



How to Sell your Business

The practical guide

Peter Hickey

About this workbook

Thank you for purchasing this product which was developed from thousands of hours of practical first hand research.



This workbook can be used as a standalone resource or it can be used in conjunction with the MAUS "SellBiz Pro" software program.

Both the software and the workbook are designed to provide you with the practical advice that only someone that has worked extensively in this field could provide.

They are the culmination of many years of experience and conversations with business owners, brokers, accountants, lawyers and venture capitalists.

By following the simple instructions contained in the workbook you will be guided through the "Selling Your Business" process, as if the expert was right by your side.

The software includes interactive tools, tips, videos, sample valuation, resources, checklists, business valuation and retirement calculators and much more. It has simple to follow checklists that cover all aspects of preparing your business for sale.

Both products are designed to take out the guesswork and help you to implement a series of "step-by-step" systems and processes needed to achieve the maximum possible sale price your business.

We are sure that you will find them an invaluable resource that will provide you with checklists, questionnaires, sample plans, confidentiality agreements and more. For further information, advice and strategies on how to sell your business or more information on the software visit the MAUS website at www.maus.com.

Acknowledgements

This guide was largely written from 15 years of first hand experience in running a business and then working with consultants, accountants and the legal fraternity, to buy and sell businesses.

From due diligence requirements through to different valuation strategies, I have learnt from all the people with whom I have worked. Throughout this time I have negotiated with multi-nationals, engaged professional brokers and top 5 accounting firms. I have talked to a number of respected financial houses, brokers, venture capital companies and legal firms. Each of whom have added to my thought processes and introduced me to their own methodologies.

Over the years I have given seminars, held workshops and consulted to literally thousands of small to medium sized businesses (SMEs). I have been at the coalface, and what I have learnt can now be found in the practical checklists that appear in this book. Through my years of experience, I know that these checklists are effective in improving the bottom line and hence the sale value of any business.

After I sold the first business that I established, I joined the Institute of Business Brokers, and this brought me in contact with scores of business brokers who make their bread and butter from selling businesses. My numerous conversations with these individuals were another invaluable source of reference material.

Thanks to the contributing editors

Over recent years I have produced a number of videos on selling your business. These were given to Clare Loewenthal and she translated them into workable text that has been included in this book. Clare did a great job helping to structure the outline of the theory and she contributed to the excellent theory section. Thanks Clare.

After the checklist was put together and I launched Exit Planner (our first software package in the series launched for consultants in July 2006) I subsequently re-acquired MAUS/EBC. This gave me access to exceptional content which has been included in the "more information" section. I do not know the individual authors' names, so I have referenced it CCH Editors.

And finally thanks to my family. Without which there would be no purpose or meaning to what we do in business!

About Peter Hickey

Peter is one of this country's leading SME experts. He has been active in buying and selling businesses and has a passion for helping business owners achieve what he has achieved.

Peter is a bestselling author and the designer of a number of multi award winning business tools that are now used by more than 60,000 companies around the world. He won the Ernst & Young NSW "Entrepreneur of the Year" award in 1999.

Peter was the founder of MAUS Business Systems, a consultancy firm that grew into a software company that was listed as one of BRW's fastest growing 100 private companies in 2000.

Peter successfully built the company from a one-man business to a multi-million dollar concern. He cleverly positioned the company so it could be sold at the peak of the IT boom to a multi billion dollar publisher.

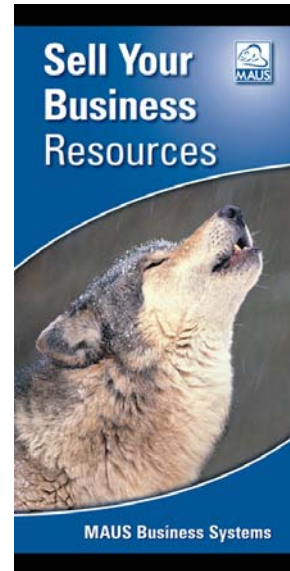
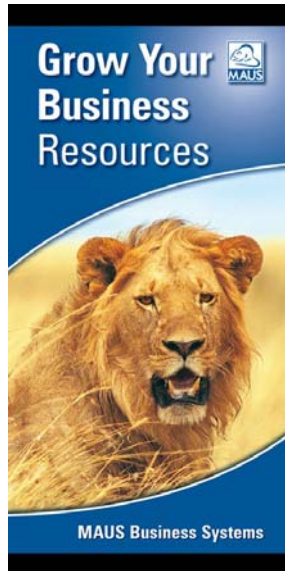
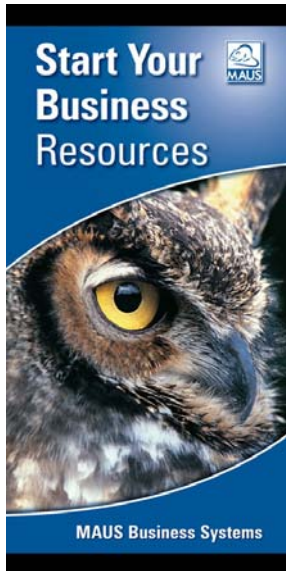
Five years later at the bottom of the IT cycle, and as multi-nationals were divesting themselves of assets, Peter thought the timing was right and bought back the MAUS and EBC businesses.

This has enabled Peter to build a new revamped vision of MAUS that includes practical based resources to help businesses from start-up to exit. MAUS now includes a Business Software division, a Business Coaching and Consultancy division and a Business Broking arm.

Peter has been active as an international consultant and trainer, Peter has worked for and consulted to large public companies on three continents. He has lectured in tertiary institutions, conducted training programs for small and large businesses and he has held a variety of senior management positions.

Peter is currently the CEO of MAUS Business Systems. He heads the Business Broking division and is the Director of the Business Coaching and Advisory network. He is extremely active in the M&A (mergers and acquisition) market and advises companies on acquisition strategies.

MAUS Business Systems now offer a unique range of business resources split into three categories:



A note from the author

Starting and running a small business is one of the toughest jobs in the country. It's plain hard work.

If you are a business owner, you are used to long, unappreciated work hours and you know that the stresses and sacrifices are plentiful. Running your own business also means that your family life and social life are sure to suffer unless you are constantly mindful of the need for work/life balance.

Most business owners rarely take sick leave and they can't afford extended holidays. Running a business can be overwhelming and gut wrenching at times. It is rare to find a business owner that is not confronted with a major crisis each month. This can be anything from an upset customer, an employee that wants to leave or simply too much to do in not enough time. A business owner has to wear 20 hats and perform at the speed of five people.

So why do business owners take on such a challenge? Perhaps because deep down there is a feeling of overwhelming satisfaction; perhaps because you are the master of your own destiny; perhaps because you can no longer work for someone else. Although there is the down side to being an entrepreneur, there is an indescribable sense of exhilaration and achievement when sales suddenly surge and you win a new customer. There is a sense of pride when your employees work as a team and implement the systems that you have developed, and there is a sense of satisfaction when you achieve something that no one else has been able to.

At the back of your mind is the dream - the dream that only 1 in 1000 business owners ever achieve - that you can start something from nothing and through sheer hard work and persistence, build something that makes a million dollars.

The pinnacle of this feeling for me was on the day I signed the contract to sell my business to a multi-national company. It is what dreams are made of. In the early stages of the business, I struggled and almost failed. Any sane person would have given up. Perhaps it was stubbornness or just sheer dogged belief that one day.....

Everyone thought I would fail because the business made little income for the first two years. But then it started to turn and over the next eight years we developed into one of the most reputable software companies in this country. We consistently shipped over 20,000 units of software per year, we developed contracts with major banks and we were listed in the BRW fastest growing companies. I was named Entrepreneur of the Year.

These were all highlights and each was a great experience. But nothing will beat the day I walked into the lawyer's office and signed the contract to sell MAUS.

Selling your business is a chance to be repaid for your hard work.

Hopefully, with the benefit of hindsight, my experience and my research in this area, I can help you to achieve your dreams. If ever you do, drop me a line and tell me about it. You deserve a pat on the back!

Peter Hickey

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CHAPTER 1 - INTRODUCTION

Overview

Seventeen per cent of small business owners are planning to leave their business in the next two years and 40 per cent are aiming to leave in five years. Whether you live in Australia, USA, Canada, USA, NZ, the UK or South Africa the research is the same. There are a massive amount of business owners that will be looking to retire over the coming years.

Thirty per cent of small business owners in Australia are now over 50 years of age and this rate is increasing each year.¹ In Canada it is estimated that within the next 15 years, more than half of the country's current small business owners are expected to retire.² In the US in 2001, 77 million Americans were 50 and older (comprising 28 per cent of the population). By 2020 that segment will be 36 per cent of the population.³

There is no doubt that, as the baby boomers near retirement and the average age of small business owners increases, the age-old laws of supply and demand will come into play. In such a crowded marketplace business owners will need to present their business in an appealing, professional manner to stand out from the competition and achieve the maximum return.

Sixty six per cent of owners, in this country, plan to use their business as their primary source of retirement income; forty three per cent aim to realise a lump sum benefit from the business; and 31 per cent expect an income stream.¹

For these people selling the business in order to retire, it is of paramount importance that the sale price will allow them to retire comfortably and not compromise their quality of life.

Research shows 70 per cent of businesses think succession and exit strategy planning is important but only 12 per cent have a documented plan. Unsurprisingly, the main motivating factor for the creation of a plan is age.

A major impediment to succession planning is that most entrepreneurs don't understand the drivers that underpin the creation of an exit strategy. Selling a business is a marketing exercise that requires planning, preparation and a compelling pitch. An exit strategy needs to be achievable and have a realistic timeframe and measurable milestones.

This book explains the key issues that need to be addressed in an exit plan, so readers can create a document that encompasses the unique features of their business, life situation and price expectations.

Sources: ¹ CPA Survey; Undertaken in March 2004: Sample of 600 interviews with senior decision makers within small business and CPA's in public practice. CPA Australia is the largest professional organisation in Australia with more than 100,000 members of the accounting and business profession

² The 2004 CIBC Small Business Outlook Poll Canada was conducted by Decima Research between July 13th and August 6th, 2004 and was based on a randomly selected sample of 1,829 Canadian small business owners (defined as those businesses having between one and fifteen employees including the owner and having revenues under \$5 million for the year 2003).

³ USA Facts and Figures Squidoo www.squidoo.com

What not to do!

You have done a great job in establishing and building your business and now it is time to reap the rewards!

It is unfortunate, however, that many business owners who spend years building their business will receive only a fraction of what their business is actually worth.

It is very tempting for business owners to quickly put together an advertisement or find a business broker to sell their business immediately.

Before you start to advertise the business you need to put together the correct material and systems to present your business in the best light. Why? Because the better your business appears on a piece of paper, the more it will be worth, and the better the chance of actually selling the business.

Example of what can go wrong:

Doug owns a manufacturing business and advertises it as a great business with a turnover of \$1,000,000, reasonable profitability and heaps of potential.

This looks good on paper and a potential buyer gives him a call. He sounds very interested. He comes to Doug's premises and asks for some sales and management reports. These sales reports don't seem to add up to \$1,000,000. Doug explains that it is very complex and there is a difference between the management and accounting reports.

The potential buyer asks for sales by product. Once again Doug's reports do not add up. Doug tries to explain the differences but each time he pulls up a different report he gets different variances.

He then asks for the last three years tax returns. It takes Doug a week to track these down as his accountant is away. Doug also can't give him the last year's return as it has not been done, even though the financial year finished seven months ago.

The tax return shows a loss. Doug explains that this was done on purpose. All the official numbers in the tax return vary to numbers placed in the advertisement and those mentioned in their conversations.

At this stage Doug has lost the buyer's trust and his credibility. His constant delays result in the Hot Buyer making the decision to go with an alternative business for sale.

THE OUTCOME: Doug probably will not sell the business and if he does, it will be for a discounted price.

Why are businesses sold for less than they are worth?

There are a number of reasons why businesses fail to sell for as much as they are worth.

Firstly, the owner's decision to sell the business could be based on a building frustration with the constant pressure and headaches, which results in the owner "just wanting out." Secondly, the sale could be based on financial pressures. Thirdly, it could be because of a change in lifestyle wants and needs.

No matter what the reason, a business owner decides that the time is right to sell and he or she wants to make the sale as soon as possible. It is at this stage that many business owners realise that there is a huge gap in their knowledge. Questions such as the following will spring to mind:

- How do I sell the business?
- How do I advertise the business?
- How much do I sell the business for?
- What information do I need to prepare?
- How do I keep the sale confidential?
- What do I say to my employees?
- How do I stop my employees from finding out?

Business owners may then seek out a professional and if they come in contact with someone such as a business broker who appears to understand the selling process, they will latch on and trust that this relationship will automatically maximise the value of their business.

Most business brokers understand all the questions above and will do a competent job at handling the sale. Other business owners will elect to try and sell the business themselves, without professional assistance. And depending on their knowledge, background and experience, these people will do anything from a poor to competent or even a good job in this process.

In either case, you will end up with a list of information requirements that you will need before starting the sales process.

- Your past three years tax returns
- Certificates of registrations and licences
- Management accounts
- Budget forecasts
- List of employees and wages
- Confirmation that GST and superannuation has been paid
- Original certificate and company association documentation

- Other records, due diligence. (See our due diligence checklist later in this book).

Even if you have diligently collected this information and spent the last six weeks making sure it is thorough and exhaustive....

***...this still does not mean
you will be able to sell your business
for what it could be worth.***

WHY? Because the buyer is buying it based on the future profits that he or she will be able to earn from the business.

The more the buyer thinks he or she can earn in the future, the more attractive and appealing the business becomes and the more it is worth.

If your business:

- is in a growth market;
- has a product that is selling extremely well in one region/location/market and can be easily adapted to a wider market;
- has invested or owns the technology or Intellectual Property;
- has patented the processes;
- is on the verge of signing a new contract;
- has developed a unique concept;
- is the market leader;
- is in impressive premises in an ideal location;
- has a great brand name or any other number of factors

then some or all of these criteria may actually double the value of your business.

Focussing on these criteria one to three years before commencing the sales process may result in a much larger pay cheque at the end of the day.

You also need to consider risk. The less risk attached to future profits, the higher your business is valued. You can minimise the perceived risk of buying the business by demonstrating solid past financial results, having competent managers and having a business that is not reliant on the business owner. (Note there is a full list of criteria and a scorecard later in this book entitled “Attractiveness Index”.)

Summary: When considering the sale of your business, consider the two stages.

1. **STAGE ONE:** Understanding when to sell - “the getting ready” process: You need to explore issues such as whether you have the right information together for the potential buyer. Does your business look like a low risk investment? Do you understand the key criteria in selling your business so you can structure your business in the best light? Is it likely that if you waited you could improve the appeal for your business and therefore sell it for more money?
2. **STAGE TWO:** Understanding how to sell: This is the price, strategy and processes that you will use to advertise and sell your business. Don’t take shortcuts because there is too much at stake. Complete the checklists in Stage One, so that Stage Two is the execution of a well thought out plan that result in the maximum sale price.

Stages to selling your business

There are two major stages to consider when selling your business. This chapter provides an overview of these stages which is then further explained in subsequent chapters.

Stage 1

Understanding when to sell - "the getting ready" process.

You need to decide whether you are ready to sell your business. During this phase you need to consider whether you should sell your business now or wait and perhaps sell it at a future time for more money.

The key outcome to this stage is to be able to answer the following three questions.

If I sell my business now, I believe I could sell it for	\$
If I wait for	_____ Months
I could hopefully sell my business for	\$

To get the answer to these questions, you need to work through the checklists and the plans in this book. It also provides information on business valuations, so you get an insight into how much your business may be worth. The following concepts are essential to understand:

1. **VALUE:** The value of a business will generally be based on how much income it can earn, and how much risk the potential purchaser will associate with earning this income.
2. **RISK:** The higher the risk to the potential buyer, the lower the value of your business. By risk I mean certainty that a buyer can continue to make the income that you have. i.e. if you have made a loss for the last two years, your business will be relatively

unattractive. A buyer will see it as a risky investment and will look for other companies that have made a profit.

3. **ATTRACTIVENESS:** The lower the risk of the business to the potential purchaser, the higher the attractiveness of your business. And most importantly, the more attractive your business the more you can sell it for. (See the Chapter on “How to calculate your attractiveness index”). One of the first steps you should take is to calculate your attractiveness index. As a result of this you may decide to wait and concentrate on strategies to improve the business's attractiveness.
4. **READINESS:** Even if you are an attractive low risk investment for a potential purchaser, you can maximise the amount of money you can sell your business for by making sure that you have all the documentation, forms, systems and processes in place prior to negotiation. (See the Chapter on “How to calculate your readiness index”).
5. **IMPLEMENTATION:** Establish and implement a plan to prepare. (See the Chapter on “How to develop a sell your business plan”).