BEER MAT MENTORING MEETING NOTES

(20) Selling your business

All good things come to an end and one day you will want to sell up and walk into the sunset, preferably on a tropical beach.

In 2001 I set up a business with two others, specifically to generate a pension fund. It didn't start well. The first year I lost my life savings and we didn't pay ourselves anything. The second year I got my life saving back (on paper) but we still didn't pay ourselves. In the third year a business partner said he didn't see how we could increase turnover above £100k p.a.

Getting the ducks in line

Three years later, with 20 staff and £2m sales we began to think about selling. The best time to sell is when the intellectual property (IPR) is secure, the company is profitable and growing, the sector is growing and the stock market is rising. So over 18 months, in discussion with an agency, we lined everything up for a multi-million trade sale in February 2008.

Unfortunately this turned out to be the low point of the stock market crash and 'multi-million' was off the menu. So on the basis than no deal was better than a bad deal, we ploughed on. However, I was keen to move on and set up a business in Palestine (as you do). This caused much friction because we didn't have a shareholder agreement that covered this eventuality. The solution was to fix the value of much of my shareholding, so future increases in value would only accrue to my partners. A couple of years later they agreed to buy me out from company profits over two years, meeting my original pension target.

So what are the lessons?

- Draw up a shareholders agreement before your company has any significant value and decide your exit strategy and timescales.
- Take professional advice and research business sales agencies.
- Prepare for a sale over several years to maximise the value of the company: sort out IPR and contracts so everything is in writing; develop staff so it's not dependent on you; and be able to show steady profitable growth. Remember your buyer may want you to continue for some time after the sale.
- Consider potential trade purchasers and build up a relationship with them.
- 'Earn out' may be a way to pass the business to a family member or staff.

Value and process

The value of the business is whatever a buyer is prepared to pay but typically two to five times EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation). The actual multiple depends on perceived risk and projected growth. Net asset value and discounted cash flow are also factors.

The sales process starts with a valuation report and brochure / Information Memorandum; buyer qualification and signing of a non-disclosure agreement; face to face meetings and negotiation; acceptance of offer and 'Heads of Terms' followed by 'Due Diligence' by the buyer (with others locked out at this point); then finally the Sale and Purchase Agreement.

NOTES