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HOW TO MAXIMISE YOUR BUSINESS SALE

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1.0 Graham Jorgensen

Graham Jorgensen

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Graham gained his broad commercial and business experience from being a Chartered Accountant with Ernst and Young and has worked in Australia and the United Kingdom as a consultant and in the insolvency and reconstruction division. He has worked upon some of the world's largest corporate collapses and / or restructures of their time including Channel 10, Lake Hume Resort, Dreamworld, British and Commonwealth, Lloyds of London and Barings Bank.

Whilst in the UK, Graham had the opportunity to work with the World Bank on the privatisation of State owned assets in Russia.

Graham has sold and / or restructured hundreds of businesses over this time in a broad range of industries and business sizes.

He has also owned and built his own sales and distribution business with a combined annual turnover of $200 million. He has hands on commercial experience and his business knowledge is invaluable to both vendors and purchasers.

2.0 Exit Strategy

Selling your business (My strategy)

What is your exit strategy and when should you start planning your exit strategy from the business?

Do I sell or do I pass over control to my family/friends or Senior Management?

Simply starting with the end in mind, will assist you answer these questions.

The sale price of your business is going to be influenced by a variety of ‘hard’ factors including:

- the businesses’ trading history,
- profitability,
- Assets
- Customer profile and its diversification
- market position,
- key contracts,
- staff
- other market trends.

You need to try to sensibly and objectively assess the strengths and weaknesses of your business.

From a buyer’s perspective, a business value is also going to be influenced by a number of ‘soft’ factors. Such as the following:

- What is the growth story and ‘vision’ for the business?
- How does the business premises, staff, and marketing support that vision?
- Does the business have clearly developed systems and processes?
- What is the cash flow of the business?
- What is the culture of the organisation and its people? Is it positive and open or is it closed and hidden?
- What are the risks involved? Am I or the organisation able to mitigate or eliminate these risks?

At least 12 months before you sell, you should be looking at ways to maximise profitability by focussing on operational efficiencies, cost reductions and other value enhancers. Look to remove non-business assets from the balance sheet, and focus on spending and expense control.

3.0 Value Proposition

Commit to focus on the products and services that make you unique

What's the compelling value in your company for that buyer to take the risk of going through the acquisition process, taking on a new company, and integrating it with theirs? For example, your customers may be able to buy their products. Or you may have intellectual property that's valuable to them, but you don't have the funding to fully exploit it. Or maybe you're a successful regional firm and a buyer may want to come into your territory where you've already had success.

Alternatively, you may be a CEO who's looking for a company to lead and grow, and you're ready to retire. Or your company may have great growth prospects, but you don't have the funding and access to customers that are necessary to fully explore the opportunities. Selling the company to someone who is in the position to exploit it may be a very good match for that acquiring company.

With the type of buyer clearly in mind, develop a value proposition for that buyer that explains why they can be successful with your company if they acquire it. With that likely buyer in mind, develop a short description of the company, including your vision of the company and its potential value in the future for that buyer.

Different buyers are going to attach different value to the key characteristics of companies they are interested in. Buyers who are only looking at your patents and intellectual property may have no interest whatsoever in whether you are successful in generating profits and EBITDA. Financial buyers will want a leadership team and key staff in place that will stay in place after the acquisition because they don't want to come in and take over running the company.

A powerful value proposition helps you; your team and your business purchaser understand the value of your products and services and why customers should buy these products and services from you.

4.0 Who is the Buyer?

- *Financial Buyer*
- *Strategic Buyer*
- *Align Your Company with the Value Profile*

Be realistic about the reasons you want to sell, the motivations for your team members, and what you and the team want to get out of selling the company. As a second step, describe, and if possible, identify – who the likely buyers are for your company. They could be a competitor, a strategic investor, perhaps a CEO looking for a new gig. You could be in a fragmented industry and a competitor may want to come into your industry where you already have success. Be creative and be very open-minded about who the likely buyers are for your company.

Do you have a financial or a strategic buyer interested in your business?

Financial Buyer
The financial buyer purchases a business in return for a stream of profits; they are buying your future cashflows. Since most business sales/acquisitions are made by financial buyers that are merely looking for a return on their investment, they often pay much less than a strategic buyer.

Some companies will look very carefully at who your customers are. They don't want most of the sales or profits coming from just one or two customers. Other buyers, on the other hand, may look at your company and the real estate it owns and will say they want the company and the real estate. Other buyers will say they're interested in the business but they don't want the real estate and you're going to have to separate the real estate from the business before the acquisition can take place.

Strategic Buyer
The strategic buyer is acquiring a business for what it is worth in their hands. They have a set of assets that are made even more valuable through the acquisition of your target business.

Your business may be strategically more valuable to this strategic buyer for a lot of reasons, but here are some examples:

- Win more business from their competitors
- Differentiate their offering
- Enter a new market – broaden their base
- Capture market share
  - This may mean they could potentially increase prices, increase profits.
- Achieve economies of scale
  - Improve profit margin by spreading their overhead costs across the additional revenue.

For the likely buyers (targets), describe and be very specific about why they should be willing to buy your company.

Align Your Company with the Value Profile

With a value profile in mind, your next step will be to develop a plan for getting your company to be as close to that profile as possible within the time frame that you're thinking of for selling the company. This may be six months, a year, two years, even three years. This is why you must think early about what the company has to look like in order to actually maximize the value of the company for a potential buyer. Be realistic about what you, your team, and your investors are willing to do to get the company as close to this high-value profile as you can in the time frame that you're thinking about for selling the company.

If the likely buyer wants to see that the company can succeed without you as its major salesperson, then you're going to have to bring in somebody who can be in that role without relying on you, again, before the company can be sold successfully. That is one of the steps that you'll have to take to prepare the company to be sold at a higher valuation.

5.0 Valuation methodology

A business and its value are influenced by a variety of "hard" and "soft" factors, such as:

The vendor (seller) sale price is influenced by the "Hard" Factors, include such items as:

- Operational and trading history – sales, purchasing and manufacturing
- Profitability
- Quality and availability of financial and operational information
- Assets – plant and equipment required
- Customer profile and its diversification
- Key Supplier contracts and contacts, Gross Margins
- Market position
- Quality and support of staff and management
- Current competition and potential of new entrants to the industry
- Current economic climate – Covid-19

You need to be sensible and objectively assess the strength and weaknesses of your business in light of the above.

From the Buyers perspective, a business value is also influenced by a number of "Soft" factors, including such items as:

- What is the growth story and the vision for the business?
- Does the business plan, the business premises, staff and marketing support that vision?
- Does the business have clearly developed systems and processes?
- What is the cash flow of the business?
- What is the culture of the organisation and its people? Is it positive and open or is it closed and hidden?
- How does the salary/wage structure reward staff behaviours? Does it support their organisational culture?
- What are the risks involved? Can the organisation mitigate or eliminate these risks?

Planning – Prior to selling your business, you should be practically looking at ways to maximise the profitability and the hygiene of your business by focusing upon:

- Revenue Growth Strategies
- Management of cashflow – debtors and creditors streamlined
- Operational efficiencies
- Cost reductions
- Move from a tax minimization strategy to a profit orientated strategy
- Ensure consistent or revise your tax planning
- And any other value enhancer

Look to remove or realise non-business assets from the business (Balance Sheet) and focus on revenue growth, spending and expanse control.

Be ready to move on to the next phase of your life – **Stay Positive.**

6.0 Capitalisation of future Maintainable Earnings

Pricing any business is not an exact science; in fact, it's not a science at all. The price will be determined by what a ready willing and able buyer is prepared to pay, at the time it is advertised, and what a motivated seller, not under duress, is prepared to accept.

Currently, purchasers place greater emphasis on profits rather than sales, as it should be. The value of your business would be based upon past and current performance of the business and a realization multiple. The sustainable profits of the business (**Future Maintainable Earnings**) multiplied by this realization multiple (**Capitalisation**) would be an estimated value for the goodwill of the business.

The Capitalisation of future maintainable earnings methodology involves the determination of a level of earnings that can reasonably be expected in the future from the business. It is not a level that will necessarily be achieved in each year but is an anticipated level of earnings.

A number of variations of this methodology are evident in practice and the appropriate methodology to estimate the selling price of this business is the capitalisation of earnings before, proprietor wages, interest, tax, depreciation and amortisation (PEBITDA). The advantage of using PEBITDA as the measure of earnings lies in the fact that it is not influenced by the financing and tax structure of the business.

A business SELLING PRICE based on capitalised PEBITDA requires the following key assessments to be made:

- An arm's length level of the estimated future maintainable earnings (PEBITDA);
- The reliance of the business on the current owner of the business.
- The quality and availability of the financial information.
- The competitive profile and any barriers to entry.
- What is your value Proposition for the business.
- The selection of an appropriate capitalisation rate (or multiplier), which reflects the risks facing the business, the operational structure, the business and its industry and the achievement of the expected PEBITDA;
- Identification of any surplus assets that did not contribute to the PEBITDA;

In determining an appropriate capitalisation multiplier at which the above maintainable earnings should be capitalised, I have or need to have regard to the business specific factors, both the hard and soft factors from above and the following key items:

- The period the business has been operating.
- The quality of available financial and other operating information.
- The management team and the training/industry expertise for all staff, including that of the directors.
- The company branding and knowledge of the industry.
- The current economic climate.
- The impact of Covid 19 and the current challenges this has and would have on any business sale process

7.0 Understand the Multiple

The Magic number behind your business value

When assessing the business and its sale value, we take into consideration such "Hard" and "Soft" factors as:

- Operational and trading History – sales, purchasing and manufacturing
- Customer profile and its diversification
- Net Profits - Future Maintainable Earnings (FME)
- Assets – Plant and Equipment required
- Transferability of the customer database
- High Profile Position and customer traffic
- Level of skills required
- Quality and support of staff and management
- Current competition and potential of new entrants to your area/vicinity
- Current economic climate
- The overall degree of risk

The price will be determined by what a ready willing and able buyer is prepared to pay, at the time it is advertised, and what a motivated seller, not under duress, is prepared to accept.

The multiplier will also be dependent upon the type of purchaser; that being either a financial or a strategic buyer.

Prior to selling your business, you should be practically looking at ways to maximise the profitability and the hygiene of your business by focusing upon:

- Revenue Growth Strategies
- Management of cashflow – debtors and creditors streamlined
- Operational efficiencies
- Product / Service branding
- Cost reductions
- Move from a tax minimization strategy to a profit orientated strategy
- Ensure consistent or revise your tax planning
- And any other value enhancer

Improvements in the above, will not only improve your Earnings(profitability) but will increase the multiple and the ultimate value in your business.

Those business’s that focus on key factors that drive their business and improve their effectiveness and efficiency will improve their overall vaue in their business.

An example of key drivers are:

- Financial Performance
- Growth Potential
- How independent is the business
- Ways of improving the Cashflow effects
- How sustainable is the revenue/sales of the business (recurring nature)
- What is the repeat nature of customers reordering and when
- How is the business differentiated from its competitors/industry
- How independent is the business – hub and spoke. Is the owner at the centre of the business making all decisions or is he independent and the business operates independently from same.

8.0 Sale Process and Targets

The process includes the following:

- Target Prospective Purchasers

Preparation of a target list from our detailed research and from the direct discussions with you. This will include a list of the strategic and financial targets.

- Web Listing

Profile of the business for sale on the Wollermann Web Domain and other sites. This is a business summary highlighting the strengths and salient business features of your business.

The following web sites are linked on the Wollermann web site/domain and will display your advertisement:

- www.wollermann.com.au
- www.corporatebrokers.com.au
- www.businessview.com.au
- www.seekbusiness.com.au
- www.anybusiness.com.au

The Wollermann web site and the additional sites accumulate approximately 100,000 unique visitors every month.

- Information Memorandum

The information memorandum is prepared for your comment and approval prior to be being available for distribution to key parties. This memorandum would normally take 7-10 days to prepare from our appointment

- Business Flyer

Prepare a business Flyer/Alert for distribution to key contacts and parties registered to buy a business. A business Alert/flyer is our business teaser to the market place advising of the salient business features being offered for sale and seeking parties to register their interest to receive the detailed business information memorandum and associated financial information.

This alert/flyer will be distributed to approved parties / Data bases.

- Communication and Contact

The potential targets are targeted on a confidential basis and those interested in accepting the process and wishing to confirm their sale/purchase position will be invited through a controlled review and due diligence process.

- Due Diligence, Offer Confirmation and Acceptance – Heads of Agreement

Upon completion of the due diligence process, the interested parties will be asked to confirm the offer via the Heads of Agreement and pay the agreed deposit money.

- Contract of Sale and Completion

Accepted party will be asked to complete any outstanding items and sign the contract of sale and move to settlement, accordingly.

9.0 Risk Mitigation (Credibility)

By understanding potential risks to your business and finding ways to minimise and/or avoid their impacts, you will help your business recover quickly if an incident occurs or most importantly on the sale of your business help mitigate the risks to the business for any prospecting purchaser.
While business risk cannot be avoided as a whole—because by their very nature they can often be unpredictable— there may be ways in which to reduce and cut back on their operational and financial impact to the business.
The first step is to identify the events which could cause a loss or disruption to the business and these events should then be analysed to ascertain the likelihood of their occurring and how serious the result would be if they did occur.
Risk Management / Mitigation starts by identifying possible threats and then implements processes to minimise or negate them such as the following:

- Risks posed by Customers
    - What is the customer profile and diversification?
    - Do we have any over dependent customer(s)?
    - Do we have contracts or service agreements?
    - Can we expand the customer data base?
    - What are the other growth opportunities?

- Risks posed by Suppliers
    - Is the company dependent upon one or two key suppliers?
    - Are there alternative supply arrangements?
    - If so, what is the timeframe for delivery of same?

- Risks posed by Employees
    - Who are the key staff?
    - Which team members have the knowledge and intellectual property of the business (the know how)?
    - Will these key staff transfer to the new business ?

- Risks – Threat to the Goodwill of the business (sale of business)

- Risks and threats posed by the actual due diligence process?
    - Financial
    - Record keeping and its accuracy and completeness
    - Staff
    - Operational effectiveness
    - Operational robustness

- Risks identified during the legal review of the business?

- Risks identified as both 'Hard' and 'Soft' Factors in the business (confidence level in the organisation and the information provided)

- Other Risks, include:
    - Intellectual property
    - Plant and Equipment
    - Premises and its location(s)
    - Business reputation
    - Information Technology
    - Financial
    - Business Cash flow
    - Competitors
    - Market dynamics and the economy

Risk management strategy.

This is an important factor in any business. Coming up with a strategy—whether it's done before the business begins operations or after it experiences a setback—will help guide the firm through any ups and downs, making the company better prepared to deal with risks as they present themselves. The plan should have tested ideas and procedures in place in the event that risk presents itself.

Ways of identifying risk

Once you have a clear picture of your business, you can begin to identify the risks. Review your business plan and think about what you couldn't do without, and what type of incidents could impact on these areas. Ask yourself:

- when, where, why and how are risks likely to happen in your business?
- are the risks internal or external?
- who might be involved or affected if an incident happens?

The following are some useful techniques for identifying risks.

Ask 'what if?' questions

Thoroughly review your business plan and ask as many 'what if?' questions as you can. Ask yourself what if:

- you lost power supply?
- you had no access to the internet?
- key documents were destroyed?
- your premises was damaged or you were unable to access it?
- one of your best staff members quit?
- your suppliers went out of business?
- the area your business is in suffered from a natural disaster?
- the services you need, such as roads and communications, were closed

Critical business activities

A business impact analysis identifies the activities in your business operations that are key to its survival. These are referred to as critical business activities. You should consider things such as:

- the records and documents you need everyday
- the resources and equipment you need to operate
- the access you need to your premises
- the skills and knowledge your staff have that you need to run your business
- external stakeholders you rely on or who rely on you
- the legal obligations you are required to meet
- the impact of ceasing to perform critical business activities
- how long your business can survive without performing these activities.

As part of your business impact analysis, you should assign recovery time objectives to each activity to help determine your basic recovery requirements. The recovery time objective is the time from when an incident happens to the time that the critical business activity must be fully operational in order to avoid damage to your business.

Your business impact analysis will help you develop your recovery plan, which will help you get your business running again if an incident does happen.

Key questions in a business impact analysis

To conduct a business impact analysis for your business, ask yourself:

- What are the daily activities conducted in each area of my business?
- What are the long-term or ongoing activities performed by each area of my business?
- What are the potential losses if these business activities could not be provided?
- How long could each business activity be unavailable for (either completely or partially) before my business would suffer?
- Do these activities depend on any outside services or products?
- How important are the activities to my business? For example, on a scale of 1 to 5 (1 being the most important and 5 being the least important), where would each activity fall in relation to the rest of the business?

As the risks to your business change, so too will their potential impacts. When you update your risk management plan, you will also need to conduct a new business impact analysis.

A risk management plan and a business impact analysis are important parts of your business continuity plan. By understanding potential risks to your business and finding ways to minimise their impacts, you will help your business recover quickly if an incident occurs.

Types of risk vary from business to business, but preparing a risk management plan involves a common process. Your risk management plan should detail your strategy for dealing with risks specific to your business.

It's important to allocate some time, budget and resources for preparing a risk management plan and a business impact analysis. This will help you meet your legal obligations for providing a safe workplace and can reduce the likelihood of an incident negatively impacting on your business.

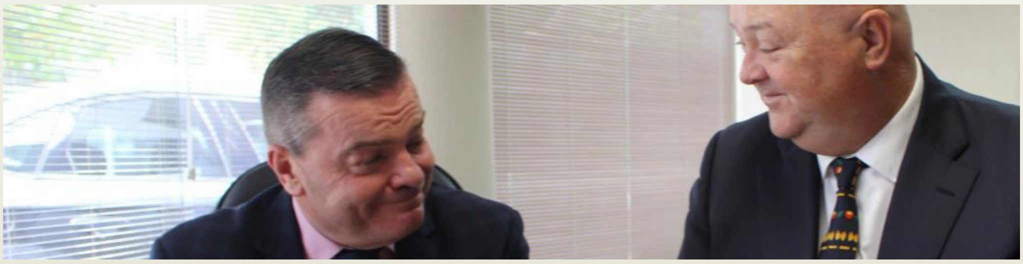
10. Workshop

11. Debrief and Key Findings

Wollermann Corporate Brokers

Wollermann Corporate Brokers is an established mergers and acquisitions firm with Head Office in Melbourne, an office in Sydney and licensed Australia wide. Specialising in business brokerage, we work on behalf of vendors and prospective purchasers to research, identify and negotiate the sale or acquisition of quality medium to large-sized businesses valued between $1m and $50m.

The Wollermann Corporate Brokers team is led by two of Victoria's leading Brokers, Graham Jorgensen and Gary Lay. Graham and Gary and their team offers a wealth of experience in business sales, mergers and acquisitions, strategic structuring and venture capital across a wide range of industries including:



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  - owner's corporation
  - rent rolls
- Transport and logistics
- Complete Franchise business solutions, including all Franchise documentation and Operational Manuals

Our ability to adjust to market trends and provide up to the minute advice on a broad range of business issues will keep you well ahead of the competition and save you time and money.

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