

*A Dozen Points
You Need To Know About
Selling Your Business

But Weren't Sure Who To Ask*

A Johnsons eBook



SPECIALISING IN BUSINESS DIVESTMENTS & ACQUISITIONS

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Preparing your Business for sale and achieving a credible result is a significant moment in your professional journey and one that can, and should be, both exciting and rewarding.

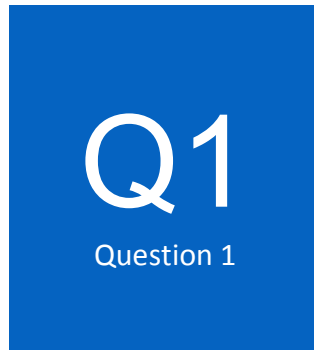
The time and resources necessary to prepare your Business and implement a proper sales process can often be significant. For some, this can become an all-absorbing project making it difficult – if not impossible – to remain focused and effective day-to-day.

However, selling your business doesn't have to be an ordeal. You can remain in control of the strategy and underlying processes, whilst allowing others to execute the multiple tasks necessary to move you forward and accomplish your end goal.

For over 50 years, Johnsons Corporate has been working with business owners across a wide range of industries, helping them to achieve their exit strategies. Whilst our clients often have an endless list of questions, we wanted to share with you answers to the dozen most commonly posed questions and hope that these can assist you with your exit strategy.

“In this eBook we'll share with you a dozen of the most commonly asked questions we hear when implementing exit strategies for our clients.”

“How do I value my Business?”



Answer

With great difficulty.

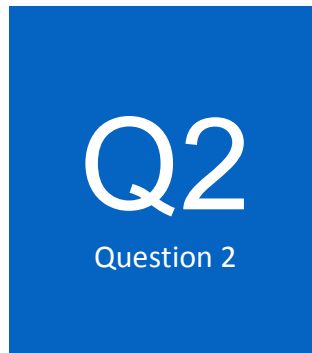
Why? Many components determine the value of a business. No two businesses are the same and industry rules of thumb can be misleading. Just because companies A & B are in the same industry, doesn't mean their values or earnings multiples will be the same.

Normally businesses are valued on assets and their potential to produce future income. The components of value vary between businesses and may include: industry outlook for growth and demand; competitive environment and technological change; % market share; gross &/or net margins; quantity of plant and equipment employed; future capital expenditure requirements; reliance on owners, customers or suppliers, or other “key-man-dependencies”; pipeline of future orders; entry barriers; IP, etc.

More importantly the enterprise value of a business is set, not by complicated valuation models, but by the market; and the perception of value will vary from buyer to buyer. It may sound like a cliché, but at the end of the day your business is worth what someone else is prepared to pay you for it.

“It is very difficult to estimate the value of a Business without the perspective of having sold multiple Businesses.”

“So how will buyers value my Business?”



Answer

Different buyers will value the same business differently. Even if they all agree on an underlying “valuation”, they may still offer very different prices for the same thing. What they’re actually willing to pay depends on a number of factors, including:

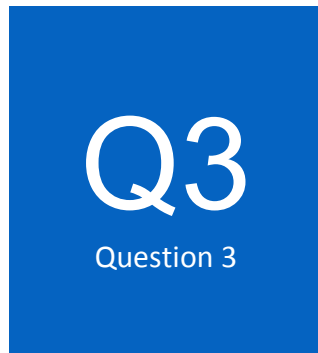
- The size of their business relative to the one they’re purchasing: the bigger the buyer’s business, the easier it is to finance an acquisition and the less costly it appears.
- How closely related their industry is to the business being acquired: the more familiar they are with the vendor’s industry, the less risk the buyer perceives.
- The presence of multiple interested parties: the higher the level of competitive tension, the greater the price.

The biggest factor is why the buyer is making the acquisition, i.e. what problem is it solving for them? The bigger the perceived benefit or solution, the more valuable your Business becomes and the higher the price a purchaser will pay.

Experienced advisors can help you to identify and communicate the attractive features of your Business and objectively evaluate the value of your Business from the view of potential buyers.

“At the end of the day, it’s the market that determines the value of your Business.”

“How do I achieve the maximum value for my business?”



Answer

Through a robust and professionally managed sale process.

There is no “formulated market” for the sale of businesses as there are for other types of assets such as shares, real estate, commodities, currencies etc.

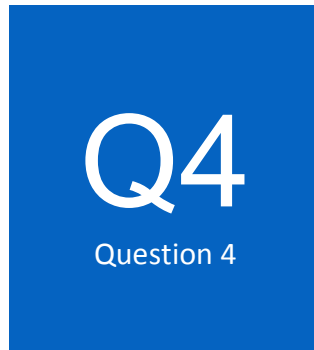
When selling a business, you need to “create the market”. The approach taken when interacting with interested parties can have a significant impact on the outcome and value you receive.

By ensuring the sales process is strategic in terms of targets, robust in terms of its method and timely to ensure competitive tension is achieved, you will increase the likelihood of achieving the desired outcome and maximising the sale price when selling your business.

Your result will also benefit from having a neutral-party broker negotiations between yourself(s) and the buyer. An M&A Advisor can facilitate the negotiations process to improve the sale terms and price by managing perceived risk and heading off potential issues.

“The value achieved when selling your business is significantly impacted by the sale process: the presentation of opportunities, the level of competitive tension and how perceived risk is managed.”

“How will I find the right buyer?”



Answer

Through comprehensive research and a carefully targeted marketing campaign.

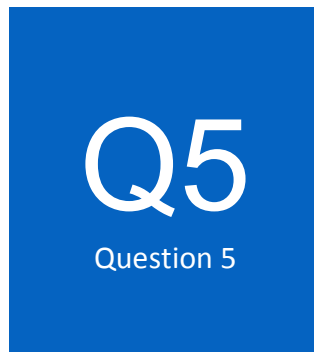
Why? Because the right buyer may not be actively looking for an acquisition. You need to be able to identify who would be interested in your Business and why. Then present them with the opportunity and why it would make sense for them to invest.

Most local &/or international buyers are identified through careful research of synergistic buyers. There are multiple tools available today to conduct such research, including industry databases, subscription databases, the Internet and so on. Undertaking such comprehensive and detailed research is a slow and meticulous process - but it delivers results.

Once you have a custom database of synergistic buyers you need to run an effective marketing campaign to reach the right decision makers. Remember, better quality research = more qualified opportunities to sell your Business and maximise your outcome.

“Comprehensive buyer research & targeted marketing activities combine to create a marketplace of buyers.”

“What do I need in order to present my Business for sale?”



Answer

An Information Memorandum and Due Diligence process.

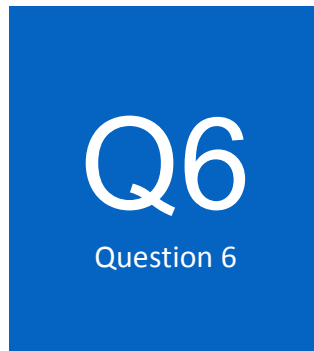
Why? Once you have qualified buyers from your research and marketing activities, you need to be able to present the Business favourably. You also need to be able to support the information presented with credible documentation during due diligence.

The information memorandum should be developed as a sales & marketing presentation, not a straight financial document. Use it to describe the opportunities: demand drivers; competitive advantages; internal cost savings; external growth prospects; gross margin enhancements; cash flow improvements and any leverageable aspects available to a buyer.

You should then prepare for the due diligence process as if you were the buyer. What would you want and need to know to complete the transaction with confidence? Key elements include: historical financial statements; debtor & creditor ageings; budgets & forecasts; asset register; permits & licences; IP & trademarks; key contracts (employees, customers, suppliers, etc); operations manuals; details relating to management information systems and so on.

“Present the opportunities available to buyers and support them with appropriate documentation.”

“How can I market my Business without everyone knowing it's for sale?”



Answer

By using generic marketing literature that will not identify your Business.

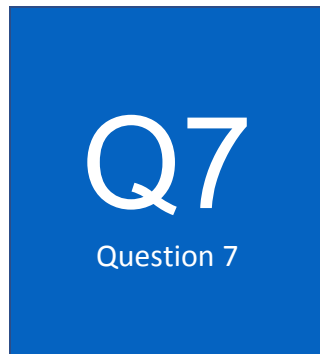
Remember people don't just buy a business, they buy opportunities. You're marketing and selling a collection of opportunities. Not just a business.

In order to attract your target market (typically strategic or even financial buyers), you don't have to be all that specific. As long as the marketing literature you use is industry related and relevant to the opportunities your audience are looking for - it will generate interest from prospective buyers.

So when you're designing your marketing literature, describe the Business from a generic industry perspective, focusing on the opportunities it presents.

“Use an industry perspective to describe your Business as an opportunity for potential buyers.”

“How do I maintain confidentiality during a sale process?”



Answer

By managing the flow of information.

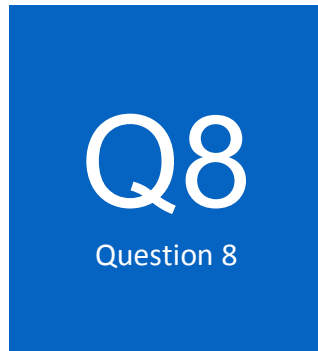
Why? Confidentiality can never be guaranteed, however you can vastly reduce your risk of the sale becoming common knowledge in the marketplace by following these simple steps.

First, qualify all enquiries up front. Second, make sure qualified prospective purchasers sign a Confidentiality Agreement before releasing any information that identifies your Business. Third, once Confidentiality Agreements are executed, only release information that will not threaten the competitive position of your Business. Information should be released slowly so as to build trust and a relationship with the potential purchaser.

Lastly, only release more detailed information during the due diligence process, once signed Offer and Acceptance has been achieved.

“Qualify all enquiry, use confidentiality agreements and manage the release of information to protect your Business.”

“When should I tell my accountant and solicitor?”



Answer

Straight away.

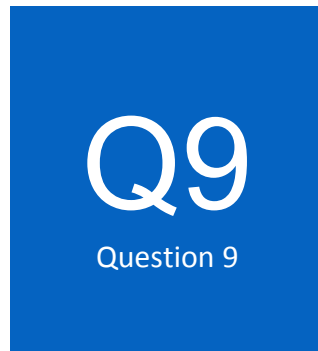
Your accountant should be involved from the beginning. Firstly, to assist with preparing and normalising the financial accounts, ensuring they are presentable and up-to-date. Secondly, to look at tax minimisation strategies associated with the sale proceeds.

Your solicitor can review the legal structure associated with your Business and prepare key documents, such as the sale contract.

If you're thinking about selling and you haven't spoken with your accountant or solicitor, it pays to have a conversation earlier rather than later.

“Ask your accountant to prepare normalised accounts and consult your solicitor about the legal structure and ownership of assets associated with your Business.”

“Should I involve key management in the sale process?”



Answer

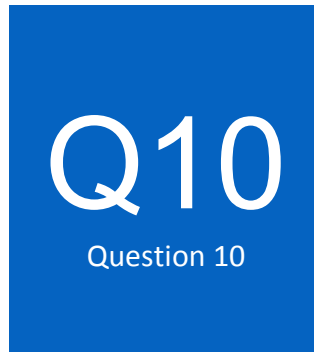
Of course it depends, but generally - yes. Once you've spoken with your advisors and have decided to sell, get your key manager(s) on board.

Why? In many cases you'll need their assistance during the sale process. Buyers often want to talk with key staff to gain their perspective on the Business. Buyers will also want to know that your key managers aren't going to walk out the door when you leave.

However, you may consider using Confidentiality Agreements to ensure your discussions remain confidential. You might also think about offering some type of incentive or rewards to your key managers for assisting with a successful sale. This could take the form of an overseas holiday, new car, cash bonus etc. Different people respond to different rewards & incentives, so think it through first.

“Get your key managers involved and on-board early; consider ways to align their interests with yours.”

“When should I tell the rest of my staff?”



Answer

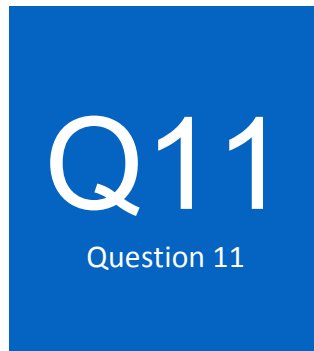
When you can introduce them to the new owners.

Why? Most staff simply don't need to know. The last thing you want is for staff to feel threatened about the sale process and start looking for a new job elsewhere. Staff leaving is rarely favourable during a sale process.

Once you've identified a buyer and the deal's done, you can introduce the new owners to your staff. No doubt the new owners will have a positive story to tell about where and how they want to take the Business forward. This makes the experience energising for staff, rather than threatening.

“Once the deal's done, let the new owners share their vision with the staff.”

“Are there any hidden factors that I should be aware of?”



Answer

There are always hidden factors.

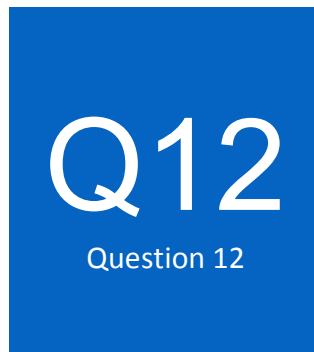
Why? Because every business is different and you can rarely identify all the potential issues up front.

Some of the usual suspects include: an inability to transfer key contractual arrangements; unforeseen loss of senior staff or major customers; staff liabilities (see your HR consultant); taxation issues (see your accountant); continuity of key suppliers; entry of new competitors (real or perceived); potential litigation from customers, suppliers, competitors or staff; movements in foreign exchange rates; impacts from changes in technology, legislation &/or government regulations, etc.

As and when hidden factors arise you need to deal with them quickly and decisively. Qualified intermediaries such as M&A Advisors can help put these issues into perspective for both the vendor and buyer – meaning they won't derail the entire transaction nor negatively impact on trust between the parties. Building a relationship with the buyer that's based on trust is especially important where a handover period forms part of the deal.

“Be aware of the likely risks, think before you act and mitigate unforeseen factors as they arise.”

“Why would I engage someone to help broker my deal?”



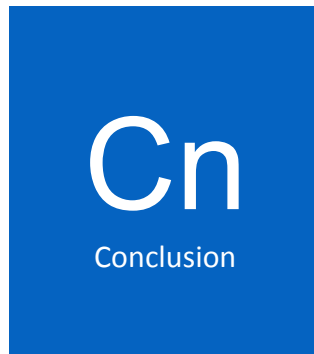
Answer

The bottom line is that maximising the value of your Business at sale depends on exactly the skills an M&A Advisor can offer. Qualified advisors have expertise in research, marketing, sales and negotiations plus a depth of experience in completing many divestments.

The advisor will have the time to proactively drive your campaign. You get to stay focused on operations, while still controlling the exit process. The advisor “creates the market” for your sale. They qualify interested parties and manage confidentiality along with the release of information. And they facilitate all aspects of due diligence, mediating between the stakeholders, and help the parties to reach agreement of key terms and conditions.

Perhaps the most important role M&A Advisors play is the management of vendor and buyer expectations. Not only will they help you determine a realistic estimate of your Business' value and ensure potential purchasers see it in the best light; once you do receive offers, your advisor is in a unique position to give you context in which to make the best decision.

“A professional M&A Advisor can turn a long, stressful and time-consuming ordeal into a manageable process with the best possible outcome for you and your Business.”



Remember

Selling your Business is perhaps one of the most important financial decisions you will ever make. Given the infrequency of such an event, it's important to follow a proven process and make sure it's well executed.

Take the planned steps necessary to maintain confidentiality and protect your Business.

Comprehensive research and targeted marketing strategies underpin most successful sales processes. Understand your target market. Whether prospective purchasers are financial buyers or trade buyers – both are looking for opportunities.

Put your buyer's hat on and make sure you clearly communicate the strengths, value drivers and opportunities that your Business presents. This will enable prospective buyers to fully value your Business.

Finally, consider engaging a professional M&A Advisor to help you manage the process.

Once it's sold, you don't get a second chance.

“Follow proven research, marketing and sales strategies and make sure they're well executed.”



About Us

Lynn Johnson founded Johnsons Corporate in 1960. From day one the sole focus has been the provision of acquisition and divestment services to private businesses. Some 50+ years later and Johnsons continues to offer that expertise to private businesses with enterprise values between \$2 million to \$30 million.

Our track record demonstrates that we deliver exceptional results to our clients. The results we deliver today come from decades of hard earned experience gained in completing literally thousands of transactions.

That experience combined with our narrow focus underlies Johnsons' success. By not offering ancillary services like financing, restructuring, capital raising and business advisory, we are able to offer highly refined methods and expertise in the critical areas of M&A research, marketing, negotiations & sales.

Through the integrity of our processes, people, business practices, and networks we consistently secure substantially more valuable rewards for our clients when acquiring or divesting businesses on their behalf. In short, we work hard to provide our clients with better results than any other alternative.

Over Five Decades of Experience **Working for You**



Disclaimer

Businesses differ dramatically and every situation will vary. Accordingly you should not rely on the enclosed information in isolation and must undertake your own analysis, use your own judgement and seek appropriate professional advice regarding all matters in relation to the sale of your Business.

This document does not purport to contain all information that a potential seller may require in order to make informed and appropriate decisions. Statements contained in this document are given in good faith and have been derived from experience across a range of industries and circumstances when selling various commercial enterprises.