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maximum business value • real options

15 TIPS TO MAXIMISE AND EXTRACT THE VALUE OF YOUR BUSINESS

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Based on the (more than 700) clients we have helped over the last twleve years to maximise the value of their business and achieve a successful exit, we have determined a number of key value drivers, including 8 internal and 7 external factors.

PART I – INTERNAL FACTORS

1. Size

Is the size of your business "right" for your industry and market in order to maximise sale value?

Simply put, "size does matter". There is much research that supports the fact that businesses with a turnover of $5 million or more nearly always sell at higher multiples than their smaller counterparts. Whilst I am not in favour of growth for growth's sake, designing your business to grow to at least this level of turnover will maximise value. This might include making acquisitions (of complementary businesses/opportunities), opening in other states or looking for baby boomer business owners "desperate" to exit and retire. Interestingly, the research clearly shows that the top two outcomes for a successful exit by baby boomers are onot about $$$ - rather they want assurance that the business will continue after their exit (legacy) and that you will look after their staff.

2. Business Model

Are you and all your team clear on your business model? Does every aspect of your business match the business model?

Business model is your boutique or scale and even more importantly is every aspect of your business. Customer service, online presence, the people you employ, your pricing strategy, your office location/fit-out and your marketing materials – are they aligned with your model? (I met a financial adviser just last week who told me he looked after high net wealth individual clients, was extremely good at what he did and as a result charged a premium. He then gave me a business card on very flimsy paper that looked like it had been printed as cheaply as possible).

3. Revenue

Is your revenue easy or hard? Do you have annuity style income based on long term contracts or do you have to continually make new sales?

Recurring revenue is worth more. Do you have clients on long-term retainers, extended contracts, or some type of residual income trail? Businesses which need to make sales continually, every day, week and month are far less valuable than a business with long term guaranteed and/or recurring income.

4. Sales and Marketing

Are your sales driven by a system/marketing machine – or is it based on a key salesperson's skill and networks?

Your business needs to be able to generate new business, leads, enquiry and ultimately sales without relying on either you or a key person's skill and sales ability. All businesses need a sales and marketing machine that runs independently.

5. Systems

Is your business systemised and documented?

Save yourself time, effort and money. Not only are systemised businesses far simpler to run, far less stressful and generally far less risky but they are also more valuable. The chance of them performing well is higher and the level of specialised skill to run them is reduced by systems. Lower risk is always more valuable.

6. Employees

Are your employees engaged, motivated and incentivised to perform and work with you to maximise business value?

Do you have an employee incentive plan whereby employees are rewarded based on performance - either a profit share based plan or ideally an Employee Share Ownership Plan (ESOP)? This substantially reduces one of the key risks for buyers - that is that your employees will exit when you do! It also provides a strong incentive for performance from your people – their financial well-being (at least a part of it) is closely matched to yours as the owner/s. The better the business performs, the more profitable it is – your employees are better off. Getting employees to think and act like business owners can make a substantial difference.

7. Corporate Governance and Compliance

Do you have risk management and compliance completely handled?

Often ignored by business owners as either something large businesses need to worry about or simply too hard and far too boring, but this area (particularly when we look shortly at attracting the right type of buyers) can add considerable value and again reduces risk. Often, we see deals fall over at due diligence stage – when the buyer really investigates the substance behind the business – those with poorly prepared accounts, badly documented processes and little or no governance structures often fail to meet this hurdle.

8. Owner Dependence

How reliant is the business upon you? What would happen if you didn't go into the office/factory/shop for 6 weeks?

The business must be able to run independently of your involvement. You must be able to leave for two months on a holiday in Europe without contact with the office and the business maintains, continues and even improves its performance whilst you are away. Some of the items above will help to reduce the dependence upon you, or you family.

PART II – EXTERNAL FACTORS

What do you need to prepare to attract the right buyer (who will pay more) and convince them of your value and finally make sure they "sign the cheque"?

Having bought or sold several businesses over the last 15 years, several factors stand out:

1. Strategic Buyer

   How would you add significant value to your business as a buyer? Who has complementary products or services or who already serves your clients?

   For every business, there is a strategic buyer who will pay more for your business simply because they benefit more than most other buyers. The most common example is complementary products and services. In strategic sales, it is not about a multiple (financial sales of businesses are often based on a simple multiple of profit), it is more likely the price will be factoring in future strategic value. For example, many sales involve technology or IP assets (unique, well protected, hard or expensive to copy) and the buyer can leverage that acquisition – creating substantial value.

2. Information Memorandum (IM) Document

   Is your business well documented? Do you have a strategic plan? Can you outline the key "valuable" aspects of your business?

   It is amazing to see the number of businesses (otherwise quite valuable) who are prepared to sell their business on the basis of a cheap, home-made "flyer" style document. A well-prepared IM will be able to attract and convince the right buyer. It should also be designed with the buyer in mind and highlight the strategic opportunity for the buyer.

3. Tax Planning

   There is no capital gains tax on business sales in New Zealand. Other taxes and obligations may apply and your options when selling can differ depending on the business structure you have. For example, are you selling shares in your company or selling business assets? If you are selling shares the transaction will generally be GST exempt. If you are selling assets, the buyer may need to pay GST in addition to the purchase price unless the transaction can be Zero-rated. Zero-rating may be possible if the assets include land (and certain other requirements are met) or the assets comprise a going concern, which is most likely when an established business is sold. Selling assets may also result in GST for you to pay and you may also have residual tax liabilities after the sale is completed so it's worth getting specialist help from a professional tax adviser.

4. Due Diligence and Documentation

   If a buyer were to go thru all your documents and records – is there anything they should not see?

   Many transactions fall over at this point but this can be used to assist in improving the value of the business. If all your documentation is complete, accurate, and up-to-date and demonstrates a well-managed business, it will support your value proposition, not detract from it.

5. Negotiation

If you were approached by a buyer today – how much is enough to sell?

Being in a position to create some competitive tension (by attracting several of the right buyers) is a good start, but the conduct of the negotiations and discussions leading to the actual sale are a very important aspect and should not be underestimated. As a result of the GFC, the terms of sale are now a major factor, many deals involve a vendor finance aspect, some require vendor participation for some time after sale and often involve warranties or guarantees (that may be linked to the final pricing). Getting these terms wrong can see quite a good deal turn very sour.

6. Legal Agreements

Have you ever spoken to a lawyer about documenting your succession plan or business sale?

Often business owners are concerned that the legal agreements will “scare off the buyer” however, this is very rarely the case. Far more importantly, the legal agreements need to be structured to protect you after the sale particularly around the key issues of any warranties, assurances provided, and any event or finance included as part of the sale terms.

7. Corporate Advisers

Have you got experienced advisers who can assist in maximising the value and ensuring a successful exit?

Business owners should not try to sell without the best advice. Well represented businesses are generally taken far more seriously and are perceived to be far more valuable. A corporate adviser who has a reputation for selling good-quality businesses automatically positions your business in that category.

The correct implementation of the items outlined above will help you meet two key outcomes – maximising the value of the business and successfully extracting the value upon exit.

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