the right buyer comes along" or "XYZ Pty Ltd approached us as they were interested in buying us out, so we are considering our options."

About Groves & Partners

Groves & Partners

Our clients trust us to negotiate business sales and acquisitions that provide outstanding commercial outcomes, assist them with complex financial analysis, business valuation and due diligence matters, and provide reliable, forward thinking strategic advice.

We approach each matter in an energetic and non-nonsense manner, and pride ourselves on creating innovative and efficient solutions to difficult problems.

Our expertise includes:

Business Sales

- Exit planning advice
- Pre-sale reviews
- Business brokerage services
- Post-sale integration management
- Business sales advice

Valuations

- Expert business valuation reports
- Company valuations
- Minority shareholding valuations
- Shadow expert reports and critiques
- Business appraisals
- Expert witness services

Due Diligence

- Preparation of due diligence reports
- Independent due diligence reviews

Acquisitions

- Sourcing off-market acquisition opportunities
- Negotiating business purchases
- Purchase price advice

About Groves & Partners

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WHY US?

We offer six reasons why advisors and business owners should engage Groves & Partners to assist with their business transaction and valuation needs.

1. Clear & Frequent Communication

We communicate frequently with our clients and referrers, always responding promptly and providing regular feedback throughout our conduct of matters.

2. Specialists

We only provide business transaction and valuation advice – we're not tax accountants or lawyers.

3. Timely

Our specialisation and efficiency mean that we can produce work in faster timelines. Whatever your deadline is, we can help.

4. Complimentary

We compliment the skills, advice and relationships of our client's professional advisors and partner with our client's established advisors to provide excellent outcomes.

5. Cost Effective

We never charge for initial consultations, simple advice, short phone calls or emails, and ensure our bills are always commercial and cost-effective.

6. Experts

Our team comprises Chartered Accountants, Certified Minority Interest Valuers, Registered Business Valuers and Licenced Business Brokers.