

Commercial law Update

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Sell



Maximising your private business exit – seven steps you can take now

If you are a private business owner, you need to think about your eventual exit, if you want to get the most out of what you have put in.

This doesn't mean you take your eye off the ball, but it does mean that you should regularly review and assess your business through the eyes of a potential buyer.

No-one knows your business like you do. But there are common themes when it comes to selling a privately owned business, whether to another (possibly larger) private company, a public company, a private equity firm or an international buyer.

Here are some of the things buyers are looking for and ways you can maximise your exit value – that is, increasing the amount you are paid with the least possible ongoing risk.

1. It can't fully rely on you! No doubt about it, you are important to your business. But if you are its key (or worse, only) strength, buyers will see too much risk. A buyer won't pay for something they can't get value out of and you aren't easily replicated! You need to ensure you have systems, together with a strong team of people, who are incentivised and understand the business fully, so that you can transition out without your business losing all, or the majority, of its value.

2. You can identify buyer risks now. If you identify these risks now, you can take steps to mitigate or remove them. At the very least, you can put yourself in a position to explain them to a buyer. This is referred to as seller or vendor due diligence and can and should (formally or informally) be done before a sale process commences. A headline purchase price will not increase after the buyer has commenced due diligence, so it's best to spend time now to be fully prepared.

3. Get it in writing. Lock down key contracts with suppliers or customers where it is possible to do so. You should also lock in key employees or people important to the business moving forward. This will give your buyer comfort that the value of the business is also locked in – the buyer can't rely solely on your good relationships. Having it in writing reduces the buyer's risk.

4. Get your financials in order. Your financial data and statements should be in excellent shape. If you are a private business owner and have personal expenses lurking in the business financials, this will cause a buyer concern and will reduce the price they are willing to pay. Spend some time now to get your financial data in order. You might want to consider having your financial statements audited (even if this is not required by law). Audited accounts will give your buyer more comfort about the accuracy and reliability of your financial data.

5. Good governance is a win / win. Private businesses can often move quickly, are nimble and can take advantage of opportunities. While you don't want to lose that, you need to think about systems and governance that will give your buyer confidence in the business. It will also give you greater comfort about the warranties or promises that you will need to give about the business to a buyer. It's a win / win.

6. Who is your buyer? Think early about who might want to buy a business like yours and consider how you might strategically position your business to grab their attention.

7. It's not personal. You should try to remove emotion and don't take criticism or identification of risks as a personal attack on you or the business you have built.

If you are imagining life after your business, we can help you to position yourself to maximise your exit. We look forward to learning more about your business and how we can assist you. Our team has over 35 years' collective experience in helping private business owners to buy and sell, with a strong focus on maximising value and minimising risk.

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