Guide to Selling a Business

Park Corporate Finance

Process Overview

Planning and Preparation

It is never too early to start preparing a business for sale, but it should commence at least two years before a potential sale if possible. The importance of this stage of the process cannot be under-estimated. The objective is to ensure that the business is optimally positioned for sale, and that any key issues that could affect value are addressed well in advance. A key aspect of the planning process is to identify the potential purchasers of the business and to address those issues most likely to be of importance to the eventual purchaser.

Critically evaluating the business

Other key considerations in the planning process, which should be considered well in advance and addressed as necessary, include:

- Reviewing the management structure and strength of management team
- Preparing a business plan which shows the growth opportunity beyond the expected timing of sale
- Improving customer relationships and resolving product / service quality issues
- Delivering a track record of improved profitability, through cost reductions and other profit improvement measures
- Extracting surplus assets or property
- Improving the management of working capital to generate positive cash flow
- Evaluating any actual or potential tax issues and restructuring accordingly
- Determining and resolving any environmental, health and safety, regulatory and pension issues

Identifying the Potential Purchasers

This is one of the most crucial aspects of the sale process which will enhance value if done properly. As your Corporate Finance Advisor we will fully evaluate all potential purchasers prior to disclosing any information to them. Although many companies may appear to be suitable purchasers, further investigation often reveals that they do not have the financial ability and/or appetite to make acquisitions. Often these purchasers are competitors to your business, and it is critical that you have assessed the credibility of a potential purchaser before they are furnished with the knowledge that your business is for sale.

Before preparing the shortlist of potential purchasers as your Corporate Finance Advisor we will have (where possible) determined the following:

- How does your business fit with their strategy?
- Do they have the financial resources to complete the transaction?
- Do they have a reputation for paying a good price?
- Has their acquisition criteria been verified?

Valuation

As your Corporate Finance Advisor we will undertake a review of your financial results and forecasts, and based on our knowledge of similar transactions in the market and the potential purchaser's appetite for a transaction of this nature, we will provide you with our view of the potential value which could be achieved on a sale. We will agree this with you before deciding whether to proceed with the process.

Strategy and Documentation

During this process we will discuss and agree with you some or all of the following issues:

- Who should be on the shortlist of potential purchasers
- How many of them should be approached and the methodology and timetable to do so
- Whether or not to approach financial buyers
- If a management buyout might be an option and if so the timing and approach to that
- The preparation of an Information Memorandum
- The preparation of a Management Presentation

Information Memorandum

This is a selling document designed to provide sufficient information to allow potential purchasers' to make an initial evaluation of the business, but it should not provide commercially sensitive information on the business. Generally purchasers will not make an indicative offer based purely on the Information Memorandum they will want to meet you and we would want to meet them before they make any indicative offer.

Management Presentation

We will help you draft a management presentation for potential purchaser meetings which will need to highlight the key value drivers of the business. Potential purchasers will use this together with the information memorandum in evaluating the business and putting forward indicative offers.

Marketing

We always try to meet with potential purchasers prior to them making an indicative offer to ensure that we can properly evaluate their rationale for doing so and their level of interest. From that meeting we can understand more precisely what information they require to make a firm indicative offer and where appropriate ensure they get it.

During this process we will carry out the following:

- Approach the agreed target list to confirm their appetite, obtain a confidentiality agreement and to provide the information memorandum, we would also take that opportunity to highlight the key strategic benefits to the potential purchaser of acquiring your business
- Arrange and meet with potential purchasers initially on our own if possible to provide further information and gauge interest and latterly with you for the management presentation
- Throughout this process we will be continually assessing potential interest of the target purchasers and provide additional information as and where appropriate to solicit indicative offers

Offer Evaluation and Negotiation

Once indicative offers have been received, we will advise you of advantages and disadvantages of each offer. This will be determined by what is most important to the shareholders for example maximising the proceeds or the protection and welfare of employees.

If required, we will contact the purchasers and ask them to clarify aspects of their offer. It is essential that any conditions attaching to their offer are fully understood. It is also important to know how they will fund the transaction and whether they need to raise external finance, as this could have a significant impact on the timetable. Key points that will be considered include:

- The price to be paid
- The proposed method of funding the transaction

- The form of consideration (cash, shares or loan notes)
- The details of any deferred consideration
- Their approach to due diligence
- The estimated timetable to completion
- Any conditions attached to the offer
- Details of any approvals required to complete (internal or regulatory)

Following the evaluation period we will work with you to optimise the offers by entering into negotiations with the potential purchasers.

Due Diligence

Once indicative offers have been evaluated, we will shortlist those purchasers who will proceed with more detailed due diligence. This process should, as far as possible, be confirmatory due diligence only, as any relevant information which could impact on value should have been communicated to the purchasers during the marketing stage.

Our objective is to ensure that there are no surprises and nothing arising out of due diligence will result in offers being reduced. It is critical in a sale process to maintain a high degree of competitive tension. Where possible, more than one potential purchaser will be shortlisted for due diligence. However, there will be situations where it is appropriate to proceed with just one party at this stage.
It is quite common for purchasers to attempt to chip away at their original offer. We are mindful of this, and will ensure that a purchaser is provided with all relevant information before making his offer. Once they have submitted their offer, we will ask them to re-confirm their offer immediately after completing due diligence.

Completion

Once the key terms of the deal have been agreed, there is still significant work involved in closing the deal. The Sale and Purchase agreement will be drafted and negotiated between respective sets of lawyers.

Our role is to ensure that the agreement reflects the commercial understanding of the deal, and that the process is run as efficiently and smoothly as possible. It is very common for this stage of the process to become unnecessarily protracted, as minor issues seem to become major obstacles. We prevent this happening, keeping in mind the overall objectives of the shareholders.

A key aspect of the legal process is the negotiation of the warranties and indemnities. In conjunction with your lawyers, we will help you through this important process, ensuring you have fully considered the implications of the warranties and indemnities, and assisting you with appropriate disclosures.

Timetable

The planning stage ideally should start up to two years prior to the expected start date of the formal sale process. The formal process itself will take between three and six months depending on the complexity of the business being sold and the requirement or not of any regulatory clearance.

Costs

The cost of selling your business will typically amount to anywhere between 2 to 4% of the sale proceeds and will largely be success orientated. A non-contingent payment is usual to cover the initial costs of the engagement the size of which will depend upon the agreed scope for pre-sale advice.

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Summary

- Detailed forward planning is crucial before commencing the sale process, without it you will not optimise your sale proceeds
- Careful selection of advisers, both corporate finance and legal, is key to ensuring optimal value is received for your business with minimum risk exposure, in the most efficient manner possible.
- Getting the timing right to start the sale process is critical.
- Don't forget to keep running the business as though it is and will remain your own throughout the sale process, not only will it avoid any unpleasant trading surprises for potential purchasers that might affect the value but you need to ensure that if the process doesn't complete for whatever reason the business is not damaged by the process
- Finding the ideal strategic buyer is critical to achieving optimal value.
- Never market your business for sale widely and definitely not by 'Mailshot'. Confidentiality is key to most sale processes and 'anonymous' one-page flyers rarely achieve their desired effect.
- 'Selling the story' to purchasers is critical to achieving enthusiastic buy-in to your business. A meeting held between a willing buyer and seller is important as soon in the process as possible.
- Drip-feeding information to potential purchasers allows a significant degree of control over the process, whilst protecting the business commercially until you are certain of a purchaser's intentions.
- A deliverable offer from a potential purchaser is achieved by disclosing sufficient information such that any price chipping is made difficult and unjustifiable.

Further Information

For further information or a confidential discussion on the options available to you please contact Park Corporate Finance Limited.

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