How do I maximise the sale PRICE of my business?

If you are thinking of selling your business now or sometime in the future, you will no doubt want to achieve the maximum sale price possible. In order for that to happen, it is important that your business is in good shape, both financially and strategically. Read on to learn more about how to maximise the sale of your business price.

1. Make sure the number stack up

Accurate accounting information and financial statements are an important element for the effective management of any business. When it comes to selling your company they also provide the best measure of current and future performance. As part of the due diligence process, your financial statements will be scrutinised, so it's imperative that they are accurate, up-to-date and that any anomalies can be explained.
A potential buyer will most likely want to view at least three years' of financial statements, preferably audited.
As well as historic financial statements, you will need to ensure that a robust management accounting system is in place which includes a breakdown of each revenue streams' monthly sales, costs and profit information.

2. Plan ahead

Whilst accurate current and historical financial statements are important to buyers, a comprehensive business and strategic plan may just help to get them over the line. These plans should accompany any financial forecasts for your business and will increase the company's credibility in the eyes of potential buyers because when presented with concrete plans, potential buyers are reassured that your business knows where it is going and how to get there. Forecasts should be supported by detailed assumptions and written contracts or work in progress will give forecasts and plans added credibility.

3. Processes are important

Systems and controls are the policies and procedures that help a business track, manage and report financials. They also ensure that risks are being managed, that there is 100% compliance with laws and regulations and that resources are being used efficiently.
Furthermore, it's important to show a prospective buyer that the right processes are in place for your business to function effectively independent of any key management or staff. To do this, you must have all these processes clearly documented so that a potential buyer is confident that the company will continue to function effectively from the first day they take over.

A strong controlled environment can also help to reduce the number of warranties and indemnities needed as part of the business sale, because the buyer will be more confident that the company is in good condition.

4. Value for money

Recurring revenue and regular income stemming from existing customer contracts, service contracts and retainers represent significant intrinsic value for a buyer. A potential buyer knows that – at least for the length of existing contracts – customers will remain with the company after the sale.

This is where having up-to-date contracts that can withstand the scrutiny of commercial and legal due diligence is of paramount importance. Existing customer contracts which are profitable and if possible, the confirmation of any new recurring revenue streams will represent a consistent cash flow in the eyes of a buyer.

5. Importance of cash flow

Cash flow is arguably the number one factor most potential buyers look at when determining the value of a business. Evidence of sustainable and growing cash flow gains add credibility to a company's products or services and reinforces the ability of the existing management to drive future growth.

A buyer who will be using debt to help fund a deal will also be swayed towards signing on the dotted line if there is a likelihood of higher and more certain cash flows down the track.

6. Diversity in customer base and predictability in revenue streams

Aim to have a predictable revenue stream and a diverse customer base. If you have a smaller company, you may find that a handful of customers generate a large proportion of your business revenue. However, any customer representing 10% or more of your company's revenue would pose a serious risk to earnings and cash flow if they were to abandon ship for a different supplier who is most likely also a competitor. If you can reduce customer concentration by diversifying your company's customer base you will in turn be increasing the reliability of future revenue streams. At the end of the day this will count towards an increase in your company's valuation.

Be prepared that if any of your customer relationships comprise more than 10% of overall revenue, a buyer will be asking lots of questions so making sure that airtight contracts are in place with such customers will help to mitigate an element of the concentration risk.

7. Real company earnings

The quality of company earnings refers to the amount of earnings attributable to increased sales or reduced costs, rather than to any artificial profits created by aggressive accounting policies. If the buyer is looking to value your company on the basis of earnings, they will use this to predict future earnings, so it's an area that they will review closely. A fluctuation in the level of earnings being assessed can convert into a material change in the valuation of a company when using the earnings basis for valuation, which in turn directly influences the consideration. A potential acquirer will, therefore, be particularly diligent in assessing the quality of the selling company's earnings. To maximise the quality of earnings within your business, you should look to apply conservative accounting policies and ensure you record revenue, accruals, liabilities and stock correctly and accurately.

8. Intellectual property

Intellectual property refers to patents, copyrights, brand names and trademarks and all these can help to increase the sale price of a company's products and services. Protecting your intellectual property could deter competition from entering the market, which in turn will help you to better protect your market position – something a buyer will be prepared to pay a higher price for.

9. Operate efficiently

If you can cut costs without compromising quality or value to your customers and generate efficiencies, you will see your profits increase. This becomes especially important when a buyer decides to value your company on the basis of a multiple of earnings because increased profitability will lead to an increased valuation. Also it will show the buyer that the company can be operated efficiently.

10. Review your capital structure

Capital structure is the combination of debt and equity that a company uses to fund its operations and growth. While interest from debt reduces taxable profits, a higher debt burden means the company needs stronger cash flows to service the capital and interest payments.

Although it may not be possible to settle your company's debt pre-sale, refinancing to a cheaper source of debt or consolidating a number of debt items could reduce interest payments and increase the valuation of your company. The balance of net debt (debt less cash and cash equivalents) at the time of sale will be subtracted from the purchase price.

11. Organisational structure

An inefficient corporate structure or the need to deal with complex internal structures before anything can get done will cost you money. So if you're preparing for a sale, it is important to review and streamline your company's structure to help you eliminate unnecessary corporate governance expenditure, identify tax benefits, and reduce the amount of time senior management spend on unnecessary entities.

12. People matter most

Without people, a company would not exist. If you don't already, you need to recognise that your staff are your company's key assets, and a buyer will probably want most if not all employees to remain committed to the company after any sale. To retain employees in the long term, incentive schemes such as an Enterprise Management Incentive (EMI) can be implemented. This is a tax-advantageous share option scheme through which your company could grant options to selected employees who meet the criteria, enabling them to acquire shares over a period of time. Bonus plans tied to profits can also be introduced, to motivate key employees and incentivise them to remain with the business after the sale.

While a company's people are key to its success, the same should not apply to the owner-manager(s). If an owner-manager is seen as crucial to the company's success, a buyer will question the future performance of the business following the owner-manager(s) departure post-sale.

As the time you, as owner-manager, spend involved in the running of the company increases, the value of the company decreases in the eyes of the buyer. Furthermore if you work full-time in the company, the buyer will also need to consider the cost of taking on a like-for-like replacement. This is where succession planning is important. Take the time to ensure that your key responsibilities as owner-manager are delegated to other staff that will remain post-sale.

13. Timing of the sale

Choosing the right time to sell can have a significant effect on your company's value. If you can wait for a strong economy then do so. This way it is usually easier for buyers to obtain credit. If however you cannot time the sale of your business with a strong economy don't worry. While a growing industry promotes higher demand for companies in that area, consolidation periods can also be beneficial because larger competitors may be interested in buying your company at a competitive price.

14. References

Any potential buyers will often want to approach current suppliers and customers for an independent opinion about your company and their experiences in dealing with it. Evidence of satisfied and loyal customers will greatly enhance the value and appeal of your company. Therefore, it is important to recognise in advance that this will most likely happen and every effort should be made to develop close relationships with key customers so that when the time comes, you are confident that they will be willing to nominate your business as a first choice supplier. In addition, you should resolve any issues or practices which could potentially result in an unfavourable reference that will affect the value of your business or even deter a potential buyer from moving forward with the sale.

15. Live your brand

A strong brand in the marketplace will have great appeal to a potential buyer. It is something that is often built up over time and which customers associate with a certain level of quality, value or even feeling. When selling your business, nothing will protect your position as a seller more than having a competitive buyer in the wings so aim to ensure that your brand is admired by your target buyer audience.