GROOM YOUR BUSINESS FOR A SUCCESSFUL SALE

The most frequent reason given by owner-managers for considering a sale is the desire to release capital, either for financial security or new projects.

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If truth be told it is rarely for one reason alone but often a combination of the following - to release capital or funds invested in the business; to find a larger partner to grow the business; to reward a loyal management team by allowing them to participate in the ownership; the business has reached a size where the existing owner is incapable or unwilling to manage it or where there is a lack of interest from the next generation.

However, starting a sale exercise is not something your business, irrespective of size, should undertake lightly and every effort should be made to prepare or "groom" your business to ensure it sold successfully first time. While the financial advisors you appoint will work with you to address issues specific to your company, there are a number of general grooming points worth considering to maximise your business's sales value:

SALES & PROFITABILITY

In the past you may have been setting your prices, and thus your profit margins, at levels designed to create barriers to entry for your competition. If you are planning a business sale your focus is likely to be less long term in nature and it may be worth re-examining your market and customer base to see if higher selling prices and thus margins could be achieved. If the proposed sale itself is a number of years away you may want to consider performing a strategic review of the entire business. Successfully re-positioning yourself in the marketplace well in advance of any proposed sale can only leave you better positioned when the time finally comes.

OPERATING COSTS

You should regularly review your operating costs but especially so when preparing your business for sale. Are there any costs that could be reduced, or removed altogether, without affecting the operational effectiveness of your business?

In addition to improving and maximising your profit margins a purchaser will be looking at profit trends. They will be hoping to see stable and steady growth in the years leading up to a sale. So, risky projects should be avoided and longer-term contracts that may prove to be onerous should be considered at length before acceptance. Needless to say unprofitable contracts should be re-evaluated and, if appropriate, dropped if they are likely to adversely influence the business valuation.

MANAGEMENT TEAM

The person who purchases your business will be hoping to acquire a quality management team. It may be worth reviewing your corporate structure to ensure that job titles and role descriptions adequately reflect the contribution that your management team makes to your business. Any re-structuring required should be performed well in advance of a sale. A purchaser will also want assurance that the management team are supportive of your decision to sell. You should consider talking to them – how co-operative will they be? Indeed they may be interested in buying the business for themselves.

ASSET BASE

Are there any assets in the business that may be of little or no interest or use to a potential purchaser – e.g. short-term investments, under-utilised property, equipment or perhaps surplus cash? Think about realising and removing them from the business before the sale. It is also worthwhile having all your property assets valued separately by a professional.

DIVISIONAL REVIEW

If your business has more than one division some thought should be given to splitting the business into several entities and selling on a piecemeal basis. There are a number of tax implications and other complexities associated with this so make sure to take advice.

TAX PLANNING

Make sure that all your Corporation Tax, PAYE and VAT returns and payments are up to date. In addition any tax losses that you company may have built up over the years may now have a value to the extent that they are available for use by the potential purchaser. Some other tax matters to consider include the availability of rollover or retirement relief and the implications of dividends prior to sale.

VALUATION EXPECTATIONS

You must have realistic valuation expectations – especially in the current market environment. Valuation is important but do not let it get in the way of securing the sale.

TIMING

Planning the timing of the sale is a difficult call to make. Some of the factors to take into account include: the acquisition rate of larger companies in your industry; the state of the economy; changes in legislation impacting on your sector; and tax reliefs – do you have to be a certain age to avail of certain retirement relief or if you wish to avail of rollover provisions, is there a suitable company in which to re-invest.

Finally, a word of warning - planning the sale of your business can begin three or more years before the transaction takes place. During this time remember to look after the business. There is never a guarantee of a successful sale so make sure that while you are preparing the company for sale that your management team concentrate on the day-to-day operations of the business.

PwC has produced a guide for owner-managed businesses on 'How to Sell Your Business'. This guide provides practical advice to business owners considering the sale of their business. See www.pwc.com/ie/bws for further information.

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