# Guide to: Maximising Value From A Business Sale

If your intention is to one day sell your business, you should put in place a plan to help maximise the value from any future sale. But what does a plan look like in the context of a business sale? This guide suggests seven steps you can take.

## 1. Play the long game

Start thinking about your exit from the business well ahead of the event itself. To be clear, we are talking 5 years ahead here. As the rest of this guide will make clear, some of the steps you can take to maximise the value from your life's work are not things which can be achieved overnight.

## 2. What do you want to achieve?

You will need to get a bit introspective here. What do you want to do after you have sold your business? Regardless of whether your answer is "work less hours and let someone else have the risks and stresses of ownership and management", "sit on a yacht sipping cocktails", or "spend more quality time at home with the grandkids", you need to know what you are budgeting for.

## 3. The bottom line

Knowing what you are budgeting for is important, but you then need to prepare the budget. For most people, this is where there starts to be some real value in professional advice. The world of investments is (putting it mildly) tricky to navigate and no-one wants to find that, after a few years of retirement, the money is running out and you need to start working again. Sitting down with an independent financial adviser to work out what kind of lump sum will be needed to generate the income to fund your plans – whatever they may be - is unlikely to be wasted time. This might be less than you imagined, or it might be more. Either way, this is something you should know at the outset.

## 4. For what it's worth

Armed with a plan and a budget, it is now time to take a critical look at your business. Is it realistic to expect that you can sell it for the sort of money you need to fund the next chapter of your life? If not, what do you need to do between now and a sale to increase the value?

Valuing a privately owned business is a notoriously tricky exercise. The methodology involved will vary from sector to sector and will change over time. There is some truth in the old cliché that 'it is worth what someone is prepared to pay for it' and, once again, this is where expert advice can really add some value. A good corporate finance adviser will have access to market data on the prices paid for similar businesses and will also be able to talk you through the fundamentals that drive those prices. This will often identify areas where changes can be made to add value. For example, it may be that by separating out different trading divisions of your business into separate companies the overall value is increased. Other examples include having succession plans for your role(s) in the business and for other key members of management and identifying under-performing areas of the business that could be enhanced or discontinued to improve overall profitability.

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In any event, structural, accounting, or commercial changes needed to either make your business more saleable or enhance its value will generally need to be implemented well ahead of starting to market the business. Typically, a buyer will take a detailed look at the accounts for at least the last 3 years, and you are going to want the benefit of the changes you make to be reflected in the numbers.

## 5. Getting your house in order

It may well be that you need to engage with lawyers sooner rather than later to implement pre-sale restructuring work. However, even if this is not the case, talking to a corporate solicitor at an early stage is a good idea for several reasons.

A key point to bear in mind is that when you ultimately find your preferred buyer and sign 'heads of terms' (see below), the price offered for your business will inevitably be "subject to satisfactory conclusion of legal due diligence". In practice, this means that if your buyer discovers inadequate data protection policies, out of date employment contracts and onerous repair obligations in your leases, you could well find that the price you have been offered is no longer the price they are prepared to pay. At best, you will end up being asked to assume personal responsibility (through the warranties and indemnities in the sale agreement) for potential issues. It is hard to enjoy your retirement watching a tropical sunset if, at the same time, you need to look over your shoulder for potential warranty claims.

A great starting point is to get hold of a sample legal due diligence questionnaire (the list of questions a corporate lawyer will ask about a target business). Go through this with your own lawyer at least 12 months before you start to formally market your business and let them take a critical look at your key legal documents. These underpin the value of your business, and you should give yourself plenty of time to address any issues. A good example would be the payment terms in your commercial contracts. In early March 2020, many businesses assumed that, because their customers always paid on time, they did not need to worry about what their contracts said. Then the Covid-19 pandemic changed things overnight, and they discovered that their rights to enforce payment were not as strong as they thought.

Selling a business is obviously not the same as selling a house, but it helps to think of this as the legal equivalent of having fresh-baked bread in the oven and an inviting pot of coffee on the stove when your buyer walks through the door.

## 6. Finding the needle in the haystack

Once you are happy that your business is ready to sell, you need to find your buyer. As with any other commodity, there is an active market for businesses. However, there are generally also confidentiality concerns.

To address this, corporate finance advisers will typically work with you, using their research resources, to identify a shortlist of the most likely buyers. This ensures that commercially sensitive information is only shared with a small number of potential buyers, each of whom will have indicated that they are prepared to offer sensible terms and have been vetted to ensure that they have the financial resources to proceed with the sale. At this stage, those buyers will typically be sent an anonymised 'teaser' document to gauge their interest in the opportunity. If the buyers express interest, to ensure confidentiality your adviser will then put in place a non-disclosure or confidentiality agreement before revealing the name of your company and more detailed information in the form of an 'information memorandum'. Typically, any very sensitive commercial information, such as customer names and supplier and customer pricing information, margins etc, will not be included in the information memorandum, and will only be disclosed to the preferred bidder or bidders after offers are made.

Once the information memorandum has been provided, the corporate finance advisers will set an initial bids deadline and help you to select a further shortlist of the best offers made. At this stage it is common to offer more sensitive information and access to the business and management team (under supervision from your advisers), before setting a best and final offers deadline, after which your preferred buyer is selected.

## 7. Use your heads

At this stage, buyer and seller will sign a 'heads of terms' document setting out the headline terms, any key assumptions which underpin the buyer's offer, and the process (and timetable) to completion of the sale. Although most clauses in the heads of terms will not be legally binding, this does 'pin' the parties' expectations and make it commercially difficult to renege on the agreed terms without a good commercial justification. For this reason, working with the corporate finance advisers, the seller's solicitors will normally draft, negotiate and agree the heads of terms with a view to ensuring that appropriate ground rules are set for the formal legal process which follows.

Once heads of terms have been signed, the legal, financial, and commercial due diligence process will begin, and the solicitors will prepare the legally binding transaction documents. It typically takes 2-3 months to get from heads of terms to completion, although you should bear in mind that all sales are different and in any particular case this could be shorter or significantly longer.

## Conclusions

If you have read this far, you will hopefully have seen why time spent engaging with legal (and other) advisers as early as possible in a business sale is generally time well spent. By methodically implementing the steps needed to achieve your goals (whatever they may be), you will be giving yourself the peace of mind that the result will be the right one for you and your family.



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