READY TO SELL YOUR BUSINESS?

Here's what you need to know...

ESSENTIAL BUSINESS SERVICES

SUPPORT, INSPIRATION, ACTION.

The business sale process

It's not easy to successfully sell a business.

In fact, **fewer than 25%** of all businesses advertised for sale actually sell.

So, how do you avoid the pitfalls and get a valuable return on all the blood, sweat, tears… and cash… you have poured into your business?

As experienced Business Sale Brokers, we have created an easy-to-follow 10 step process which will vastly improve your chances of a successful sale.

1. **Create a plan**
2. **Know your Nett Cash Out Position and Sale Price**
3. **Determine the right time to sell?**
4. **What do buyers look for?**
5. **Engage the right team:**
   Accountant / Lawyer / Broker
6. **Understand the key selling language:**
   Exclusive and non-exclusive agency agreements / Branded or unbranded marketing /Due diligence / Restraint of trade
7. **How to approach staff, customers and suppliers**
8. **Sale offers:**
   How to screen prospective buyers / What to do when you're waiting / What does a good offer look like?
9. **Understand contracts and the settlement process**
10. **What can go wrong**

1. Create a plan

A well prepared business is critical to the process. It will significantly increase the overall outcome at sale including your sale price and your ability to move quickly if required. It can take an average of 6-9 months for a fully prepared, well-marketed and priced business to sell in a capital city. Regional areas can take up to two years, if they sell at all.

Be prepared

Allow time to prepare your business premises, gather information and understand the sale process.

Financial information

2-3 years and quarterly Y.T.D. numbers updated and available

Tax paid

Is your BAS, Superannuation and tax up to date?

Lease

Secure your lease. Most buyers will look for a minimum 6 years (including options), especially if there is finance involved.

Cash

Run everything through the books

Equipment

Fix or dispose of broken equipment

Open your eyes

Pretend it's the first time you have visited your business – would you buy it?

Inventory

Do a stocktake. Make sure your inventory is accurate and saleable.

Dispose of dead stock

Keep your business clean and relevant. Holding onto dead stock costs you money.

Educate yourself

The earlier you get the right advice, the better the outcome!

Don't try and sell it yourself

Using a broker will get you far better financial and emotional results.

Would you buy your business?

2. Know your nett cash out position and sale price

Sale price: How do I calculate what my business is worth?

Selling your business is a big decision. Education and a clear understanding is critical to achieve your outcomes.

There are two common ways to establish your business worth:

Valuations

Given for a specific purpose and are commonly inflated compared to the actual price a business sells for

Appraisals

Show you the likely price range your business will sell for on the open market

How do I work this out?

There are two parts to a sale of a business - **price** and **conditions.**

PRICE

How much cash per year the business is likely to generate is usually calculated based on historical performance. Businesses with a minimum of 3 years trading history paint the best picture.

To work through the process, follow the example here <link to blog or other downloadable workbook?> to establish your **EBITDA** (used for larger businesses run under management, or those that have opportunities to do so) and **PEBITDA** (for owner operated businesses generally with a sale price of $250K or less).

It is worth getting a proper appraisal to get this done correctly and establish a more exact sell price.

CONDITIONS

Buyers often introduce conditions to the sale which can carry just as much weight as the price.

Our job as your broker is to negotiate the best price coupled with the conditions that suit your needs.

2. Know your nett cash out position *(continued)*

Knowing how to calculate your ***Nett Cash Out position*** *is vital when you wish to sell your business. Nett Cash Out will determine whether you are ready to sell and validate any predetermined 'need price'.*

- Most business sales are negotiated with the condition of being sold **Unencumbered - Debt Free** (excluding any property leases)
- Most transactions require that everything (apart from your factory or shop lease) is paid out. Once this occurs, it's time consider your specific tax implications.

Nett cash out

There are many variables and complexities to arrive at a specific number. We can provide you with a simple guide to enable a quick calculation. <link to blog or other downloadable worksheet?>

Once you have followed the steps to determine your approximate nett cash out figure, speak to your accountant to find out your tax outcome based on this figure. The tax to be paid is highly dependent on many factors.

Then ask yourself:

Is this enough for me?
Am I ready to exit?

NO

Contact us to discuss coaching programs or assistance to improve your business and increase your longer-term sale price.

YES

It's time to decide when to go to market! To gain the best result, allow at least 12 months before you want to get out. If you need to move more quickly, give us a call to discuss your options.

3. Is this the right time to sell?

There is no magical 'right time' to sell. In fact, a business should be ready for sale every day it is trading.

It's the wrong time to sell when:

- You are making Low or No profits
- You have no clear plan for yourself when you actually do sell
- You make emotion-based decisions
- You are having trouble with staff
- The gap between your NEED PRICE and estimated NETT CASH OUT is too large
- You are experiencing health or personal family reasons

*If any of these points apply to you, it simply indicates that offering your business for sale **right now** may not give you the best return for your hard work. It does not necessarily mean your business is unsaleable.*

It's the right time to sell when:

- You are fully prepared – both mentally and in your business
- Your business is close to or at the top of its game
- You have made yourself redundant
- You have a clear understanding of your desired outcomes – personally and financially
- You have completed Step 1 and created a plan

4. What do buyers look for?

The number one reason a buyer looks to purchase a business is that it allows them to progress in life and put their future in their own hands.

Buyers can be split into three general categories:

BUY A JOB

(most transactions $500k-$15mil)

These buyers, focussed on **earning capacity** and **lifestyle** are looking for security, longevity and, potentially, the ability to scale up later on.

PRIVATE BUYERS / INVESTORS

(most transactions $500k-$15mil)

All private investors want a business that will give them a greater return than their other potential investments.

CORPORATE / COMPANY BUY OUTS

(transactions $1mil - $20mil and upwards)

Companies generally buy established companies with full (or close to full) management structures in place. They focus on strategic purchases that offer access to new markets, new customers and products or services (typical of competitor buyouts).

What sort of buyer would be attracted to your business?

5. Engage the right team: accountant, lawyer, broker

To sell your business, you need to have an effective Business Broker, Accountant and Commercial Lawyer.

ACCOUNTANT

Fundamental in producing accurate supporting financial documentation to provide to a buyer and assists in providing the best tax outcome for the sale.

COMMERCIAL LAWYER

Critical to completion of the sale contracts.

BUSINESS BROKER

Assists you in the early planning stages and helps you prepare and navigate many processes before you go to market. A broker gives you the best chance to sell your business for the highest amount in the shortest amount of time.

Your ideal broker:

- Is licensed and a member of the AIBB
- Business sales are their daily profession
- Has business experience
- Will have no more than 10-30 businesses for sale at any one time
- Offers you a minimum of 7-10 websites in their marketing package
- Has a clear process to screen buyers
- Charges appropriately. Being a Business Broker is a professional service, a broker may put 100-200 hours into selling your business
- Is someone you can work with. Get to know them. You need to trust each other.

You only have one business to sell - you owe it to yourself to increase your chance of gaining the best outcome by getting the right team on board.

6. Know your terminology

Exclusive and Non-Exclusive Agency Agreements

An Agency Agreement formalises the particulars of the sale you are going to undertake and spells out your arrangement and the broker's fees.

You can negotiate with your broker to have Open, Sole or Exclusive listings.

OPEN LISTING

- You authorised the agent to act on your behalf and take you to market, but you are free to find your own buyer or appoint other agents at the same time
- You only pay that agent a commission on sale if the person who buys the business was specifically introduced to you by the broker
- The agreement period is usually open-ended until it is cancelled in writing
- Be wary of agents who automatically offer an OPEN listing

SOLE LISTING

- You appoint one broker to the sale of your business, but you are free to seek your own buyer privately
- If you sell it privately, there is no commission payable to the broker unless the broker introduced the buyer to you
- The agreement period is usually open-ended until it is cancelled in writing

EXCLUSIVE LISTING

- Is the common way to start nearly all Agency Agreements
- Has a set time period of usually 6-9 months (12 months is not uncommon)
- While under that agreement any sale of the business to anyone will result in a commission payment being made to the broker
- Post this period, the agreement automatically changes to OPEN until you cancel it in writing with the agent

6. Know your terminology *(continued)*

Branded or unbranded marketing

There are three possible scenarios when advertising a business for sale.

SILENT LISTING

- Not advertised on any media platforms yet still incurs marketing administration fees
- Involves a high level of direct engagement with strategic buyers and marketing via email, letters, calls and printed material
- May be used to `test the water' regarding selling

UNBRANDED LISTING

- By far the most common style of marketing, this does not detail the business name
- Marketed to attract an enquiry, but only those who complete a Non-Disclosure agreement will find out which business is actually for sale
- Commonly used in situations where staff or competitors are not to be made aware the business is on the market

BRANDED LISTING

- Used when the owner is not concerned about staff, customers, suppliers or anyone else knowing the business is on the market
- Buyers are more likely to enquire on a Branded Advertisement because they are already familiar with the business.

Which one applies to you?

6. Know your terminology *(continued)*

Due diligence

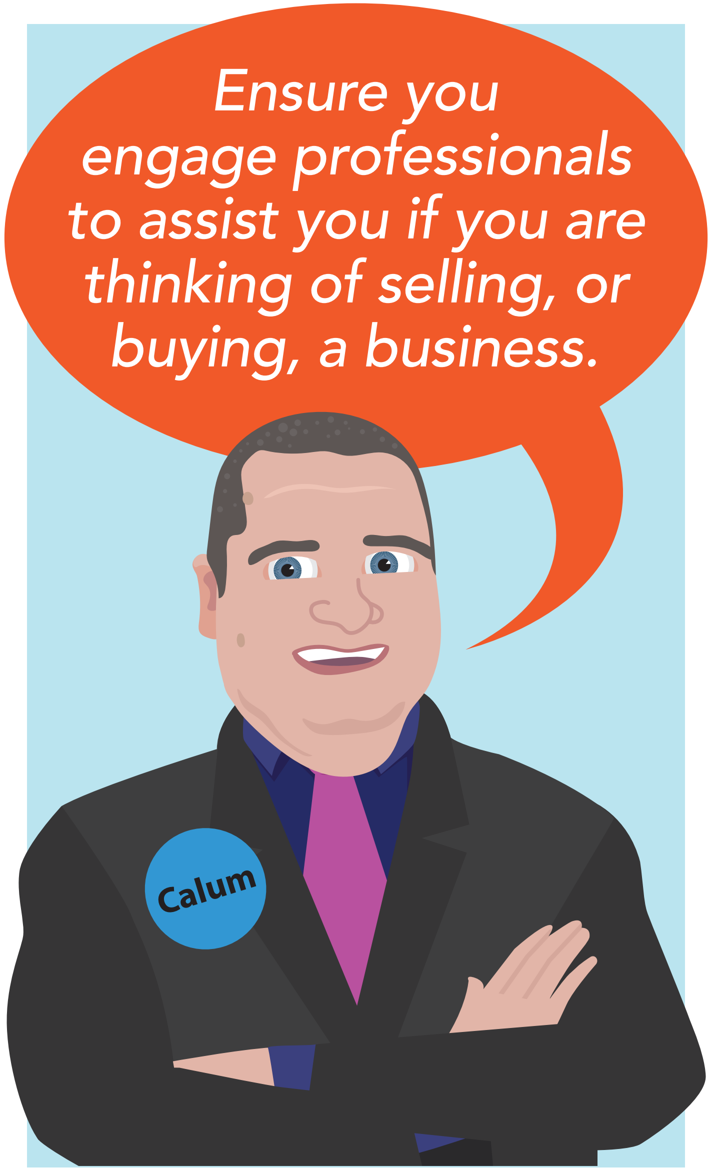
Every buyer should undertake some form of due diligence prior to purchasing a business. This process covers everything they need to be comfortable to make an offer for your business.

Due diligence items for a standard asset / business sale

All information is validated by the buyer, an associate, their accountant and/or other advisors, to give the buyer an overall understanding of the business. Additional information can be provided once a contract has been signed.

Once a sale contract is executed, the buyer is allowed a set time frame (normally two weeks from signing of the contract) to complete their due diligence.

Significant issues arising during the due diligence process may result in renegotiation of contract prices and / or terms. If the vendor is not willing to negotiate the buyer may withdraw from the sale completely.



6. Know your terminology *(continued)*

Restraint of trade

In terms of restraint, no buyer wants to find they are in competition with the vendor once the sale is complete.

As a result, every sale contract will have a restraint of trade clause, with the time frame and area it applies to.

You must consider the effects of a restraint of sale.

Example

Two years ago, an owner bought a business with a very short restraint clause, not thinking it would be an issue. The vendor owned the building and became the new owner's landlord, but he only provided a two year lease, with short options.

At the end of the two years' lease, the business owner was reluctant to re-sign any long term lease renewals due to the impact of COVID-19. He requested month-by-month until there was some certainty around the economic climate. The landlord did not accept the request and asked the owner to vacate at the end of the term – only two months away. The owner then discovered that the landlord was planning to reopen the business once he vacated. The vendor's restraint period had expired so he was legally free to do so. As a result, the new owner lost everything.

A suitable restraint clause would have mitigated the risk of this situation occurring.

7. How to approach staff, customers and suppliers

STAFF

Is my job secure?

Staff worry about the future security of their job. Being honest will greatly enhance your ability to keep your staff engaged. Remember - business as usual! Continue to maintain and grow the business with your staff, while the sale process happens on the side.

If you are just testing the waters:

Initially list SILENTLY OR UN-BRANDED and keep it to yourself. Buyers and or others coming in should be aware not to talk to the staff or associates directly. When the time is right, you can proceed to below.

If you plan on a BRANDED advertisement and have a small team:

Be honest with your staff and explain your reason for selling/leaving. It's important that they are reassured that a new owner will secure their future and give them greater ability to progress in their career with the business. It is not uncommon for business owners to burn out – a new owner will give them a future!

It is also not uncommon for a staff member to express their interest in purchasing the business If this occurs, engage your broker to negotiate the sale and settle the business for you.

If you plan on a BRANDED advertisement and have a larger team:

Apply the above to the key staff because they are one of the biggest assets in your sale offering. Make them feel secure. Reassure them that you will be looking for an owner who can give them further career opportunities.

7. How to approach *(continued)*

CUSTOMERS

It is not usually recommended to broadcast to your customers that you are for sale, as it may trigger them to look for a new supplier.

Customers can become a buyer, especially if you are a strategic supplier to them.

- This is unlikely if you are a retail outlet as long as you are delivering the same service and or product as usual.
- Sometimes vendors put up a sign to say the business is for sale. We usually avoid this for metro areas but in rural areas a sign can assist in a `reactive sale'

SUPPLIERS

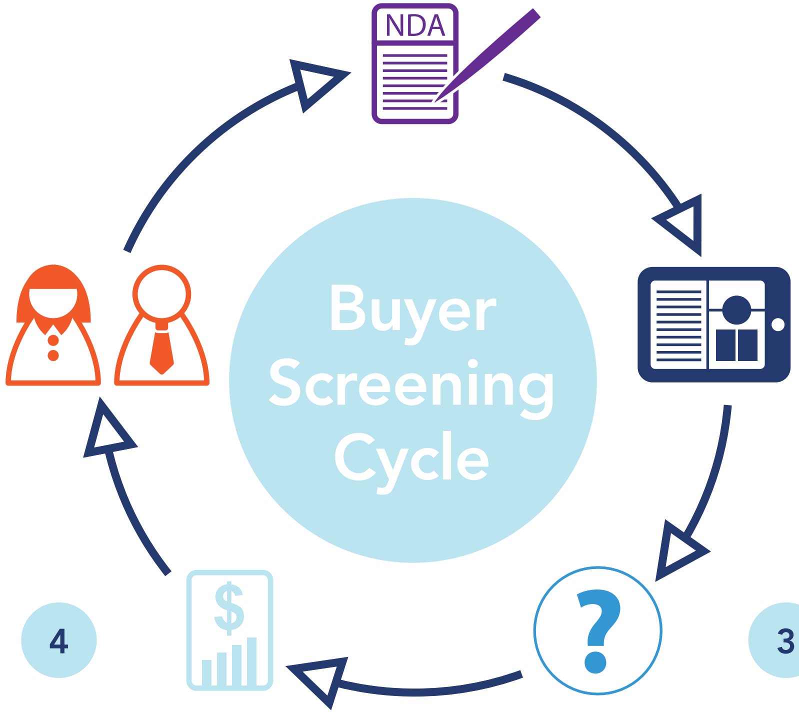
Most suppliers won't care too much if you are selling your business while you continue to spend money and pay your bills.

- Your biggest suppliers can sometimes be a buyer
- It is worth giving your broker a list of your suppliers to identify any that may be interested in a strategic purchase

8. Sale offers

How do brokers screen prospective buyers?

Brokers filter the enquirers. It can take 20-30 enquiries to find one suitable buyer for a business.



1. Complete an NDA (Non-Disclosure Agreement)
2. Provide them with a snapshot via your business profile or Information Memorandum
3. Once a buyer has received this, we spend time discussing the business and their needs to gain a better understanding of the buyer's requirements, reason for purchasing and financial capacity to purchase
4. Supply the remaining buyers with further information about your business, such as your lease schedules, specific financial information and staff structures etc
5. It's time to meet! This is the time for the buyer to ask any further operational questions or specifics of the vendor

8. Sale offers *(continued)*

What to do while you're waiting for a buyer?

Don't let your business slide! You are on the market. You are not under contract and have not yet sold.

Use your time wisely as you don't know how quickly (or slowly) your business will sell:

Continue to run your business with a focus on increasing sales and profits.

Use the time to:

- Clean up or fix anything your broker has pointed out
- Write or review your procedure manuals and train your staff so your handover time is reduced
- Ensure your customers are happy and that you are listening to their needs
- Look through your expenses and renegotiate deals to keep your costs down
- Look for ways to streamline processes and increase your business productivity

What does a good offer look like?

Receiving your first offer is always exciting. Remember - an offer is not a sale contract and negotiations may still take place. It is a lot easier and cheaper to discuss and make any changes before lawyers are engaged.

The price should be within or greater than your ideal `Need Price' so you can gain an acceptable level of `Nett Cash Out'

The conditions allow you to achieve your desired exit from the business. The most common conditions include:

AN OFFER MAY INCLUDE CONDITIONS THAT RELATE TO:

- Lease reassignment
- Training / handover
- Employment agreements
- Satisfactory due diligence
- Subject to finance
- Vendor finance
- Restraint period and area
- Key staff employment
- Subject to sale
- Payment conditions
- Specific conditions

Once an offer is accepted, it is not a given that the business will settle. The business is only sold once the money is in your account and you have handed over the keys!

9. Understand contracts and the settlement process

CONTRACT OF SALE

- Your broker will compile all information about the offers, conditions and terms on your behalf and work with your lawyer to create a draft contract of sale
- The final copy is produced for sign off once all parties have reviewed the contract, and made any necessary changes
- Once the last person signs the Contract of Sale, the DEPOSIT amount will be paid by the buyer into a trust account nominated and detailed on the sale contract.
- A `retention amount' is included in some sales contracts, particularly very large transactions with complex share sale conditions, performance based payouts and warranty provisions.

THE DEPOSIT

- Is paid into a trust account for safekeeping until it is released it to the vendor
- If the conditions of the sale contract are not satisfied, the buyer's deposit becomes refundable
- Is generally released to the vendor 24-48 hours post-settlement

WHEN THE SALE CONTRACT BECOMES UNCONDITIONAL

- The contract is unconditional once ALL CONDITIONS of the sale are satisfied, including finance clauses, Due Diligence, lease reassignments and staff engagements
- At this time, the deposit is deemed the property of the vendor and, in theory, could be released to the vendor with the buyer's lawyers' permission
- Most sale contracts will not complete all conditions until shortly before, or on, settlement

9. Understand contracts/settlement process *(continued)*

What is the settlement process?

Once both sides have agreed that everything required has been provided, the money changes hands and the business belongs to the buyer.

HOW DOES IT OCCUR?

- A settlement is usually performed in a virtual space on the date stated on your contract of sale
- Lawyers, vendors and buyers go through a prepared list of items in accordance with the sale contract, and checklists supplied by your broker
- The buyer's lawyer must provide evidence that any items required for the transition of the business has been provided to them
- The buyer must check that everything - operation manuals, keys, petty cash, staff agreements, utilities - are all dealt with
- Settlement itself is a simple email from the vendor's lawyer to say that settlement has been deemed as complete

SETTLEMENT DELAY

- Vendors often fear that settlement will either be delayed or not occur
- Not every settlement goes to plan, there are gremlins that can pop up!
- Having an experienced broker and lawyer on your team makes it rare for settlement not to take place because every aspect will be organised, checked, cross checked, and any potential issues identified prior to conducting the settlement process
- Sometimes it is necessary for alternative arrangements to be put in place to allow settlement to proceed
- Settlements can have additional terms applied on the day to overcome any issue that may need to be rectified post-settlement

10. What can go wrong?

Attention to detail, buyer screening, sharing of correct information and close involvement with both parties from start to finish are critical to ensure successful settlements.

TOP 10 reasons why a business sale falls through prior to settlement:

Finance
is not approved

Lease
is not approved for reassignment to the buyer

Franchisor
doesn't approve buyer (for franchise sales)

Vendor
changes their mind

Buyer
gets cold feet

Staff
panic and leave

Disagreements
about staff, included assets, P&E

Lawyer
– engaging the wrong type

Vendor and Buyer
don't get along

Trial period (for cash businesses) **and/or Due Diligence**
do not translate into original sale or profits as quoted by the vendor

A business sale is highly complex. Engaging the right broker and team is critical to deal with any issues and problems that arise during this lengthy process.

Where do you stand today?

How do you feel about selling your business? Are you fully prepared and ready to go?

Essential Business Services offer:

- Business sales services
- Business coaching and mentoring
- Small business finance for small cash flow loans
- Workshops and mastermind groups to further educate you on various business topics

Would you like more information on how we can help you achieve your goals?

Simply reach out via email or phone or check out our website!

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