Crowe Horwath

Maximising value on the sale of your business

Selling a business can be one of the most important and financial rewarding events in your working life and if properly planned and executed can exceed your expectations.

Prior planning and sound corporate advice during the transaction can ensure a quality deal, in which the process is shorter and less stressful, while maximising sale price. Issues that need to be considered prior and during the sale process include;

- Valuation

Prior to embarking on the business sale process you should develop an expectation of price that is substantiated by an expert assessment of value. The valuation should be based on the current financial information and up coming forecasts for the business, as well as economic and industry market conditions.

This will allow you to

- assess if the sale of the business will provide the expected return;
- determine if the trading history of the business adequately represents the true business value. Often in periods of growth, companies have large levels of expenditure and low levels of profitability. Purchasers may not understand the full business potential and accordingly, pay less than the future performance warrants. The purchaser must be provided with the necessary information to arrive at a similar valuation conclusion as the seller;
- determine the timing for sale, ie whether a market/industry downturn may favourably or adversely impact value in the short term.

- Selection of Buyer

Most owners can identify potential purchaser/(s) of their business. It is easy to make the mistake of only dealing with those persons and not exploring the market for purchasers who may place a higher value on the business.

Identifying other potential buyers (domestic or foreign) can be a quick and inexpensive process. A skilled advisor can identify companies that may have strategic or financial reasons for acquiring the business, creating a more competitive process and hence may provide a superior deal. A confidential approach to those potential purchasers can then be made to gauge whether they interested in entering into the process.

- Understanding the Purchaser

A seller should understand the purchaser’s financial position and their strategic rationale behind the acquisition. Failure to do so can result in dealing with a purchaser who would never meet the price expectations of the seller, ultimately wasting time and money. Understanding the purchaser’s motivations, expectations and operational position ensures you deal with the right purchaser and can correctly position the company’s strategic direction with that of the purchaser.

- Structure

A suitable goal is to present a clean and simple structure to an incumbant purchaser. This may facilitate a quicker deal due to a more efficient "due diligence" or review process.

Complicated or redundant corporate structures can often present difficulties when negotiating business sales particularly when providing the purchaser with "warranty protection" for contingent liabilities of companies. Cumbersome structures can also present financial or tax problems when owners attempt to access sale proceeds. The corporate structure should be reviewed from a legal, tax and stamp duty perspective. Restructuring the group, if deemed necessary should occur prior to commencing the sale process.

- Tax

The tax on a transaction, the ability to access various tax concessions and existence of tax planning options can help maximise the return on a sale. Accordingly, it is vital the seller seeks comprehensive tax advice on the transaction or business assets.

- Failure to Undertake Vendor Due Diligence

Due Diligence by purchaser involves performing a series of procedures and investigations that:

- Verify elements of the financial statements to ensure they reflect the true current financial position;
- Assess reliance that can be placed on the forecasts and the relevant assumptions;
- Verify taxation liabilities and identify any taxation issues or contingencies;
- Review the legal and regulatory compliance issues (including environmental) to assess levels of liability.

Vendor due diligence involves the seller undertaking their own review to highlight problems that require fixing. Identifying these before the sale process is in full flight can often ensure the problems are fixed in the most cost effective manner. Additionally if issues that should have been identified earlier, arise during the purchasers due diligence or in a critical stage of negotiations, it could hinder the sellers position in the transaction process.

- Forecasts

Setting unrealistic forecasts can be detrimental to the sale process. As a sale process takes some time, actual results become available allowing a purchaser to compare to forecasts. Downgrading forecasts may reduce the seller's credibility which can often result an inferior deal in terms of price and conditions, such as a deal where the consideration is contingent to achieving forecasts.

- Surplus Assets

Often a business has assets surplus to its operations that could be sold off without affecting the underlying business (eg surplus cash or land). It is important when maximising sale price that such assets are identified and left out of the sale process, if possible, (this could include a build up of retained earnings).

- Staffing & Owners Involvement

An assessment must be made of the importance of key staff and owners involvement when planning a business sale. Businesses that rely on key staff or the owners are often difficult to sell at high multiples, unless those integral people can be retained. Alternatively, there may be strategies in place for ensuring continuity of business including replacing key people where possible. The existence of employment contracts and commitments by key staff to remain with a purchaser (if required) may help maximise the value.

- Use of Advisers

A business sale can be complex and time consuming and ultimately distracting to the owners and key staff. A lot of business owners are good at running their business but have no experience in business sale transactions. It is important to ensure that you have expert corporate advisers to assist you in the process from preparation for a sale and through the subsequent stages of the business sale, including:

- Preparation of information memorandum to circulate to interested parties;
- Selection of a shortlist of purchasers;
- Approaching and dealing with the purchasers – running due diligence proceedings;
- Evaluating offers made in terms of price and conditions;
- Negotiating the terms of the sale and preparation of the sale agreement;
- Completing the transaction.

- Summary

The above issues illustrate how critical planning is in the sale process. These issues need to be identified and dealt with sooner, rather than later, with a process in place to identify and deal with other transaction issues as they become apparent. Appropriate planning helps to ensure a successful transaction that maximise the value to the seller. Crowe Horwath Global Corporate Advisors have extensive experience in business sales. For more information please contact your local regional office.

Article authored by Brad Higgs of WHK Horwath Corporate Finance Limited (Australasia).