Exiting a Business

Warrener Stewart

Chartered Accountants • Intelligent Advisors

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At Warrener Stewart we firmly believe in a well-planned exit strategy. Having a strategy in place can be positive for your business's continued growth and development.

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What additional support will I need?

From the start, we can advise and guide you through the process of preparing your business for sale and ensuring the best possible outcome both for you as the owner and your employees.
At Warrener Stewart we provide advice to the owners of many small to medium-sized enterprises throughout the lifecycle of their business.

Why sell your business?

The most common way to exit a business is to sell it; for many start-up companies this is part of their long-term strategy, building up their business to a stage where it has a market value and therefore can be sold.

There are of course other reasons to consider a sale of your business, including the desire to retire or a change in your circumstances, such as an illness or even death of a family member or fellow director. Selling the business as a going concern might be an option if there are no immediate family members wanting to continue with the management.

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Whatever your reason for selling, it is advisable to have an experienced party like Warrener Stewart involved from the outset. As business advisors we have a wealth of experience in helping to prepare companies for sale, as well as assisting with the negotiations.

How long does a sale take?

Selling a business takes time. Frequently a sale can fail due to a lack of available information and inertia – people lose momentum and therefore interest. It frequently takes months, not weeks to sell a business. For this reason, building it in to your long-term business strategy helps.

When should you sell a business?

This completely depends on your business, both structurally and market conditions. Certain businesses are seasonal, whilst other businesses are more attractive, or even less desirable, at key times within the economic cycle.

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Who can I sell my business to?

Knowing who to pass your business on to is an essential part of an exit strategy. With a family-run business, planning a succession which includes members of your family needs careful consideration. Firstly, is there one key person within the family who wants to run your business? Secondly do they have the skill set to do so, are they currently involved in the business and well thought of? Finally, how would they finance a purchase?

Alternatively, there may be senior members within your company who might like the opportunity to buy the business through a management buyout. This can take time to structure; those wanting to buy the business need to demonstrate that they have funds in place. They will be required to show how they will fund the purchase and must also undertake to keep the business going.

The team leading the purchase equally needs senior people in place with the capabilities to run the business. For this reason, a business will often start working towards a management buyout as part of an exit strategy by recruiting senior members with relevant skills.

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Setting up for a sale

Businesses with shareholders will need to review their current shareholder structure firstly to ensure they are entitled to sell. Time may be needed to restructure the company to facilitate this.

Following the sale of the business, there can be tax implications for the shareholders. Working with tax specialists like Warrener Stewart can provide relevant tax advice in advance of a sale, so that the likely tax liabilities are fully understood.

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Getting your business ready

From an early stage it is a good idea to have a vision anticipating how you could sell your business, or how the business would continue if you have left. That way the systems and structures can be put into place from the beginning which will enhance the prospects for a sale or well-managed succession.

Having up to date information in the form of management reports and accurate information on your customers and suppliers may not seem the most obvious part of an exit strategy, yet this is precisely what would-be buyers will want to see.

Think about what other sort of information your purchaser may want to know. As and when the time comes to sell the business, buyers will want to know more about its background and its performance. Having robust systems in place for financial reporting means that this information will be readily available for scrutiny when the time comes.

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Looking at the value in your company

Most businesses have a value, some more than others. Ultimately when selling your business, you need to make sure that it is marketable. This might mean investing so that the company appears focused on growth, with solid structures in place, such as good systems and a strong management team.

Identifying your value drivers early in the process of your exit strategy can ensure that if you need any additional resources these can be allocated, and improvements made. Using business advisors, like Warrener Stewart, can help to identify areas of your business and its operations that might benefit from added investment before marketing the company for sale.

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Assessing the enterprise value of your business

Calculating how much your business is worth is initially a paper based exercise, which a chartered accountant like Warrener Stewart can help you with. We start by considering where your business is within its lifecycle and look at what your business does and how it operates.

Alongside reviewing the true balance sheet value of your business, we try to quantify the 'enterprise value' of your business. This includes ascertaining what the less tangible assets of a business are worth, such as;

- the goodwill,
- the company's trading relationships,
- its intellectual property,
- and most importantly, what makes the business special.

For most businesses the customer base and its relationships with them can be critical, it can often be a reason why a competitor company might want to purchase you.

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Alternatively, anything that makes the business unique, such as its intellectual property, a patent or even having a Royal Warrant can add to a business's net worth.

The industry the company works in can also affect its the value since each sector has its own cycles, moreover, certain sectors are more profitable than others, such as technology and biotechnology.

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Preparing an Information Memorandum

Potential purchasers will want to know everything about your business; its history, any products or services you offer. Most importantly they will require an overview of the business which will include;

- your business accounts,
- budgets and forecasts,
- details about your key customers,
- your supplier contracts
- and an organisational chart.

All these should all be included in a document called an information memorandum.

Businesses who want to sell, frequently find that they do not have the right documents in place, or that their financial information is not up to date. One of our experienced principals will ensure that the detailed financial information included is accurate, and that your business is presentable to a potential buyer.

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Since it takes time to collate everything, we can start compiling everything needed for an information memorandum up to two years in advance. Here, the benefit of planning can help ensure that prospective buyers are able to see the real value of all the assets and learn more about the business that they are buying.

You will also want an indicative valuation of your business. We use the information gained from compiling the information memorandum to outline what your business is worth. A well prepared document can help avoid nasty surprises further down the line and help avoid endless renegotiations on price and terms – a situation many business sellers find frustrating and distracting.

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Securing the best deal

Once a deal is agreed in principle, the purchaser's accountants and solicitors will carry out a "due diligence" exercise on your business. This involves critically examining key financial and non-financial aspects of your business to determine whether the business being sold is as described – rather like undertaking a structural survey on a property.

We can help you prepare for this due diligence exercise. For some companies, prior to your sale, it can be worth carrying out a due diligence report. This will highlight any weaknesses or loopholes within the business, so they can be rectified, before your buyer's accountants exploit them in an attempt to reduce the purchase price for your business.

However, you decide to exit your business, make sure it is a well thought out strategy and not a reactive decision. The earlier you plan, the more leverage you have when it comes to deciding upon your exit strategy, whatever that may be.

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For further advice please do not hesitate
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