Time to leave?

It's a tough decision to sell a business and as Andrew Coates explains, meticulous planning is required to avoid the common pitfalls.

Having thrown your heart and soul into launching, running and growing your business with the myriad challenges it constantly presents - the decision to sell is undoubtedly one of the toughest that you face as a business owner.

Recent changes to entrepreneurs' relief are resulting in a low, and therefore highly attractive, tax regime for most shareholders selling a small or medium sized company. Many are able to secure a tax rate of just 10 per cent on the first £10 million of their gain which means the majority of business owners will pay tax at only 10% on their entire sale proceeds. And with over a third of private UK businesses targeting growth through acquisition over 2011-2014, prospects for corporate sales are definitely 'hotting up'.

The economy is only part of the picture as robust planning and timing are key to maximising value. A quick sale may produce quick cash - but maybe not the amount you are seeking. Waiting until the last possible moment can likewise force you to compromise on the figures - or trap you in the wrong deal.

Similarly, it's wise to start the conversation with advisers at least three or four years prior to the planned exit, since the fundamental actions required to ready the business for sale can take that long to put in place.

- **Financial health check pays dividends**

Your strongest selling point is the financial health of your business. Potential buyers will leave no stone unturned when conducting a due diligence investigation of your financial records.

Your buyers' accountants will examine accounts for the past three years along with monthly management accounts over the same period, the most recent balance sheet – and financial projections for the next twelve months ahead.

Increased profits - as opposed to flat profits - spell growth potential, which in turn realises the value of the business and boosts its desirability for potential buyers.

A full order book and healthy pipeline will motivate your purchaser and give confidence that the enterprise you have launched, grown and nurtured is in good shape for the future.

- **Put financial advisors under the microscope**

With the exception of serial entrepreneurs, most business owners are inexperienced in selling a company and will only undergo the process once in their lives. Selling a business can be an emotional rollercoaster – but having the right advisers in place to guide you through the process can do much to smooth out the journey.

Strategist Richard Bosworth (who facilitates 'What If' Forums comprising Yorkshire business leaders with turnovers spanning £4 million - £150 million across wide-ranging sectors) stresses the importance of commissioning the most experienced advisors.

He said: "When reflecting on the deal, many CEOs and MDs say they were let down by their advisors who they felt did not best represent their interests. My advice is to check out their experience in selling businesses - because you can't afford to let them learn at your expense. Don't commission them unless you are confident that they have your interests at heart."

- **Maintain confidentiality**

The importance of keeping news of an impending sale from customers, employees and competitors until the i's are dotted and the t's are crossed - cannot be overemphasised.

It is important to be aware that ensuring minimal disruption will entail additional challenges such as keeping phone calls and meetings private. However this is imperative to avoid employees and clients 'jumping ship' because they fear an uncertain future.

- **Establish your purchaser**

Ensure you are confident of exactly what you are selling - and to whom. While the prospect of being bought out by a big industry player may be appealing, it may not come to fruition. If you are seeking a trade or a private equity and venture capital sale, establish your rationale for doing so.

Also establish if it's feasible to do a management buyout (MBO) as selling to your management team can be a preferred option if potential trade purchasers are limited. It may also help to reassure you that you are leaving your "baby" in safe hands.

A strong MBO team is equipped with a well diversified skill set and individual members are experienced in their particular field of expertise. Ideally the management carrying out the buyout may have already been running the business on a day-to-day basis with little or no help or involvement from the owner and maintaining key business relationships with customers and suppliers.

It may be comforting for prospective buyout teams to know that the success rate of buyouts is, relatively speaking, high because the management team is so familiar with the business - and in many cases is already running it for the owners.

In the words of the ancient proverb that being forewarned is being forearmed, meticulous planning and keeping your nerve is critical - whichever sales path you embark on. Andrew Coates is Managing Director of Strategic Corporate Finance (SCF) www.strategiccorporatefinance.co.uk