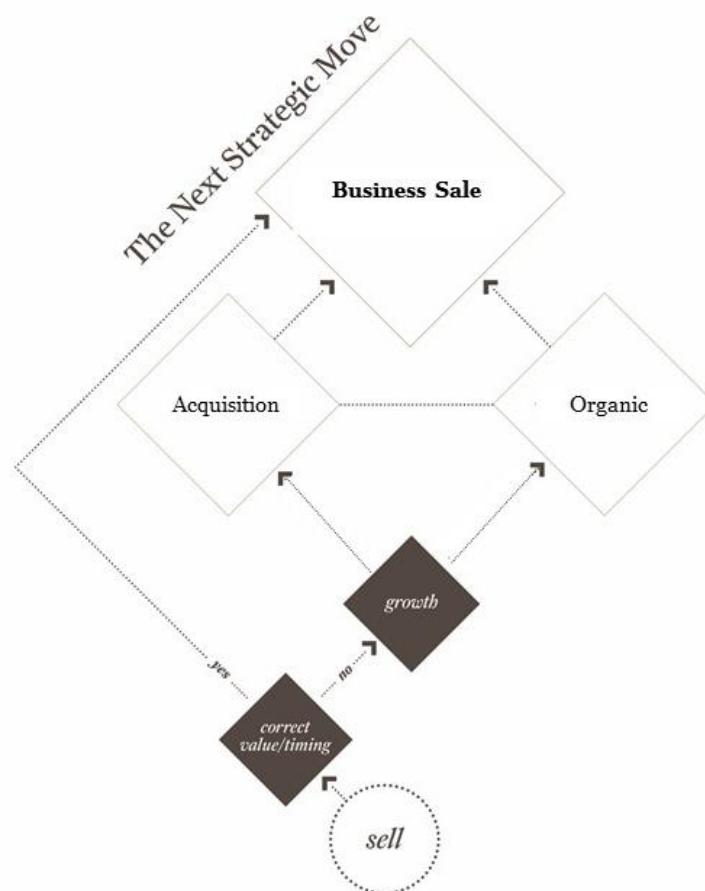




For many business owners and shareholders selling a business to exit is the ultimate reward for years of hard work. Maximising your exit requires strategy, leadership, and expertise. Most of the wealth in the world is capital wealth and not income and realising this wealth can be an important part of a company owner's journey and the peak of an ambition.

But, when is the right time, how do you increase the value pre-sale and how do you find the best strategic buyers to ensure optimum value? If you keep the business, can you continue organic growth or are acquisitions the best way to grow? What is the role of the leaders in answering these questions, and how can you get the right expert help on the journey? This guide will help you with these questions.

1. Selecting an advisory team
2. Business valuation
3. Value enhancement strategy
4. Timing and personal financial review
5. Positioning your business in its best light
6. Research and create competitive environment
7. Negotiate and structure the right deal
8. Project manage to completion





1. Selecting an advisory team

Undertaking your business sale is one of the most important financial decisions you will make. Expert help will maximise the approach to the right buyers. Appoint an advisor based on track record, ability to create highly strategic transactions at maximum value, experience, research resources, international approach and technical deal structure knowledge.

It is important to make sure fees are linked to success deliverables; avoid high non-performance based time fees. The right advisor will take the time to understand your aspirations and will offer a traditional personal service suited to your business. The process is complex and requires significant understanding and care. The advisor will manage the steps enabling you to maintain focus on your business.

2. Valuation

Knowing where you are today is a critical first strategic step in answering these questions. How much is the business worth today, how long and what investment is required to increase that value and what are the personal aspirations of the owners? Is the valuation in alignment with the aspirations and ambitions and what will they do next. How would a buyer help the company? Essentially should we stay now or should we go now?

Let's start with valuations; there are many valuation formulas such as asset based valuations, discount cash flow forecasts, intellectual property and dividend formulas. However, typically in unquoted businesses, the most usual method is to use a multiple of one year's "adjusted" and sustainable profits.

The chosen multiple is the number of years it is considered acceptable to generate a payback on the investment. This will typically include the balance sheet at enterprise value with surplus cash and freeholds extracted from the value.

A sustainable profit figure will be assumed, usually based on this year's and evidenced based forecasts. Adjustments are then made to this figure to obtain the net profit to a buyer, rather than the one the current owner may have enjoyed. Adjustments can include salaries, or extraordinary investments, or costs for placing the business under management. Buyer economies of scale may also be considered, although this is more subjective and often down to negotiation.

Overleaf is a typical guide to the 'assumed' multiple range x the adjusted profit. The profit is usually expressed either profit before income and tax (PBIT) for capital intensive companies such as manufacturing, or earnings before interest, tax, depreciation and amortization for service companies where depreciation is not usually a heavy cost.



The table assumes a debt free/cash free balance sheet included in a deal, excluding freeholds. The biggest influencers on multiple are the strength of recurring revenue, the perceived risk of the venture and the realistic scale-ability of the business, an advisor will be able to more accurately pinpoint valuation to help with strategic planning but ultimately the market decides and it is only the day of completion the real “goodwill” value is established. There are many things you can do pre-sale to influence you multiple both in the strategy of the business and in the process of sale.



3. Value enhancement strategy

How can you design the business to enhance value? Achieving an aspirational sale requires design and expert advice. A Value Building strategy should be carefully considered pre-sale in order to influence the multiple applied to your business by buyers. These can include:

- Ensuring steady, recurring and forecastable income.
- Eliminating dependency on key members of staff, clients and suppliers.
- Ensuring solid systems are in place. Clean accounts and balance sheet with good management information systems.
- Creating strategic long-term growth plans. Not only will this increase value, but being clear on your alternative strategy creates a powerful walk away position to leverage negotiations and optimise price.
- Ensure your website represents your company in its best light.
- Consider geographical and sector diversification. Businesses should aim to “own” a niche marketplace.
- Ensure all legal, tax and accounting paperwork is in order.

Multiple influencers

Low multiple

Volatile
 Less Desirable SME Business
 Poor Expansion
 Declining Sector (poorly perceived)
 Lower Profits
 Poor Infrastructure
 Low Economies



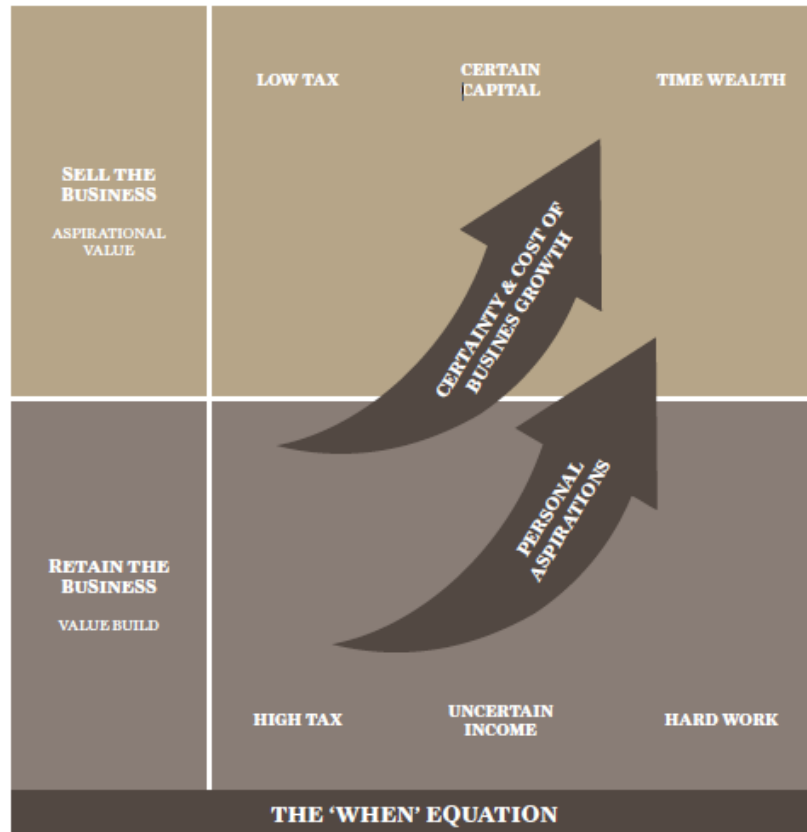
High multiple

Sustainable
 Highly Expandable
 Growth Sector
 Bigger Profits
 Strong Team
 Recognised Brand
 Growth Record
 Intellectual Property



4. Timing and personal financial review

An exit is best when the business is in good shape but with plenty of expansion prospects, making it attractive to buyers. The value should meet the aspirations of shareholders at a time when they personally wish to explore other options and secure time wealth. It is important to be objective about when is right for the business rather than being driven by the personal aspirations. In the equation also sits tax and certainty. That is to say, capital from a sale is more certain than future earnings and further sales are usually tax effective.



Income is typically taxed at circa 50% in the UK; sale proceeds are usually 10% currently under “Entrepreneurs’ Relief”, an HMRC allowance, which allows the first £10m to be at 10% per executive shareholder owning more than 5% for more than a year in a qualifying company.

The relief is given after all other reliefs and allowances. The amount of the reduction depends on how long you held the asset (the qualifying holding period), and whether the asset was a business asset or a non-business asset. Entrepreneurs’ Relief creates a significant argument for entrepreneurs to make money through capital gain rather than through ongoing profits. Sellers also need to allow for professional costs including a merger and acquisitions advisor, a tax advisor, accountant and a lawyer. For smaller companies professional costs are usually between 5-10% of the proceeds. Some of the costs will be prior to the sale.



Income vs Capital: The diagram below further assists in making the right decision as to when to sell. It highlights income vs capital considerations. The scenario depicted is a company valued at £1m based on a multiple of 4. The end result that the owner(s) would have to run the company for 5.859 years on the same profit levels to achieve the same income as they would by selling the company. You should also consider the fact that capital is certain whereas future income is uncertain. A certain (capital) £0.90 today is worth more than an uncertain (income) £1.00 tomorrow.

Income (uncertain)		Capital (certain)	
Assumes All Profit Stripped	£250,000	£1,000,000	Assumes Multiple of 4
- Corp Tax @20%	-£50,000	-£70,000	- Estimate Legal and Brokers Costs
- Dividend After Corp Tax@ 25%	-£50,000	-£93,000	Assuming Entrepreneurs' Relief at 10%
		+£41,850	Interest at 5% for 1 Year
Total Net	£150,000	£878,850	Total Net
No of Years Earnings	5.859		Assumes Full Profit Strip Each Year

5. Position business in best light

A carefully crafted information pack will drive value by highlighting unique opportunities and potential synergies in your business. A good data pack will not only contain current and historic company information but also forecasts and financial modelling around potential synergies. An effective data pack will ensure optimum positioning of the business and as all information is prepared in advanced, it will also accelerate the entire process.

6. Research and create competitive environment

In order to exceed the estimated business value it is essential to secure the right buyers, this will create competitive bids. A business in an auction can sell for more than 200% of financial forecasts.

In depth research should be conducted to identify potential purchasers using a combination of global intelligence tools and a database of active financial and trade buyers. It is essential to think outside of the box and look at synergistic buyers as well as those within the same sector.

Through synergies and economies of scale available, the business will be worth differing amounts to different buyers. The optimal purchaser is one who has a “we want, we need” motivation who drives their own shareholder value via an acquisition. Carefully position synergies to several, interested parties utilising financial modelling and future visioning to demonstrate the strategic and financial benefits of the acquisition to drive competitive interest in the business inviting offers to enable the market to drive the price.

7. Negotiate and structure the right Deal

Agreeing an exceptional deal requires brinkmanship. This takes understanding of the other side’s motivators, and the ability to “walk in their shoes” as well as experience. Win the big points and lose the small ones to secure optimum terms; best achieved in a non-adversarial environment, where listening creates understanding, but with very clear presentation of the alternatives and key selling points. Timing and effective delivery of negotiation strategy are critical to create a win/win.

Today, there are increasingly complex deal structures in sales, with earn outs and deferred payments. Considering how best to protect these positions is also critical, and expert advice from the start will be crucial in this respect. There is also an exciting trend in partial exits or elevator deals which enables owners to both capitalise on their exit but also keep in the business game helping the buyer take the business to new arenas but on a de-risked basis.



8. Project manage to completion

Once a transaction is agreed a crafted heads of terms summarizing the deal will avoid later misunderstandings, again an expert advisor can be invaluable here. The improved data-pack produced early on in the process will have given transparency which will accelerate the offer agreed to completion phase. None the less careful project management is required to manage the exit to completion, orchestrating all the parties, and creating a timetable. Deal fatigue or worse failure, can result if a poor dialogue or slow information occurs once terms are agreed. The parties need to continue to listen and aim at a win/win transaction.

Conclusion

Achieving an effective business sale is both a pinnacle and an aspiration in a capitalistic society. It is the most effective route to time and financial wealth, but it is also a journey and a new beginning with many owners going on to be serial entrepreneurs, and major contributors to communities and society.

A sale is a complex process requiring expert advice, but the concepts of Value Building a business by “design” from the start and creating competition to secure an optimum sale at the right time are highly important and often under-appreciated aspects of business strategy. Owners that move from “management” and a hands on approach to leadership creating more valuable team and market driven businesses via effective strategy will reap the rewards.

About Avondale

Established in 1991, Avondale provide unrivalled award-winning business sales, mergers and acquisitions transactions and strategy growth solutions with the highest success rate in the industry.

Avondale have genuine business acumen and are not only able to provide outstanding transactions but also practical solutions and guidance to achieve, if not exceed our clients' expectations.

Our work is predominately obtained via recommendation, a reflection of our technical abilities, strong service ethos and principles led approach.