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EXITING YOUR BUSINESS

HOW TO PREPARE NOW FOR THE FUTURE SALE OF YOUR SME

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Contents:

Considering selling your business?

If the thought of retirement, selling or passing on your business has crossed your mind – or perhaps you've decided that it is time to move on – then selling or 'exiting' your business will definitely be on your radar!

The key to a successful sale or 'exit' is that you move from being 'employed' in your business to operating your organisation as an 'asset-rich and 'exit'-ready entrepreneur'.

A mistake many SME business owners make is not understanding that for your business to have a value for a potential buyer and to provide you with the price you undoubtedly want, then it needs to more or less run without you!

This change will of course not happen on its own. It requires a mindset shift from you, the business owner, as well as time and hard work spent getting the business to the point of being:

- a valuable asset in it's own right
- 'exit'-ready, for when a potential buyer appears
- able to achieve the sale price you would like

If you want to prepare your SME business to be 'exit' ready, you should ideally start planning five years in advance of your ideal sale date. The process will require investment – however, the benefits will generally overshadow the costs involved.

Not only will you be getting 'paid twice' from your business, but the steps you'll take on the road to 'exit' will result in increased profitability and resilience in your business. You'll also gradually lessen your involvement in the company's day-to-day operations.

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What's involved in a sale or 'exit' process?

Selling or 'exiting' your business can be a complex process. For most business owners, it is a once-in-a-lifetime experience.

1 Deciding to sell

The decision to sell your business should be made after careful consideration of both personal and business factors – for example, upcoming retirement, financial reasons, change of lifestyle or new opportunities.

2 Preparing your business for sale

This is the process of ensuring that your business is 'exit'-ready and that the figure or value that you want from a potential buyer can be achieved.

3 Make your business 'exit'-ready'

Pre-sale steps cab include a formal valuation, and conducting your own due diligence investigation.

4 Finding potential buyers

Knowing your size and market sector, you'll probably have an indication of the type of potential buyers that would be a 'best fit' for your business. However, in order to find, market to and qualify potential buyers, you could engage M&A or business brokers, who will provide advice and guidance. You'll need to create an information memorandum, a detailed document outlining the business's operations, financial performance and growth potential. A non-disclosure agreement (NDA) protects your business information when discussing details with potential buyers.

5 Negotiating the sale

Initial discussions with potentially interested buyers will include issues such as price, sale terms and conditions, and will involve documents including heads of terms (letter of intent) and a (draft) sale and purchase agreement (SPA).

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What's involved in a sale or 'exit' process?

6 **Due diligence**

The next step – and the most important process – will be the due diligence undertaken by your potential buyer. This is why you prepare to get the business 'exit'-ready'. Planning in advance and anticipating potential questions will minimise any problems or issues a potential buyer might find – which could result in changes to the negotiated figures, delaying the finalising of the sale… or even derail the whole process.

7 **Finalising the sale**

Once the due diligence has been completed and the terms have been agreed, the sale – and the SPA – can be finalised.

8 **Transition period**

Post-sale, there might be an 'earn out' period, where the business owner(s) are required to work in the business for a fixed period to assist with the transition process under the new ownership.

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Key issues and concerns

When you're considering a sale or 'exit', several issues or concerns that might keep you up at night.

1 Fear of 'leaving money on the table'

You might be concerned about whether your business will be valued at its full amount by a potential buyer. There may also be some fears of a sale occurring too early or under the wrong conditions, resulting in a significant financial loss.

2 Personal financial security

Will the sale proceeds be sufficient to secure your financial future? For example, maintaining your current lifestyle, providing for a comfortable retirement, or creating enough funds to invest in new opportunities.

3 Business legacy concerns

You may worry that the new owners won't continue to run the business with the same high standards, might change the culture or upset long-standing customers, or make changes that impact employees.

4 Navigating the sale process

The likely complexity of the sale or 'exit' process itself may be a source of significant stress. This may focus on fears related to making a mistake in negotiations, missing key details in contracts, unexpected issues that might delay or derail the sale itself, or future liabilities.

5 Timing and market conditions

Is this the right time to sell? Will the market be better in the future? Could a downturn reduce the value of the business before the sale or 'exit'.

6 Finding the right buyer

What if you can't find a buyer who will pay the right price and continue the business in a way that aligns with your values?

Don't let these concerns ruin your sleep. Email us on info@sakurabusiness.co.uk

Key issues and concerns

7 Emotional attachment and identity loss

The process of selling a business in which so much time and energy has been invested can be emotional. Concerns may include a loss of a sense of purpose or identity once the business is sold, and/or what comes next: perhaps retirement, or a new venture.

8 Tax and legal complications

You might be concerned about unexpected tax liabilities or legal issues arising from the sale of the business.

9 Life after the sale

What comes next for you as a former business owner?

In addition, many of these fears and concerns can be exacerbated or feel quite overwhelming because to the high stakes – money, emotion, purpose – involved in selling a business.

 Advance planning can alleviate these stresses. Call us (020)7952 1230 to find out more

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The due diligence process

The most important element of a sale or 'exit' is the due diligence process. This is the critical element of the sale that must be undertaken by the buyer (and potentially also the seller) in order to ensure that the company's financial, legal and operational records are fully investigated and validated, and that the sale price reflects the true value of the business.

In very broad terms, the due diligence process follows these steps:

1. **Information request**

   The buyer will typically provide a list of documents and information that they require from the seller.

2. **Preliminary review**

   This is used to assess the quality of the information provided and/or identify areas of concern or inconsistencies that may require further information.

3. **Core review and/or on-site visit**

   This may be requested to provide additional information via a physical inspection of the premises, interviewing key employees, and/or reviewing the company's operations.

4. **Financial, legal, operational and other review(s)**

   Carrying out a detailed, analytical investigation of all the business information.

5. **Final review**

   The final review enables the potential buyer to decide whether to proceed with the transaction, renegotiate the terms of the agreement, or terminate the deal.

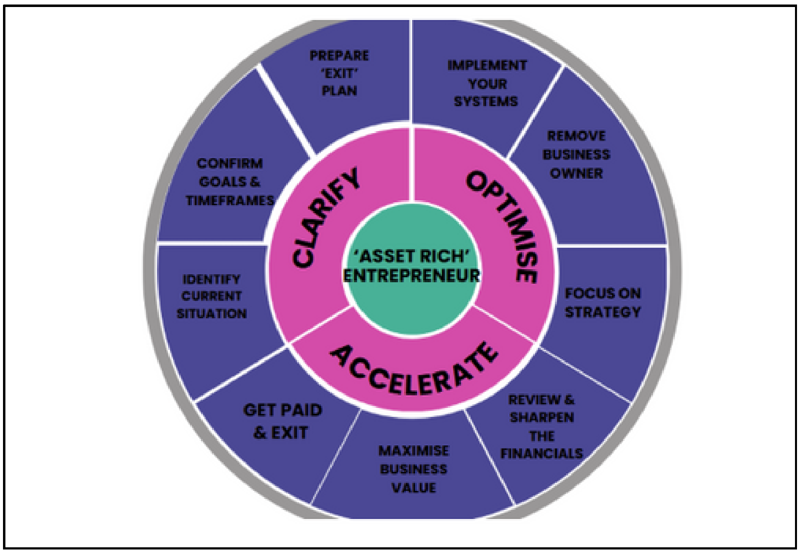
The asset-rich and 'exit'-ready entrepreneur

The thought of 'exiting' or selling your business poses challenges for many SME business owners, yet it's an inevitable stage in every SME business's lifecycle. Bear in mind that every business owner WILL 'exit' their business at some point. This might happen through retirement, illness or stress – or (more ideally) passing it on via a management buyout or selling to a third party.

But not all SME businesses reach a stage where the owner can 'exit' – and of those that do, the 'exit' isn't always a success for the business's founder. However, planning at an early stage can help. A successful sale means potentially 'getting paid twice': your regular salary/dividends while running the business and an additional amount based on the value of your business to a buyer.

Building a successful business entails years of dedication and effort, and therefore a well-planned process or roadmap focused on developing the value of the business will increase the opportunity for a successful 'exit'… and avoid 'leaving money on the table'.

Planning your 'exit' should begin five years before your intended date of sale. Sakura works with business owners to ensure that they can focus their time and efforts on taking the right steps at the right time, both to develop a more valuable business and ensure it is 'exit'-ready when a potential buyer appears. This diagram explains the process in more detail.



To discuss your potential 'exit' plans in more detail, email Damian Connolly FCCA at damian@sakurabusiness.co.uk

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Due diligence checklist

Below is a summary or checklist of much of the financial, legal, operational and other information that must be made available for a potential buyer to be able to review and evaluate as part of the due diligence process.

1. CORPORATE DOCUMENTATION

- ☐ Company secretarial documents
- ☐ Shareholder's information
- ☐ Documents on loans, Investments, and charges
- ☐ Subsidiary information

2. SUBSIDIARIES AND SHAREHOLDERS

- ☐ Group structure maps
- ☐ Shareholding maps

3. LEGAL DOCUMENTS

- ☐ Shareholder agreements
- ☐ Loan documentation
- ☐ Finance lease documentation
- ☐ Customer contracts
- ☐ Supplier contracts
- ☐ Property or lease agreement
- ☐ Information on any legal cases, disputes, etc.
- ☐ License documentation software
- ☐ Intellectual Property (IP)

4. RISK ISSUES

- ☐ Insurances schedules
- ☐ Intellectual Property (IP)/ trademarks
- ☐ Information on any claims or disputes
- ☐ Information on ownership of software/ web domains, etc.
- ☐ Schedules or activity between related parties

Due diligence checklist

5. HR ISSUES

- ☐ Employment contracts for all employees
- ☐ Staff handbook/policies
- ☐ Freelance contracts
- ☐ Staff and freelance analysis
- ☐ Bonus plans/incentive plans
- ☐ Pension entitlements
- ☐ Team/department structure
- ☐ Management structure
- ☐ Transactions between the company and management
- ☐ Ongoing involvement in the business by owners

6. SALES AND MARKETING

- ☐ Marketing assets
- ☐ KPI's and track record
- ☐ Services and competitors
- ☐ Largest customers/average lifetime value
- ☐ Churn rates
- ☐ Sales assets and materials

7. ASSETS

- ☐ Fixed and intangible assets
- ☐ Copy of invoices
- ☐ Loan/finance lease documents
- ☐ Registration/licences

8. CUSTOMERS

- ☐ Average lifetime value
- ☐ Change of control terms
- ☐ Analysis of use of services recurring/non-recurring activity contracted to X date
- ☐ Customer profitability

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Due diligence checklist

9. SUPPLIERS

- ☐ Analysis of suppliers
- ☐ Payment terms
- ☐ Contracts and contractual prices

10. FINANCIALS

- ☐ Statutory accounts
- ☐ Management accounts
- ☐ Cashflow forecasts/analysis and explanation
- ☐ Financial analysis/KPIs
- ☐ Operating cost and normalisation issues
- ☐ Fixed assets and planned investment
- ☐ Debt and covenants information
- ☐ Balance short review
- ☐ Debtors/bad debt
- ☐ Customer analysis/KPIs
- ☐ Sales KPIs
- ☐ Marketing KPIs

11. TAX DUE DILIGENCE

- ☐ Corporation Tax review
- ☐ VAT review
- ☐ Payroll compliance
- ☐ CIS review
- ☐ HMRC enquiries/penalties/compliance history

12. OTHER

- ☐ Forecasts two years ahead

13. SYSTEMS

- ☐ Accounting system
- ☐ Marketing system
- ☐ CRM

To make the most of your business 'exit', it is essential to begin planning FIVE YEARS before you intend to leave.

This will help you to finalise your preferred 'exit' format and put you in a strong position to become an 'asset-rich entrepreneur' with a business that's attractive to potential future buyers.

The Sakura team has years of experience helping business owners achieve an 'exit' that works for them. Get in touch with us today and let us help you prepare for the future.

info@sakurabusiness.co.uk

(020) 7952 1230