

HOW TO SELL A COMPANY

By Graham Hudson, Exceptional Business Results Ltd

Synopsis

As an entrepreneur, where do you want to be in five years time? Still chained to your company? On a beach? In your garden? Planning how to fit your choice of business interests into your social life?

At present, merger and acquisition activity is tough, and company valuations are under pressure – so if you are thinking about selling your company, you have some basic questions to answer –

What is my business worth?

What do I need when I retire, and when should that be?

How can my business achieve this?

How do I sell it?

What is my succession plan?

Background

On the one hand, there are companies of all sizes looking to grow by acquisition, to penetrate new markets or sectors, maintain earnings per share, defend against major competitors, or reinforce their core activity. On the other hand, there are companies looking to sell, to get out of non-core activities, to exploit the value of their key offer at the top of the cycle, or to realise family or personal shareholdings. There is a lot of activity – but to the entrepreneur, there is just one deal of interest – yours.

The Need to Plan

“I want it all, I want it all, I want it now”- a great line in a pop song. Unfortunately, in the real world, the best price for your business is never obtained “now”. The right timescale has to be planned.

1. What is happening in your market just now, but also what is likely to happen over the next year or so – in terms of political/ government/ legislation factors, technology, and competition. Selling a business during a recession is not easy, and tends to produce lower value than during an upswing.
2. To gain best value, spend time on grooming the business for sale – dealing with the overdue debtors, eliminating unnecessary expense (interesting what spending is considered vital generally, and avoidable when you are improving your results for a sale....), sorting out organisation/ staffing issues, and generally ensuring that the day to day cash flows and activities line up with the wider strategy. In theory these activities are what you do all the time, but they acquire a new urgency at this point.
3. What is the business worth - based on its underlying profit (taking account of your living costs covered by the business), the value of the assets, cash-flows, relevant intellectual property, and any recent activity in your sector. But you do need to have a professional valuation, produced by a professional – before you plan on how to spend the proceeds!

Keeping it Confidential

Whilst you are planning the sale

1. Ensure your employees do not know until you are ready to tell them.

2. At some point, you need to tell suppliers and customers too – but this needs to be a time of your choosing.
3. The story should be told, not leaked, and it should certainly not escape. Generally, word gets out, so recognise you may well not be able to keep it totally confidential right up to the last minute. However, you can plan the communication process, and plan your party line for the situation where there are leaks or rumours.

Recently, a journalist asked the Chairman of a well-known company to comment on takeover rumours, and he replied “the story is false” – five days before he announced that a takeover had been agreed! The better response came when an MD was asked to comment, and he said “we are of course interested to listen to approaches from serious companies” – which left the door open to pursue discussions and continue to manage the communication process.

What Information Do You Release

1. Early on in the process, prospective buyers will want information about the company – current trading, history, product range, customers, suppliers, property details, cash flows, and balance sheet.
2. Later on, the serious buyer (s) will want more about costings, key personnel, and strategic plans.
3. How much do you tell them? And how do you guard against the “tourists” – the competitors looking for useful intelligence, and the time-wasters? This does take some serious thought.

Business As Usual During The Alterations

Oh yes, you also need to manage the business whilst the sale process is going on. You have to manage the sale project – which is perhaps a “once in a lifetime” activity for you – as well as managing everything else. At this point, you could be forgiven for having a slight feeling of nausea...

The large PLCs use their advisers, the major accounting firms, stockbrokers, and lawyers to manage the activity for them. Major headache removed, major fees paid as well – fair enough. You could use a company broker, who will advertise your business for sale, and arrange meetings with prospective buyers – leaving you to organise the management of the process, and leaving you to organise valuation and other professional advice. In between these two extremes, there are companies who provide a confidential full service, providing valuation advice, grooming, buyer identification and vetting, information release, in fact the full project management service to the point of having a sale agreement. This lets you carry on managing the business, which is what you do best, whilst they undertake the planned sale, which is what they do best.

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