Top Tips - Planning a Successful Business Sale

Harrop Marshall
Chartered Accountants

1. Plan early

It is vital start thinking about Exit Planning 3 years or more before the intended sale.
So work back from your planned retirement date. The key is getting your business less reliant on you as the owner!
The right buyer will look to retain your management. But if you cannot easily be divorced from the business they will need an extended period of consultancy and this may also reflect the terms of the offer.
So **honestly ask yourself** - how reliant is the business on you personally?
How does it perform if you were not around?
Are there gaps in your management team – particularly when it comes to leadership?

2. Private Assets / Problems to resolve

Are there any private assets that really do not relate to the business operations?
Are there any "elephants" in the room?
By this we mean are there key issues which perhaps need to be resolved before you can consider selling the business? These could include loss making contracts, litigation or staffing problems.
Are your systems up to date? Are you compliant with all relevant standards in your industry?

The right buyer will look for you to have resolved any difficult issues, removed any private assets (such as boats, non- business property). In summary, they won't wish to be held back problems relating to your ownership.

3. Tax planning

Tax planning needs to start well in advance. This is an ideal chance to look at your pension scheme and the opportunities for pre-sale contributions.
You also need to be sure that the share structure is right and that upon sale your will get full **Entrepreneurs Relief** which caps the effective CGT rate at 10%.

Are you also looking to reward key employees with share options?
Held in the right structure such as an Enterprise Management Incentive plan they can benefit from a 10% maximum tax rate and may not need to pay for the shares!

4. Keep emotions in check

We know only too well how emotional and sometimes stressful it can seem to sell a business that represents a lifetime's work.
It's our job to keep you focussed on running the business whilst we keep the deal on track.
But, negotiations may take 12 or even 18 months, with meetings sometimes held after hours at the end of a busy day.
You may also be asked questions which you find intrusive – but it's vital to remain objective and understand that the prospective buyer is really just looking to learn more about your business.

If you are well prepared you should be able to provide direct answers without feeling overwhelmed. However - it’s our job to make sure you are ready for meetings with the key figures to hand.

5. Choice of funded buyers

By undertaking good research we aim to attract a number of strategic and well funded buyers and to place them in a competitive position.
In terms of achieving optimum price and deal terms its choice that matters !
You want to see 2 or 3 well funded buyers who are willing to engage in competitive bidding. This puts you in control as the seller…

6. Understand the difference types of buyer

It is really important to understand the difference between a **Trade and Strategic Buyer**.
A trade buyer is in your industry already – it may well be a company you know already. Typically it may be one of your competitors perhaps a larger company in your sector looking for economies of scale or perhaps a chance to break into another regional market.
Whilst this may seem the most attractive option it is often **Strategic Buyers** who will pay the higher price.
A strategic buyer will look quite differently at your business as they perhaps are in a complimentary sector or a different stage in the value chain.
They may see opportunities to cross sell your products to their existing customers or alternatively to offer their products to yours.
They may well have a strategic plan to buy and build i.e. grow by acquisition, with a view to selling the enlarged group in a few years time.
They may well also be backed by venture capital or business angels who by their nature look to realise their investments on a shorter period.
You should be open to both types of potential purchaser.

7. Financial Strength

It is really important to check the prospective buyer’s financial position carefully. This may not always be clear from reviewing their recent accounts. It is reasonable to ask them to provide a letter of support from their proposed funder, if they are not using their own money.

8. Getting your financials in shape

It’s important to have updated accounts available both the year end and the latest management figures.
Ideally todays buyers want to see forecast Profit and Loss, Cash flow and balance sheets with some sensitivity analysis. They also want to be sure you prepare accounts monthly and that they are regularly reviewed.
Look carefully at your working capital – are there problems with debtor collection? Are you holding excessive stock?
Most importantly is your cash flow under control?

9. Be flexible

In the current market with uncertainty over Brexit etc. buyers are looking for flexibility. They are rarely looking to pay 100% for the shares on Completion.
Deals will always reflect an element of risk – so its reasonable to share some of this risk by deferred consideration which may be paid over a 2 -3 year period.

You should be flexible where possible – but take care to ensure that calculations are well understood and are fair to both sides.
Watch accounting policies – if the buyer wants to make changes, perhaps to fit in with their group this can result in figures being distorted quite significantly.
This could be very disadvantageous!
It is vital that you have the right support from your legal and corporate advisors in this crucial area.

10. Consultancy

You should also expect them to require a consultancy from you for perhaps 12 months.
This should not normally require you to work full-time but it will require committed support practically in the first few months.
Often sellers are keen to stay around until the deferred consideration has been paid in full!
It's important that the expectations on both sides are thought through – and that arrangements are optimised in terms of tax.

About Us

Harrop Marshall are experienced advisors in corporate finance. We have been engaged in transactions for over 15 years both on the sell and buy side.

We have acted for groups with sales of over £50M and have advised on Exit Plans as well as assisting strategic buyers in finding acquisitions.

We are well versed in dealing with tax planning and providing support throughout the commercial transaction and can assist with financial due diligence.

Above all we are experienced in helping clients make the right choices and assisting them from initial planning to completing the transaction.

Exit Planning Review

The **Exit Planning Review** is an ideal chance to understand your business in greater detail, assess your plans going forward and to think how the business might be seen in the eyes of a potential buyer. We can also discuss price expectations and the current market

We are happy to undertake this initial review on a complimentary basis.

So its a risk free investment in our time and experience!

The Next Step

We look forward to hearing you. Please complete the attached contact box or telephone Tim Bowler on 0161 495 3681 (direct line) or by email tbowler@harropmarshall.co.uk

All replies and advice will be treated in strictest confidence.