

SO – YOU WANT TO SELL YOUR BUSINESS?

Most people think that selling a business is the same as selling a car or house:

- Give it a clean.
- Fix up the obvious faults.
- Hire an agent / car yard.
- Throw up a sign and list it on the internet.
- Wait for the enquiries.
- Do the deal.

But with both of these assets you can touch and feel what you are purchasing, and so you develop a comfort in what you are acquiring.

It is usually fairly clear that a 20-30 year old house will need a coat of paint, the roof will need a clean, the hot water cylinder will probably need replacing and you can pay someone to check “under the hood” for termites, building faults and other potential pitfalls.

Even buying a car can be more certain than a business. And the extent of future liability is somewhat limited to the cost of another car.

With a business it is different:

- The most important assets of the business, such as customers, processes or IP, are usually intangible – you can’t touch or feel them.
- Future revenue is always uncertain. It is hard to get a “read on customers” unless you spend significant time in the business.
- Past profit performance is not a reliable indication of the future – unexpected costs and regulation can always arise.
- There can be unknown risks from past legal issues associated with customers, suppliers, employees and regulatory bodies.
- Most businesses do not have adequate reporting and monitoring in place and so the buyer is relying on information you provide.



And there is significant risk to the vendor in making false or misleading statements to buyers that they then rely upon in making a buying decision. I have known several legal cases brought against the vendor because they made misleading statements about the ongoing revenue or profits of the business.

Over the past 10 years and hundreds of valuation and exit strategy projects I have heard a wide array of stories – good and bad – about business owners buying and selling.

- “I bought this business in a week and relied on nothing more than 1 page of figures the owner gave me.”
- “I spent two years negotiating a deal with the buyer – they screwed every last cent from the deal”
- “I have had the business on the market for more than two years and had no real or serious enquiries”.
- “The owner wants \$500k for a business that has less than \$100k of assets and no profits – no one will buy that”.
- “The owner wants \$4m for a business with declining revenue and less than \$450k in profits – why would I take a risk on that based on his hope that revenue will increase 50% in the next 2 years?”

MAKE NO MISTAKE – SELLING A BUSINESS IS NOT THE SAME AS SELLING A CAR OR HOUSE – IT IS SEVERAL TIMES HARDER AND CAN TAKE A LOT LOT LONGER!

**THE DREAM IS
FREE**

**THE HUSTLE IS
SOLD SEPARATELY.**

SELLING A BUSINESS

There are actually two distinct phases involved in selling a business:

1. Positioning and preparing the business to attract the best offer possible.
2. Sale and transaction.

The first phase we call the Exit Strategy Planning phase, and in many cases business owners think all it means is:

- Gather most recent financials.
- Put key contracts and arrangements in a file ready for showing to potential buyers.
- Tidying up the office / factory or other sites.

This completely ignores the potential value most businesses have locked away in their business and acts as no preparation at all for the questions that buyers will ask.

The second phase – the Sale and Transaction – is one that most business brokers do well. It is also not uncommon for solicitors and accountants to help with this stage.

The process of preparing the right marketing material, attracting a multiple buyers, fielding enquiries, negotiating, conducting due diligence and executing the deal is a very specific set of skills and often requires a depth of experience that only these professionals possess.

In some cases, we have seen very skilled professionals perform both phases. Many M&A Advisors (often experienced in corporate finance roles with listed entities or top tier consulting firms) adopt this approach. They immerse themselves (and sometimes their team) in your business, search out the improvements and take steps to attract a buyer, then seal a deal. As always, these services come at a cost.

The following table outlines the common ways of selling a business that we have seen.

Method	Direct Costs	Hidden Costs & Issues
DIY	\$300 - \$500: Online promotion \$400 - \$1,000: Accountant prepared financials \$600 - \$2,000: Solicitor prepared contracts	Loss of profits from being distracted by the sales process. Loss of value from negotiating a poor deal. Additional legal or advisor costs in securing a deal or supporting due diligence. Time to attract and secure a buyer.
Business Broker	\$5,000 - \$10,000: Upfront fee for marketing collateral and preparation services 1% - 5% of contract value: Success fee	Sometimes require additional accounting and legal fees addressing due-diligence issues.
Solicitor / Accountant team	Fees between \$10,000 - \$30,000	Often lacks access to a database of potential buyers. Not always experience at preparing marketing collateral. The process is not always the main reason they are in business.
M&A Advisor	\$10,000 - \$15,000 per month on retainer (typically 6 - 12 months) 1% - 5% of contract value: Success fee (sometimes net of retainer)	Will sometimes require additional legal and accounting fees.

There are distinct benefits from each of these methods that include:

- Saving direct costs using a DIY or team approach.
- Taking advantage of specific skills sets and experience that each party brings.
- Using professionals so that you focus on running the business during a sale process.

If you are lucky then **sometimes** a cost saving approach is best, but only if you have:

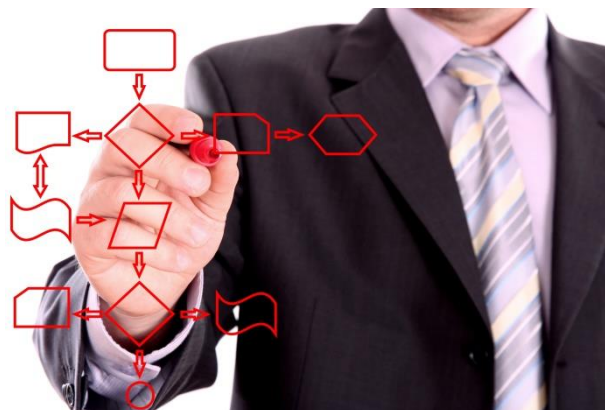
- Good financial reports.
- Documented systems.
- A structure to reduce reliance on key persons.
- Some clear buyers in play that have the capacity to pay.

But most businesses are rarely in this position.

THE GENERIC SALES PROCESS

Despite a range of providers that offer services to support the sale of a business, there is a generic process that all people follow to some degree:

- Understand the business and its key features and issues.
- Prepare marketing collateral for promotion.
- Identify potential buyers.
- Approach and qualify buyers.
- Secure a Letter of Intent (or Heads of Agreement) from one or more buyers.
- Support due diligence.
- Negotiate deal based on outcomes of due diligence.
- Execute a contract of sale.
- Implement the deal.



In some cases the order of the process will vary, especially when it comes to a staged approach at qualifying potential buyers and coordinating offers. In other cases, the process may be iterative where due diligence through up issues that are unacceptable to one buyer but can be accommodated by another.

We have found that the sale of a business typically takes:

- 3 – 6 months to attract suitable buyers.
- 1 – 3 months to negotiate letters of intent.
- 1 – 6 months of due diligence.
- 1 – 3 months negotiating and executing a deal.

In our experience we have spent anywhere between 50 – 250 man-hours in securing, negotiating and executing deals that range in value from as low as \$250k to deals in excess of \$10m.

We often find that the small deals take just as long as the larger deals – and the issues often raised by buyers end up being very typical:

- Revenue risk.
- Key person risk.
- Technology risk.

Some business brokers, M&A advisors and Exit Value Advisers include additional stages where appropriate, such as:

- Valuing the business to determine suitable price ranges for different classes of buyers.
- Identifying and implementing business improvement initiatives to increase the value of the business.
- Conducting trial due diligence and implement actions to be ready for the transaction.
- Assess alternative methods of exiting the business.
- Develop alternative strategies to attract potential buyers from joint ventures, strategic alliances, investors or private equity.



Typically a successful sale process will proceed naturally from opportunities that the business owner proactively seeks out:

- Developing new strategic partnerships to grow the business.
- Identify potential buyers early and start discussions early.
- Staying in contact with other industry players so that exit strategy discussions can happen “naturally”.
- Proactively promoting the achievements and successes of the business to create industry buzz that leads to new investment opportunities.

Unfortunately most business owners do not consider the exit strategy options until it is too late to prepare.

They are then forced into a process that they rarely control and usually do not get the price they want for their business.

An exit strategy is not all about great or powerful negotiations. In almost all cases it is about thoroughly understand the value proposition and the exit strategy options in order for negotiations to be as smooth and painless as possible.

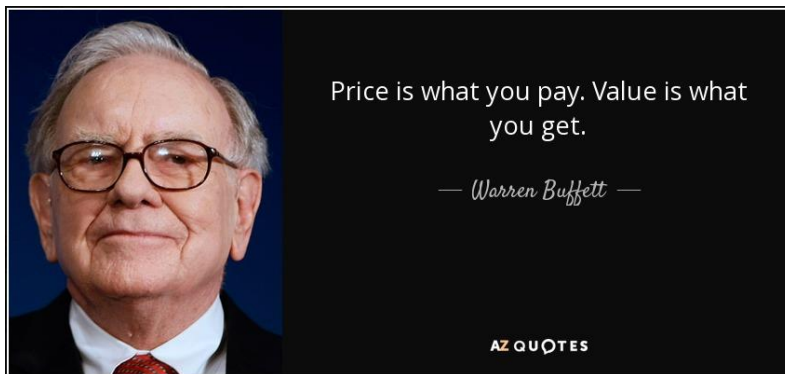
WHAT IS THE REAL PRIZE?

Most business owners think that the prize in selling your business is the price – cold hard cash in the bank.

And whilst that is true to a large extent, there are other factors to consider as part of the prize:

- **Lifestyle and health.**
- **Personal satisfaction.**
- **Legacy.**
- **Timeline.**

For the most part these are intangible rewards – and the nature of your exit can often influence how these intangible prizes are realized.



We will come back to the price shortly – but for now it is worth considering the other prize factors. There are no hard and fast rules in these prizes. What matters is that they are considered before and during the exit strategy process so that you feel like you have won the lottery at the end.

LIFESTYLE

By lifestyle we mean what type of lifestyle do you want to have post-exit? Will you move on to another business opportunity or career or will you retire?

If you retire, what activities, past-times and pursuits will you want to achieve in order to get the life satisfaction you expect? How will this influence the amount of funds you need to retire and how you are going to access those funds?

What levels of free time will you expect or will you want to be involved in the business in some capacity post-exit?

If you are moving onto another business or career, do you need to make a clean and complete break or can you continue to be involved somehow?

And never forget to take into account the stress of business ownership (even if you maintain a small “silent” shareholding post exit). You may have more free time and money, but if you still have the stress that may not be worth the deal you are chasing.

Often, business owners chase a high price and find they are tied to the business for the next 2-3 years on earn-out agreements, and/or maintain some ongoing minority shareholding.

It is worth considering whether chasing the higher price is worth the impost on your free time and stress levels.

PERSONAL SATISFACTION

A very close colleague of mine often remarks to me over the phone “My job is the best in the world! Where else can I get satisfied customer accolades, work outside in an exciting environment, spending 9 days a month and get paid for it?”

He has a high level of personal satisfaction in what he does and he has come to realize this has significant value to him as a person. There is nothing better for him than to hear how much he has made a customer happy, elated, thrilled, excited and “frothing at the mouth”.

So his future career and business choices need to be able to match this level of personal satisfaction.

Other business owners want to be able to match the personal satisfaction they get from their work in retirement or in the next phase of their career. Sometimes this will influence the nature of any agreement.

LEGACY

Most business owners are proud people – they take pride in what they have created, the value they provide to customers and employees, the ingenuity in their design and the team they have adopted.

It is unfair to categorise legacy as emotional attachment to the business – it is also tied up in personal satisfaction, pride, community and your own professional network. The sense of legacy can be very strong for some people and it is a core personal value that must be considered appropriately in any exit strategy.

A business owner would like to see their legacy continued and not tainted, and this can often influence the conditions of an exit.

TIMELINE

This is often the least considered out of all of the prizes – do you want a result in the short term or have you got time to wait for the right deal. Sometimes the business owner needs to consider health factors in the timeline. Ideally you want the deal of a lifetime but you also want to achieve a deal before your healthy lifetime is over.

YOUR GOAL

At Exit Value Advisers we see your goal as maximizing the extent of each of the prizes in a priority order that matches your expectations.

In essence you want:

- The best price (net of tax).
- Enough spare time and funds to pursue your interests.
- Pride in leaving something significant that others can continue.
- An equivalent level of satisfaction post-exit.
- A deal achieved in a timeframe that matches your expectations.

Surely that is a reasonable goal to have?

Yes it certainly is reasonable – you spend a lot of time and a large portion of your life building the business, so it is entirely reasonable to expect you should get a reasonable reward.

What is not reasonable is to expect to achieve all of this without preparation and planning.

Trying to implement an exit strategy without planning is like hoping you will win the lottery but you will only buy 1 or 2 tickets. Most likely it won't happen!

OUR GOAL

We have a slightly different goal, or set of goals.

Yes we want you to achieve the prizes you feel you deserve – in fact we want you to exceed those prizes.

But instead of hoping for outcomes in an environment where we can rarely control, we focus on what conditions and criteria does your business need to present in order to attract the best deal that matches your goals.

It is important to know exactly what your goals are – so that we can work backwards and design an exit strategy process that achieves your goals.

Our goals are focused on:

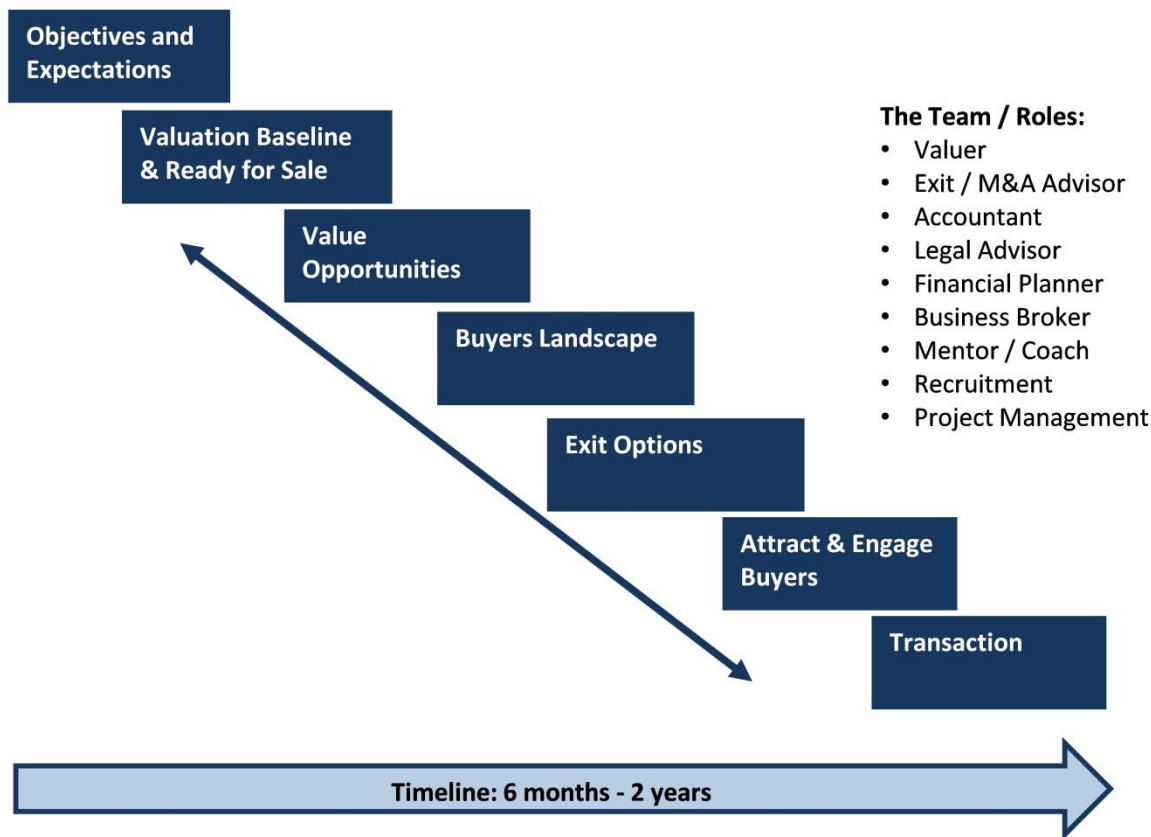
- Knowing your expectations and the scope within which we can act.
- Clearly understanding the value of your business and what increases that value.
- Knowing the attractive features your business has that will attract buyers.
- Preparing you and your business for the exit process.
- Knowing the buyer landscape better than you do.
- Presenting your business in the best manner possible to each different type of buyer.
- Assembling a team that supports a successful deal.
- Consistent and transparent execution.



EXIT VALUE ADVISERS EXIT STRATEGY PROCESS

We recognise that every business is unique and each circumstance has its own expectations and limitations. So our projects are designed at the start, based on your specific situation and desired outcomes. This means we can tailor our projects to focus on particular requirements, rather than try to force everyone through the same “cookie cutter” mould.

Despite the tailored approach, our exit strategy process typically involves the key stages below.



We have found the best price and the best outcome for the vendor and buyer comes from understanding the business and the transaction and following a process to find the right people to consider the acquisition.

In many cases a well-constructed and managed process can help secure a sale at the right price and in the right timeframe, and ensure that the vendor stays in control of the exit process.

The critical criteria that often influence the types of exit options considered and how a deal is put together are:

- Objectives and Timeline
- Valuation Scale
- Deal Breakers
- Transaction process

We have found that spending 2-3 months understanding the value proposition, the business opportunities and the buyer landscape often reduces the time it takes for the transaction process to be completed. Surprises during negotiations or due diligence can often add 6 months or more to a sale process, and a lot more in adviser fees.



OUR SPECIFIC ACTIVITIES

So what specifically do we do and how long does an exit strategy process take?

We typically structure our Exit Strategy projects into distinct phases, at the end of which we can assess what is required to move forward. This also allows the client the opportunity to alter or cease the project if required.

In most cases, the Exit Strategy is implemented in three or four stages, with a presentation at end of each key stage.

Stage	Activities	Outcomes
Scope and Objectives	Meeting to discuss owner expectations, goals, timelines and limitations.	Proposal and project plan
Valuation Baseline (1 – 3 weeks)	Formal or informal valuation of business to understand business drivers, history Ready for Sale assessment to determine areas to focus for improvement initiatives.	Business valuation report Ready For Sale assessment
Value Opportunities (2 – 4 weeks)	Document and facilitate improvement initiatives that increase the value of the business within the allowed time frame. Improvement opportunities can be identified quickly but implementation often requires a longer timeframe. Trial Due Diligence to gauge readiness for completing a transaction.	Value Opportunities Road Map Trial Due Diligence report.
Buyer Landscape (1 - 3 weeks)	Research and document potential buyers into different categories, with assessment of the key features in which each buyer is likely to be interested.	Potential Buyer List with contact details
Exit Strategy Options (1 week)	Review of the different exit strategy options available and selection of the most likely options that will lead to the desired outcomes.	Exit Strategy Options Review
Buyer Qualification (2 – 3 weeks)	Pre-qualify each potential buyer through confidential approach and discussion.	Qualified buyers list with contact details and summary of expectations. Introduction Brief.
Buyer Engagement and Discussion (1 – 6 months)	Multiple rounds of contact and discussion with potential buyers leading to a letter of intent or heads of agreement.	Executive Summary Buyer Engagement report
Due Diligence	Support and assistance in conjunction with other team members.	
Contract Negotiation and Execution	Support and assistance in conjunction with other team members.	

The Exit Strategy Plan process typically concludes at the end of the Buyer Qualification phase.

Many business owners may prefer the exit process to be implemented by others, and we often work with lawyers, accountants and business brokers to achieve the required outcome.

For selected projects we will continue to work through the transaction on a retainer and success fee basis. In this case we are not acting on your behalf but are facilitating your strategic decisions and where appropriate we are connecting you with potential buyers.

ABOUT US

At Exit Value Advisers we believe the concept of value is at the heart of all successful businesses and should be considered in any business decision.

Our focus is to illuminate the value decisions that privately held business owners make through in-depth business valuations and innovative exit strategies.

We use detailed valuation research and the latest transaction trends to facilitate strategic exits by business owners at an attractive premium price.

Our detailed analysis and research on the value of a business is used to inform and guide business owners when:

- Buying or selling a business.
- Growing a business through organic improvement.
- Making capital investment decisions.
- Developing and implementing succession plans.
- Finding the best exit strategy for owners.
- Negotiating the exit of an owner.
- Defending or resolving a commercial dispute.
- Restructuring for tax purposes.

Our approach to quality is based on two principles:

- Extensive and illuminating evidence-based analysis that explores the roles of the business model, the business and economic environment, systems and processes and people in generating financial results.
- Using systems and processes to cross check our results against the evidence.

Our values are based around the key principles fundamental to those at Exit Value Advisers:

- Understanding the “why” of business outcomes.
- Educating people on the connection between business value and strategy.
- Research on the latest trends and theory and how this can be applied to business.
- Quality outcomes for the client and our associates.
- Embellishing fun into our serious passion.

OUR CEO

Mike Williams B App Sc, MBA



Mike is a small business valuation expert with ten years' experience in valuing privately held businesses and more than 15 years management consulting experience.

He is CEO of Exit Value Advisers Pty Ltd, Founding Principal of Maxell Consulting and a past and present director of a diverse range of small businesses. He has the knowledge, skills and experience to help any business owner when it comes to valuation, business growth, exit strategies and succession plans.

He has valued hundreds of businesses in almost every industry, for a variety of reasons including supporting selling, buying or merging businesses, tax restructuring, commercial disputes, family law matters, seeking investment and making management decisions.

His background has given him a diversity that can be applied to almost any business. He has formal training in science, mathematics, computing and business, more than 10 years management experience in the manufacturing and process industries, and more than 15 years consulting experience.

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