Preparing to sell your business?

1 Identify a realistic value for the business

Most businesses are valued on a multiplier of profit or EBITDA (earnings before interest, tax, depreciation and amortisation). This can be referred to as the 'capitalisation rate' or simply, 'the multiplier'.

Businesses in the small-medium size range will usually transact at a multiplier of between 1 to 5 times profit. The multiplier is determined after taking into account the goodwill of the business (e.g. reputation / branding), the nature of the business (e.g. what markets it operates in), size and scope of the market and market liquidity. Other factors include the degree of independence from the directors (e.g. can the business run without day to day management from directors) and a solid history of maintainable profits.

- Determine what range your multiplier will fall into
- Determine what amount of annual profit will get you the fair value for the business
- If there is a gap between your expectations and reality, construct a strategic plan with your advisor to deliver the profit you need and a realistic timeframe to achieve this profit.

2 What are the profit drivers for the business?

Your business has now been trading profitably for 2-3 years at levels that will deliver fair value for your business. Your goal is to now eliminate all potential obstacles that will can result in a buyer walking away from the sale.

- Ensure all outstanding PPSR securities / charges have been discharged (e.g. finance companies holding security over certain assets). Your lawyer will be able to conduct a search and provide advice on how to discharge any securities
- Ensure your compliance is up to date (tax returns, BAS and other regulatory requirements lodged on time and up to date)
- Minimise any personal expenses / transactions. Even though these may be considered 'addbacks' that are excluded from the calculations, it can cast doubt in the buyers mind as to how professionally the business has been run
- Work with your accountant / advisor at confirming a fixed asset schedule that accurately reflects the plant and equipment that will accompany the business sale. Consider selling or transferring any items that aren't included in the business sale
- If selling the equity (e.g. a share sale), work with your advisor at determining a strategy to remove any loans, write off bad debts, declare any dividends, transfer any reserves etc.
- Ensure employees have a valid employment contract in place, reconcile your payroll ledgers, update leave provisions, review WIP and reconcile stock to hand

3 Identify the key risk areas

Once terms have been agreed to, most contracts will normally contain a due diligence clause where the buyer is permitted to inspect your records, financial statements and regulatory compliance.

Common items a prospective buyer will request might include:

Report / Information required	Date / Period
Profit and loss statement (management accounts)	2-3 years
Balance sheet (management accounts)	2-3 years
Financial statements (accountant prepared)	2-3 years
Income tax returns for the trading entity	2-3 years
Asset ledger, stock reports and depreciation schedules – noting any assets that are not being sold with the business.	Current
General ledger (electronic format or invitation to your cloud accounting file)	Current
Business activity statements	2-3 years
Aged debtors and creditors report	Current
Payroll activity summary, plus details for each employee of: - Role - Salary package - Start date - Standard hours - Accruals of annual leave, long service and sick leave	Current
Sales by customer listing for the year	2-3 years
Key supplier and customer contracts – list out any major suppliers or contracts and annual values	
Copies of any leases, key licenses, agreements or franchises	
List any issues that may or have arisen that may affect the business going forward. Include any legal action that the business is / was involved in	

These items should be prepared in readiness prior to signing the contract!

Summary

As part of the due diligence process the buyer's accountant and/or lawyer will have a range of questions in relation to gaining an understanding of the business including its growth prospects, areas of risk and operational capacities and responsibilities.

Areas and questions you need to be prepared for:

How many hours do the owners work in the business each week?
Who is responsible for each area/division of the business? (receivables, sales/marketing, payables, strategy and direction, innovation, HR, operations
What capacity exists in the business?
Who are the key customers and referral partners?
Any related party transactions in place?
What KPI's (key performance indicators) are in place for the business and each team member?
Staff productivity tracking – what is in place and the performance of each team member?
Who are the main competitors and/or SWOT analysis?
What level of input are the owners prepared to offer post acquisition?
What are each team member's personality traits, strengths, weaknesses and skill-set?
Who/what is excess to the needs of the business?
What hardware/software is being used, are licences up to date, what cyber security precautions are in place
What written procedures/manuals/systems are in place
What qualifications/trades do the owners/directors possess?
Requests for all audit reports/management letters
Requests for independent credit/trade references
Confirmation from regulatory authorities with respect to licences and breaches.

For assistance with preparing for the sale process, our Business Sales Specialists are ready and willing to assist you.

Please contact our office for further assistance or an obligation free discussion.