



Corporate
Finance

How to sell your Business

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Selling a Company

The sale of a company is normally a significant and sensitive event which requires careful planning and execution.

Overview of the process

Outlined below is a typical project plan for a controlled sale initiated by the owner. This process is normally used when selling to a trade buyer.

Planning	Selective Approaches	Indicative Proposals	Buyer Selection	Due Diligence Legal Contracts
Vendor objectives defined	Initial 'blind' approach	Proposals received	Evaluate final bids	Buyer investigates the company
Business valued	Confidentiality letters put in place	Assessments made	Select according to vendor objectives	Sale and purchase agreement drawn up
Review of company	Information memorandum supplied	Meet with parties	Clear understanding of purchasers price criteria	Warranties negotiated
Legal and tax advisers appointed	Queries dealt with	Further information provided	Sign Heads of Agreement	Detailed terms and conditions agreed
Potential acquirers identified		Final bids received		Completion

Time



The aim of the process

The vendor remains in control and elicits the best possible terms for the transaction.

Buyers are not aware of the other bidders and are encouraged to put forward the best possible deal.

What are the key ingredients for a successful sale?

In order to obtain the best possible outcome you need to consider the following key areas:

- Planning for the sale
- Keeping the sale confidential
- Finding the right buyer
- Appointing good quality advisers

Do these things well and you will maximise your benefits from the sale and reduce any future risk after the sale has gone through.

These topics are all discussed on the following pages, starting with planning.

Planning

Planning can commence anywhere between one and three years before the transaction itself takes place.

The most important things to understand are:

- the transaction price required by the owner
- the current valuation
- actions required to close the gap identified
- alignment of a business plan to the exit strategy
- identification of potential buyers and their motives to buy
- planning changes to the business which will make it more attractive to the buyers identified e.g. acquisitions or new business developments



Confidentiality

Whilst there is a tendency for some businesses to be marketed through the press, e.g. rumours that they are for sale circulate, most sellers want a confidential and discrete process. It is very unsettling for employees, suppliers and customers who know of a potential sale and this can damage the value of a company.

Some business advisers will market a company for sale by a mass mailshot to similar businesses based upon standard industry classification codes (SIC's) and keyword searches. Even though these circulations do not mention the name of the company there is often sufficient information to make an educated guess!

When using an adviser we recommend that the owner reviews and approves any company to be approached. Also, before the name of the business is revealed a confidentiality letter or NDA (non disclosure agreement) is put in place.



Finding a buyer

The buyer for a business could be:

- A trade buyer (UK or overseas)
- The management team (MBO)
- A private individual (MBI)

The quality of the buyer will really determine the eventual outcome for the vendor. In assessing the quality of the buyer it is useful to consider:

- Why they want to buy?
- Their resources (financial and manpower)
- Their experience in making company acquisitions
- The proposed timetable to complete

How do we start

Buyers and sellers can come together by different means:

- buyers are actively targeting
- existing trade relationships
- professional introducers
- brokers
- sellers targeting potential buyers

The advantage of the seller finding the buyer is that the seller is prepared and in control. Successful deals do happen the other way around, however in our experience the buyer ends up paying less for the target. Particularly if the target is poorly advised and works exclusively with one party from an early stage.

Selling to the management team

Many vendors wish to sell the business to the management team as a reward for their efforts in building the business. As well as providing continuity of leadership this can also avoid the need to contact trade buyers. In some cases a lack of trade interest may leave the owner with no option than to sell to the management.

Agreeing a deal

It is vital to understand the deal that they can deliver early on because any breakdown later in the process might alienate relationships to the detriment of the business.

The management team will understand the operations of the company, however it is unlikely that they will have experience to be able to make an informed and fundable offer. The most sensible thing to do is to involve advisers to explain how MBO's work and to broker a deliverable deal.

How will the MBO team fund the deal?

As private individuals the MBO team will need to raise finance from financial institutions i.e. banks and private equity funds. Their ability to raise finance will determine the structure of the offer they can make, particularly the amount of cash consideration which can be delivered at completion.

Any amounts not paid at completion will be left owing to the vendor and this can be up to 50% of the value of the company. Normally these deferred payments are unsecured and therefore rely upon the MBO team continuing to run the business effectively and servicing the bank debt raised before paying off the deferred consideration.

If you would like further information on MBO's please visit our sister website www.tobuyabusiness.co.uk where you can read more about them and download our free MBO guide.

The role of the adviser

Lead Adviser or Financial Adviser

In our experience of acting for buyers of businesses we expect to pay up to 20% less for a company which is either not advised or badly advised. We also expect the transaction to take eight weeks longer!

Your financial adviser will play a key role in determining the deal you get and should save you a lot of time and headaches along the way.

Typically the lead adviser will deal with the following:

- valuing the business
- preparing for sale
- identifying potential buyers
- introducing other advisers (tax, legal)
- preparing information and presentations
- making approaches
- negotiating the transaction

In summary the right adviser will make you money by using their expertise to get you the best possible deal.

Legal Adviser

The right lawyer is also essential to guide you through the complexities of the sale and purchase agreement. In essence the legal adviser will be protecting your position so that you get to keep the money you receive at completion without the buyer clawing it back through warranty claims after the deal.

Tax Adviser

Professional tax advice is needed so the vendor understands their personal tax position which can become complicated by the structure of any deal.

For further help or to arrange a free and confidential meeting, please contact Sean Moriarty on 0161 832 6413 for an informal discussion.