



## Thinking of selling your business? Here are six key questions to ask yourself...

Equilibrium trusted partner and guest speaker Jeremy Cole, of Manchester-based Cole Associates Corporate Finance, sets out six key questions to ask yourself when considering a business sale.

I like to use Rudyard Kipling's "six honest serving men" to set the scene when I'm talking to business owners for whom the sale of their business is probably the most significant business transaction they will undertake in their life.

- **WHY** am I thinking of selling my business?
- **WHO** will want to buy my business (and why)?
- **HOW** much is my business worth?
- **WHAT** does the sale process look like?
- **WHEN** is the best time to sell (and why)?
- **WHERE** do I stand after completion of the sale?

Let's delve into each of those questions:

## WHY am I thinking of selling my business?

Consider the reasons you are contemplating the sale of your business and your objectives for the sale process. To what extent are the drivers 'away from' or 'towards'? Are they internally-driven? (e.g. retirement, owner fatigue) or externally driven? (e.g. market conditions, technological advances).

- Treat non-financial reasons as potentially equally relevant as financial reasons.
- Make sure you are taking a measured, long-term perspective, not a short-term knee-jerk reaction to recent circumstances.
- Discuss the decision with your family, especially if more than one family member is involved in the business.
- Take professional advice early from an experienced corporate finance adviser. Obtain an impartial, external perspective.

## WHO will want to buy my business (and why)?

The most likely potential buyers of your business will comprise of a(n):

- Trade buyer
- Management buy-out (MBO)
- Private equity firm
- Employee Ownership Trust

Each buyer type has its advantages and disadvantages; your advisers will help you weigh financial and non-financial factors. For instance, an MBO offers greater confidentiality than a trade sale but is less likely to achieve a premium price from potential synergies.

## HOW much is my business worth?

This is naturally the question at the top of most business-owners' lists. There's a lot of misinformation and mystique around business valuations. I often say, only slightly tongue in cheek, that there are three views on a business's value:

- Academic valuation - what your accountant thinks your business is worth.
- Mate down the pub valuation – there's often someone in your local pub or at the golf club who claims to have just sold their business for 20 times profits.
- Real valuation – This is the only valuation that matters. It's the ultimate truth; **your business is worth what someone is prepared to pay for it.**

You'll have heard about the different approaches to valuation such as price/earnings multiples, discounted cash flow and net assets basis. In this article it's not possible to explain them fully. If you would like to contact me to discuss the value of your business, I'm always happy to provide a view (after gathering some information), without charge.

One aspect of valuation and deal negotiation that often leads selling shareholders, who are poorly-advised, to leave value on the table, is the distinction between enterprise value (cash-free, debt-free) and equity value (inclusive of cash and debt). To the extent there is net surplus cash in the business at completion, this should be added to the proceeds received by the selling shareholders.

## WHAT does the sale process look like?

You should allow 9-12 months for the full-blown sale process. In the event it starts with an unsolicited approach and you decide not to involve other potential buyers, the timescale should be slightly shorter; 6-7 months.

We run the sale process in three phases – the Preparation phase, the Go-To-Market phase and the Due Diligence and Legal Contracts phase. The main objective of your corporate finance adviser is to create negotiating leverage by having as many good quality buyers as possible vying to acquire your business.

## WHEN is the best time to sell (and why?)

The best time to sell is generally when your business still has plenty of growth potential – don't sell at the crest of the wave, leave some easy wins for the buyer.

If the business is dependent on you as the CEO/Managing Director, work on getting a competent senior leadership team in place before the sale process starts; owner-dependency is one of the biggest valuation killers for a privately-owned business.

## WHERE do I stand after completion of the sale?

Following legal completion of the sale, if you work in the business, the buyer is likely to want you to carry on for a handover period of 3-12 months (possibly part time). If part of the sale terms include an earn-out (i.e. part of the price is linked to future performance), it can be in your interests to retain an involvement in the business.

## Find out more

You can find interviews on the sales process, including MBOs at:  
**w: [cole-group.co.uk/corporate-finance-videos-and-guides](http://cole-group.co.uk/corporate-finance-videos-and-guides)**

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