

Selling a Business

Things you should Know !



Cautionary note:

This applies to “the real world” of small business transfers (TOGC), i.e. turnover in the range of £300k - £3m, sale price typically in the range of £100k - £1M

Significant IP, licences, distribution agreements, software etc introduce a whole new set of variables!





33%



10%

Why Sell?

**Hold & Grow
or Sell & Go?**



Motivation

- ✓ Lack of Capital
- ✓ Boredom
- ✓ Partnership Dispute
- ✓ Business unsuccessful or become risky
- ✓ Life style change
- ✓ Retirement
- ✓ Burn-out
- ✓ Illness
- ✓ Family Concerns
- ✓ Too much equity in the business
- ✓ Other Interests

Taking a business to market at the wrong time can result in a significantly lower selling price.

If you're willing to settle for 10 to 15 per cent of the value, you can sell your business tomorrow*. If you want 100 per cent, it takes time and effective planning.

*Not all businesses represent viable TOGC's

Motivation

- ✓ Cash in & smell the roses!

- ✓ Most importantly, be proactive, not reactive!

The ideal time to sell is when the industry is hot –

“A rising tide lifts all boats.”

But... it is always a good time if you are selling:

- ✓ A **good business**
- ✓ with a **solid exit strategy**
- ✓ that is **priced right**
- ✓ and where there is **reasonable demand**

Other Considerations

**What are you
selling?**



Other Considerations

Balance Sheet

Assets

Stripped down balance sheet

Operational balance sheet

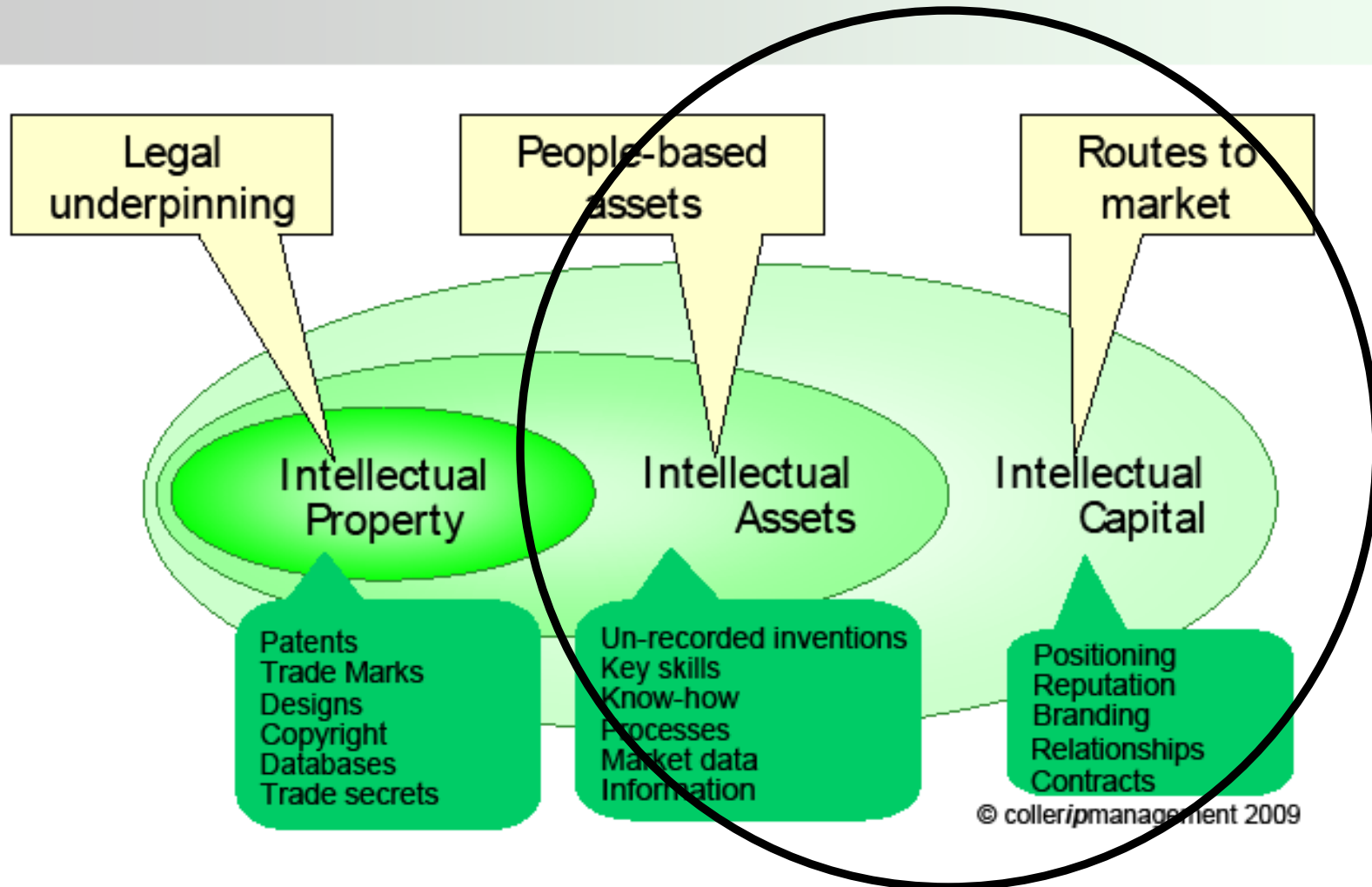
Working capital included?



GOODWILL

60

The Value in Intellectual Capital...



Businesses are ...



A person wearing a white dress shirt, a grey and blue striped necktie, and a grey suit jacket. The person's face is not visible, only their neck and chest area.

Make your recipe &
methodology transferrable!

Process & document it

Have quality secondary
management in place

Remove the vendor

What do buyers look for?

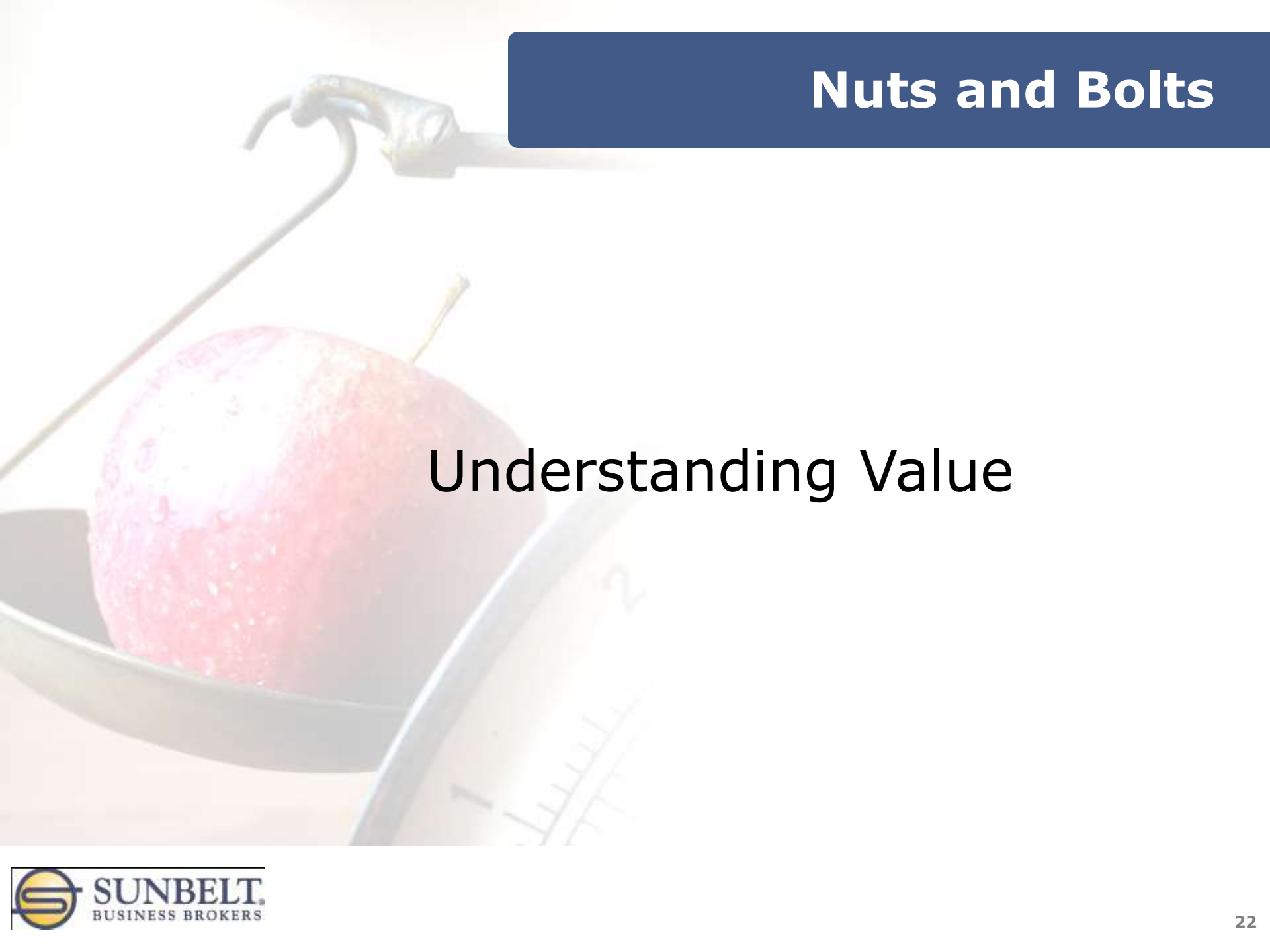
Think about who might buy your business and why

Go to the other side of the street (metaphorically or literally!) and take a cold, hard look at it

The single most important thing?

- ✓ Evidence of sustainable profitable revenue

Understanding Value



Liquidation Value



Replacement Value



Investment Value



Going-Concern Value



Fair Market Value



The amount at which a business or property would change hands between a willing buyer and a willing seller when *neither is acting under compulsion* and when both have reasonable knowledge of the relevant facts.

Valuing a business is easy!

Value = Adjusted Net Profit x Acceptable multiple

The difficulty is in reaching agreement

<1

2.8

5(ish!)

Valuing a business is easy!

Goodwill = Fair Market Value - Liquidation Value

Nil \longrightarrow A lot

Tangible & Current Assets

“Goodwill” will generally include assets that are required to deliver the goodwill but their condition & encumbrances may have a bearing on value

As a general rule TOGC's are cash & debt free but can be included after adjustments

Value Drivers



Value Drivers

- ✓ Recent profit history
- ✓ General condition/characteristics of Co.
- ✓ Market demand for particular type of biz
- ✓ Economic conditions
- ✓ Ability to transfer goodwill / other intangible values to a new owner

Value Drivers

- ✓ Future profit potential
- ✓ Competition
- ✓ Ease of entry
- ✓ Compulsion
- ✓ Many more!

The Most Important
Value Driver?

✓ Evidence of
sustainable
profitable
revenue

Value Enhancers:

- ✓ Clean up your books
- ✓ Invest in taxes
- ✓ Non-producing equip./manpower
- ✓ Streamline production
- ✓ Make business presentable
- ✓ Ensure business is sustainable
- ✓ Have procedures and manuals
- ✓ Increase Earnings
- ✓ Think "Transition"!

PNO!!!



Map out your journey!

Get a “proper valuation” done

Understand your needs / desires compared to reality!

Understand which parts of your business need working on

Create a plan & work on it

And finally ...

The last aspect to consider ...

Three Key Components

1. Price

2. Terms

3. Management of Risk

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