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Thinking of Selling Your Business?

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For many, the sale of a private company is the culmination of a lifetime's work. More often than not, this will be a once in a lifetime transaction – with only the one opportunity to get it right.

This chapter contains answers to the 12 most frequently asked questions put to KPMG Corporate Finance about selling a business. The role of an independent financial adviser is usually integral to responding appropriately to the questions asked.

When is a good time to sell my business?

Timing, of course, is vital.

An objective overview should be taken of your business, your industry sector and the overall economic picture, to assess if and when it is a good time to sell. Some circumstances make it easier to sell a business regardless of timing – for example, if you operate a niche market with good contacts or have an excellent customer base.

Almost without exception, a good-quality business should sell.

An independent adviser can undertake such a review for you, and if they think the timing is wrong, you will be told so. The very best of

impartial advisers have built their reputation on providing realistic quality advice and not on chasing goals for short-term gain.

How much is my business worth?

There is only one way to accurately value a business – sell it! All other methods hold a degree of subjectivity, not least because they involve taking a view of the future and, logically, not everyone shares the same view.

However, to assess the value of your business, you need to consider a number of factors – track record, future potential profit trends, competitors' actions, net assets and property values. In addition, the most recent deals in the same sector give a useful indication of the price that potential buyers might pay; this information will be provided by a dedicated valuations team.

An adviser's experience of selling businesses, allied to the knowledge they have of sales across a wide range of sectors, enables them to provide you with a good indication of how much your business is worth before you make a commitment to sell.

How long does it take to sell a business?

Typically, the sales process takes 4–6 months. However, there is no given formula to predict how long it will take, and thus some businesses will sell in a matter of weeks while others will take much longer.

Once your personal objectives are clearly defined and the key business issues identified, you should be able to gain a frank assessment of the timescales involved.

Whatever the time frame, you need an adviser who will stay involved throughout, enabling you to continue running your business right up until completion, ensuring that you realise the full value of the business.

Do I need to do any preparation?

Owners are able to significantly impact the price achieved upon sale by careful planning. It is never too early for a business owner or owners to start to plan for the eventual route out of, or succession to,

the business. All businesses need to consider how best to position themselves to maximise the value or benefit to the shareholders.

Apart from the obvious need to sell a business at the point in the economic cycle when company disposals are likely to be successful, owners need to ensure that the business is appropriately groomed for exit.

An adviser will assess when the business is ready to sell and provide advice on the practical steps that you may need to take in order to help maximise value.

Can I sell the business discreetly and in confidence?

Yes, in all likelihood, but confidentiality is vital; a fine balance is needed between preventing knowledge of an impending sale leaking to customers and staff and, at the same time, ensuring that they do not hear the news from a third party. Both scenarios can prove damaging to goodwill and loyalty.

Most advisers will recommend, and can help you put in place, a communications plan to pre-empt any such eventualities.

How do I find a buyer if I don't advertise?

The answer is that you don't – your adviser does through a number of sources.

Your adviser will have an in-depth knowledge of acquisition companies, and will be in regular contact with colleagues in their counterpart's offices across the country and their international networks worldwide. In addition, the major advisory firms employ dedicated research analysts to track deal activity, and they will know who is going to be interested in buying your business.

How does the sales process work?

Typically, the sales process goes through a number of stages:

- planning and preparation – preparing the business for sale, drafting an information memorandum about the business, researching potential buyers;

- marketing and negotiations – distributing the information memorandum, evaluating interest levels, receiving offers, negotiating and reaching agreement in principle;
- contracts and completion – contract drafting by lawyers, final tax restructuring, overseeing purchasers' due diligence, completion of sale.

What do I need to tell a buyer?

Great care is required in preparing an information memorandum and controlling the release of information to prospective buyers. Too little or too much information, or the wrong emphasis in the wrong place, can have adverse consequences.

During a sale, buyers are provided with sufficient commercial and financial information to enable them to determine the amount that they are prepared to bid for the business.

What about my tax position?

There is both good and not so good news. The not so good news is that the sale may result in a capital gain for tax purposes. The good news is that a relief has been introduced which operates to reduce the marginal rate of tax in respect of capital transactions. The tax rate will depend on how long you have held the shares and whether they qualify for business asset or no business asset taper relief.

With careful planning the tax charge may be deferred and/or reduced.

The deal management team will include dedicated tax specialists whose job it is to ensure that you are left with the maximum net proceeds.

What about my role, and that of my workforce, after the sale?

Your position depends very much on your own wishes and the requirements of the buyer; it is not unusual to have a handover period, but the length of time can vary enormously. If you have strong views on what you want to do, these can be incorporated into discussions at an early stage.

In common with most employers, you will probably feel responsible for your employees. However, agreeing provisions to safeguard employee interests, over and above statutory entitlements, is not always easy. One of the best ways of ensuring a satisfactory outcome for your employees is to make sure that the business goes to 'the right home'. Assessments of prospective buyers will help you achieve this.

When do I receive the proceeds from the sale?

You can receive the proceeds of the sale in a number of ways – eg cash, loan notes or shares in the buyer – which will need to be established. However, unless the deal is subject to an earn-out (ie when the price is linked to future profits), a significant proportion (if not all) of the proceeds should be handed over to you on completion of the sale.

What are the risks?

There will always be risks associated with selling your business. Perhaps the most common is committing time and expense if a deal aborts for whatever reason.

However, working with a top-quality adviser ensures an independent and honest assessment of the risks and rewards right from the start. At all times, you remain in control of the transaction and can put a hold on the deal if your situation changes during the sale process.

The principal risk is underselling your business and that is one risk that an adviser will try to ensure you do not take.