



Tips on how to prepare your **Business for Sale**.

Why prepare your business for sale?

Because you will probably only sell a business once, whereas the buyers are skilled and experienced in this arena, knowing tricks and negotiation ploys to achieve the best deal they can, reducing the exit value of your business.

How will your business be valued?

There are many different valuation techniques, including earnings multiple, payback period or net asset value. Companies making acquisitions will value their target with one of these techniques but also taking into account the strategic fit of the target and the perceived market attractiveness. **Contact vfdnet** to provide an indicative **valuation range** for your business, using feedback from professionals currently buying and selling businesses in similar sectors and sizes

How will you find a buyer?

As a successful business owner you may well receive a speculative approach from a buyer, and you could be lucky. This buyer may pay the best valuation, have the means to complete and be the best option for the continuing managers – **but** it may well not be. A more rewarding method may well be a confidential and selective auction process, managed by experienced advisors.

How will I know I am selling for the best price?

What will a buyer consider as your businesses core competence? What is special about your business which will give a buyer the means for long term sustainable competitive advantage? Who are the main business partners (key customers and suppliers), and who are the main competitors now and in the future? Only once your business is thoroughly understood can it be properly presented to potential acquirers.

How can I help ensure that the sale goes through?

Many deals fail when the buyer discovers something he was not expecting – a deal breaker – and when this happens the trust between buyer and seller breaks down and the deal is very unlikely to happen. Taking a business review from **vfdnet** you can prepare your business for sale and reduce the risk of the last minute 'Deal Breaker'. **Contact us** for a no obligation discussion.

Why should I use a project manager?

The buyer will expect the business to perform better than forecast during the selling process, and if this is not the case the deal may abort or the price be substantially renegotiated. Hence the owners must continue to manage the business and not get side tracked by the deal. The use of an experienced deal project manager, such as is provided by **vfdnet** to professionally project manage the sale process will help you reduce the risk of 'deal distraction'. Anecdotal evidence suggests that ***“the lack of an experienced Finance***



Director will halve the chances of a sale taking place and where the deal does progress the timescale and costs are likely to be double those otherwise anticipated”.

Should I give a buyer exclusivity in negotiations?

A buyer will seek exclusivity as early as possible, because from that point on the negotiation power of the seller is reduced, as the buyer does not have an immediate competitor for your business. It therefore pays to have experienced advice to agree a comprehensive Heads of Terms agreement prior to the grant of exclusivity. In addition exclusivity should not be given unconditionally.

What is the typical selling process?

The main points of the deal are agreed in a Heads of Terms agreement and then the buyer will probably put in his professional advisors to conduct a thorough review of your business, possibly with separate reviews (due diligence) covering commercial, accounting, legal and intellectual property. The due diligence reviews will often result in an attempted renegotiation of the business value, unless no issues have been discovered. The sale process will also be significantly different depending on whether the funding is through cash, venture capital, or a public share offering.

How long does the sale process take?

The speed of the deal will depend on a number of factors such as the complexity of the transaction, the motivation of the parties and the approval process of both the buyer and seller. In the current climate deals are also taking longer to complete, as buyers are more cautious, hence you should expect **the process to take between 3 and 12 months to complete.**

How much influence should Tax have on the sale?

Tax will be an important consideration as it will have a big impact on the net funds derived from the sale. Some early tax planning is advantageous particularly to check assumptions regarding Business Asset Taper Relief. However tax considerations should not dominate the negotiations and should be considered fully once the Heads of Terms have been agreed.

Will I need to give Warranties?

Most buyers will require the sellers to enter into representations and warranties, the extent of which will be up for negotiation. The work of the professional advisors will also have a large impact on the nature of the representations and warranties which you will be required to give, and these may also influence the amount of any deferred consideration (used as a guarantee against possible warranty claims).

Case Study

The owner of the web-based service company initially wished to sell the business to effect a lifestyle change. Early appraisal of the financial data showed declining revenues and rising costs. **vfdnet** performed a thorough



review of the business, revealing the reasons for both the revenue decline and the costs increase. This work helped re-focus the business on sales and marketing and on achieving a better sales mix. In addition, the review identified certain problem areas or 'smoking guns' which could be cleaned up, and highlighted unique strengths which would be trumpeted at the appropriate time. This process has re-invigorated the owner who is now enjoying implementing this strategy to grow the business significantly prior to a sale

Disclaimer

This factsheet has been prepared by **vfdnet** based on extensive experience. However every deal is different and no reliance should be placed on this advice. **vfdnet** does not accept any liability to readers of this factsheet. Owners wishing to prepare their business for sale must seek professional advice such as that offered by **vfdnet** Ltd.