

LIFE BUSINESS 101

1. BUYING/SELLING A BUSINESS

2. RAISING CAPITAL

Presenters

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INTRODUCTION

1. Businesses are largely valued, based on Future Maintainable Earnings
2. This is based on four or five pieces of important information
 - ✓ Historical revenue & profit, at least 3 years verifiable end of year accounts
 - ✓ Selling prices previously achieved for similar size businesses
 - ✓ Returns, risk and effort not necessarily in the same industry
 - ✓ The pros and cons of your specific business
 - ✓ Prevailing general market conditions

All this is done to assess the market capitalised value of the business which is most often expressed as a MULTIPLIER of the EBIT or EBPITD.

BUYERS

1. Review the Future Maintainable earnings of the business
2. Then do Due Diligence
3. Note: Most Buy/Sell agreements have a due diligence clause in them.

“Due Diligence is the process by which a prospective buyer SYSTEMATICALLY researches and verifies the accuracy of information in order to do a COMPREHENSIVE ...appraisal of a business they are considering buying TO evaluate and establish in their own mind its commercial potential AND value to them”.

4. **Normally** the “value” for a buyer is the **Future Maintainable Profits**, but it can also be other **Potentials**. Sometimes a buyer may be looking for **something else of value** i.e.
- ✓ Your customers
 - ✓ Your location
 - ✓ Your IP
 - ✓ Your plant
 - ✓ Or even your employees
 - ✓ Or simply looking for a run down business to rebuild

SELLERS

1. Sellers normally want to get the **best possible price** for their business
2. Interestingly the biggest problem when trying to sell the business is the owner either has not done enough to prepare his business for sale “ducks in a row” or says too much in the selling process.

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GET YOUR DUCKS IN A ROW



3. SELLERS need to ensure all their ducks are in a row (**business optimisation**) to get the best price
 - ✓ So the purchaser during his due diligence process can easily **see the value** he is looking for in that business
 - ✓ If a buyer has to **work hard** to get information to make his assessment – it often simply **provokes** the question what is the **seller hiding**, and this can result in a low offer or a walk away.

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"He's right, when you look at it that way,
it's not so bad!"

SELLERS

- ✓ Please Don't **delude** yourself about your business
- ✓ Detach yourself **emotionally**
- ✓ The purchaser doesn't care re the **blood, sweat and tears** you put the business
- ✓ He doesn't care that it's been **your baby** for 20 years
- ✓ He doesn't care **what you think it's worth**
- ✓ At the end of the day, it's only worth **what the market says** it's worth.

Sellers can enhance the value of their business by a commitment to a **change in thinking and implementing some simple business optimization** processes (getting your ducks in a row) – which is really just good operational management

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GET YOUR DUCK IN A ROW

1. **Good operational management**
2. **The more transferable (de-risked) the more potential for value**
3. **Think of it as insurance**

Getting your ducks in a row HELPS You too:

- ✓ De-risk your business making it **easily transferable**
- ✓ **Work on your business rather than just in your business.**
- ✓ **Look for low hanging fruit** – areas to add significant value - low cost to fix
- ✓ **AND Its definitely an Insurance** – just because you don't need it today doesn't mean you will not need it tomorrow
- ✓ **It enables you to sell your business by DESIGN**

What does Selling by DESIGN mean

- ✓ At the best price when you are ready and WANT to SELL
- ✓ Many sellers do not end up selling by DESIGN
- ✓ Often it's another D, the bad D's that **forces** you to sell
- ✓ Buyers are often looking for the other D reasons.

Let's take a look at what these other D reasons are.

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REASONS FOR SELLING

WANT to and ready - by Design

HAVE to: The not So good reasons

1. **Death**
2. **Disease**
3. **Divorce**
4. **Disability**
5. **Disillusion**
6. **Distress**
7. **Dispute**
8. **Debt**



HAVE to - The not So good D reasons

- ✓ Death – It's all over rover
- ✓ Disease - Health Issues
- ✓ Divorce - Matrimonial property can include businesses
- ✓ Disability - Yours, key man, close family member
- ✓ Disillusion - Industry, lifestyles, business
- ✓ Distress - Workload, work life balance
- ✓ Dispute - Family, partners, third parties
- ✓ Debt Bank - lenders, AR, personal guarantees

The sad reality is one or more **will** creep up on you, often **without you even knowing**.

1. So the best times to sell is

- ✓ When you don't have to sell,
- ✓ When the business is in good shape
- ✓ Top of your game (optimised)
- ✓ Which is when you are likely to be the most optimistic and positive
- ✓ **A buyer will feel it and wants a share of it.**

2. **But also don't wait too long either.**

- ✓ Often business owners leave it too late,
- ✓ Want a quick sale,
- ✓ **Which compromises** the best price.
- ✓ **Balance** it with an understanding of the current market forces,
- ✓ Timing is important as market forces change – we will discuss this later

What is a buyer looking for during due diligence AND how does a seller mitigate risk?

- ✓ Buyers will be looking for shortcomings in the seller's business
- ✓ Buyers want to justify why they don't think it's worth what you are asking for
- ✓ SO If sellers if you can make it better it will be worth more

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HOW TO MITIGATE RISKS

1. **Personal goodwill**
2. **Staff & contractors**
3. **Accurate financials**
4. **Stock, plant, debtors. (aged, obsolete, stock turn, over capitalised)**
5. **Know your competition**
6. **Know your opportunities**

✓ **Personal & Business Goodwill**

- How dependent is the business on you – are you the business?
- The more dispensable you are to business the more transferable it will be
- **Personal goodwill is a big trap** - you walk your business walks with you

✓ **Staff and Contractors**

- Staff Happy and want to stay
- Proper employment contracts and job descriptions
 - **Use available resources. Chamber of Commerce; EMA**
 - Golden handcuffs to the business – shares benefits

✓ **Accurate financial and business reporting**

- Verifiable End of Year Accounts
- 3-5 years, trending in the right direction sales and profit
- Get Accountants to do this
- To have accurate records, GST, invoicing etc. Buyers may want these
- Be able to verify extraordinary items like
 - One of bad debts,
 - Big changes in an expense item,
 - Loss of a client that impacted revenue

✓ **Tidy records, that can stand intense scrutiny**

- Back to source documents, invoices, GST returns, bank statements
- Keep tidy Debtors; Plant, Stock & Intellectual Property **Registers**

- ✓ **Mitigate financial exposure**
 - Cash flow
 - Exchange rates (depending on volatile currencies)
 - **Depending on few large clients, or suppliers**
- ✓ **Stock and plant, debtors**
 - In good order, relevant to size and style of business
 - Understand book value vs marketable value
- ✓ **Know your competition and how you rate,**
 - What is their reputation and yours and why
- ✓ **Customers**
 - Broad and diverse
 - No dependent on one
- ✓ **Opportunities**
 - Be ready to share potential opportunities that you have not been willing or able to exploit
- ✓ **Industry**
 - What's unique about your products or services, differentiators, value prop
 - Public perception, growth potential
 - Market Share
 - Is it high or low, can it be grown or is it sunrise or sunset
- ✓ Barrier to Entry - how easy to lock out new competition
- ✓ Business for its size average profits and increasing in turnover

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HOW TO MITIGATE RISKS

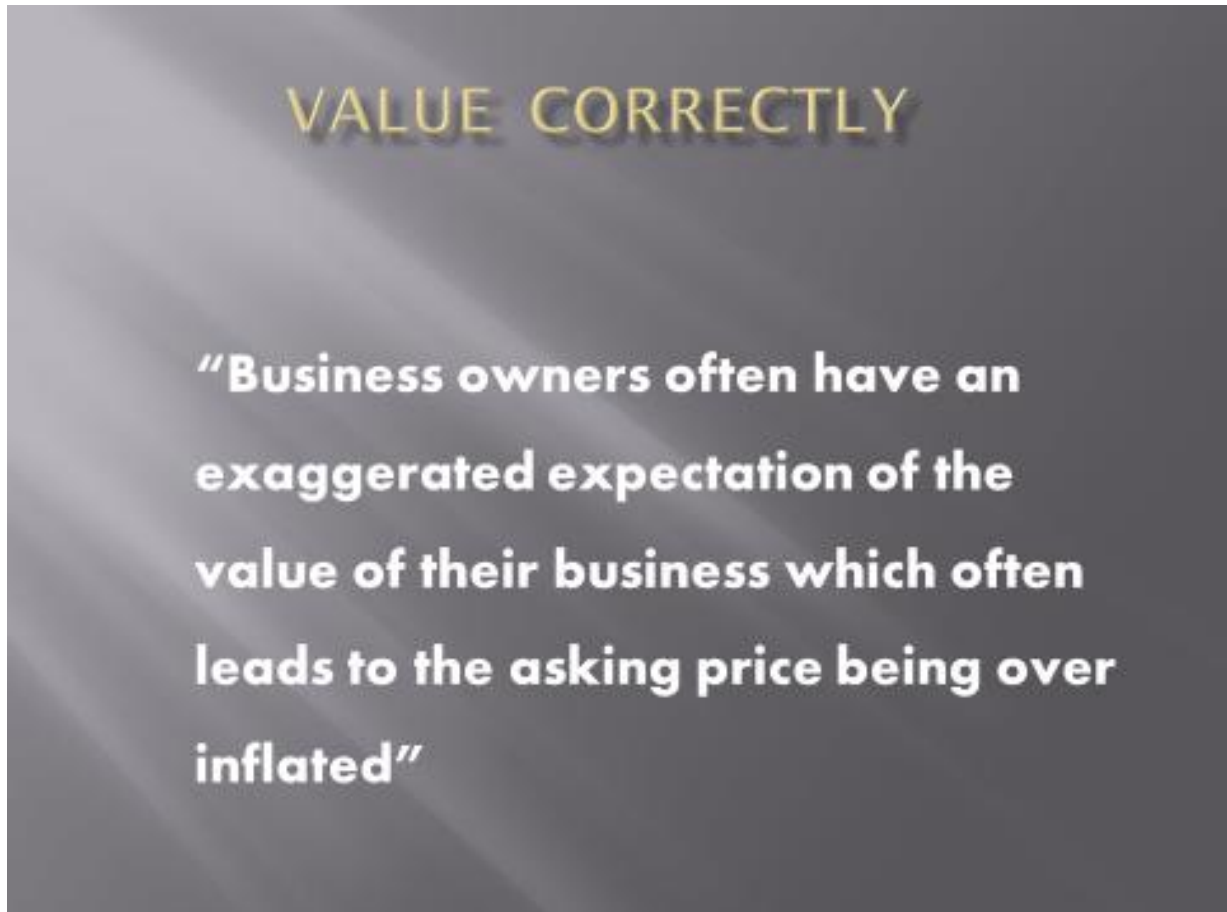
7. **Clear branding/marketing**
8. **Clear Agreements**
9. **Documented systems & processes**
10. **Industry risk (sunrise or sunset)**
11. **Information technology**
12. **Intellectual property, patents, copy rights, restrictions, royalties**

- ✓ Clear branding & marketing strategies (position on Google search)
- ✓ Not confusing, less is often more
- ✓ **Clear Agreements**
 - Lease, provisions, review renewal
 - **Especially if business depends on location**
 - Customer Agreements
 - Supplier Agreements
 - Exclusive Agencies
 - Sales, Marketing Rebates
 - Distribution agreements transferable and assignable
- ✓ **Documented Systems & Processes**
 - Checklists
 - Standard operating procedures
 - Job descriptions
 - Operation manuals
 - Production planning
 - Current costing sheets
 - Estimating
- ✓ **Information Systems**
 - Kept current, maintained and used, cost higher than the value
 - Intellectual property – i.e. software developments,

- Ideas, Patents copyrights restrictions loyalties – registered and documented

THE NEXT THING TO DO IS GET IT VALUED CORRECTLY BY THE EXPERTS.

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Get it valued by an expert

- ✓ Selling your business is about finding a willing buyer and a willing seller to transact at a fair price.
- ✓ Many others will have an opinion on
 - Who or how it's valued (asset, earnings, market, hybrid)
 - Its value
 - Who is a likely buyer is
- ✓ The biggest contributing factors to no sales
 - Business owners have higher expectations of value than the market does
 - The asking price is over inflated
 - Or dismissive of who he potential buyers might be
- ✓ Financial / Investor
 - Most common and most motivated

- Driven by return on investment
- ✓ Strategic Buyers
 - Corporate, equity groups
 - Driven by market share
- ✓ Employment/ Lifestyle
 - Buying a job or an interest/experience
- ✓ Family /Employee / Partner
 - Similar financial /investors
- ✓ Should still go through same process

NOTE: Sometimes Accountants and Lawyers will provide their opinion on the value of a business, they may include all assets and liabilities, or use some other process. Be careful - Apples with Apples. Make sure you understand the approach used.

Who wants to buy your business

- ✓ As said previously don't limit yourself on the potential buyers or let your ego get in the way, ie "it's a complex business", it needs someone with "my technical expertise "

LETS MOVE ON TO WHO SHOULD BE ON YOUR BUY/SELL TEAM

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GET A GOOD TEAM

1. **Accountant**
2. **Solicitor**
3. **Business Bankers**
4. **Business Broker**

**REMEMBER: you don't get your GP
to do your Dentistry**

Don't confuse what each profession specialises in, build your own team of support specialists

Get the right team who will help you sell your business. Accountants, Solicitors, Bankers, Brokers are not created equally.

✓ **Accountant**

- Prepare the required financial statements
- Assist with due diligence process AND provide tax advice, e.g.
- There is no capital gain of selling a business unless you are deemed a business trader
- There may be a tax on depreciation recovered
- Trusts, etc.

✓ **Solicitor**

- Advise on legal documentation and agreements
- What might be the right/ best company or business structure to facilitate the sale,
- Be careful if you are selling shares in a company
- Trusts, etc.

✓ **Business Broker**

- Access to a large client base of prequalified buyers
- Navigates a minefield of steps in the process and negotiations
- Protection of confidentiality and NDA
- Correctly valued, professionally presented, efficiently marketed

- Can create a competitive atmosphere amongst buyers
 - Assist with evaluating offers
 - Assist with creating a suitable financial structure
 - Identify the “right moment” to close the deal
- ✓ **Business Bankers**
- Help facilitate a smooth transition by assisting the buyer with banking arrangements

SO WHAT IS A NORMAL SALES PROCESS

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- ✓ **Initial Appraisal;**
- 3 yrs Financials
 - Current schedule of assets/liabilities
 - Lease arrangements
 - Your perception of business pros and cons.

- ✓ **Valuation:**
 - Analytics on Financials
 - Consideration of other factors
 - Comparison of statistics of other similar businesses sold
 - Valuation method – 3 main methods
- ✓ **Agreement on listing price & any specific requirements:**
 - Listing agreement: normally on a Sole agency for minimum of 6 months
- ✓ **Information Memorandum**
 - Full disclosure of relevant facts and information
 - Last three years profit and loss accounts
 - Last trading year balance sheet
 - Current trading year Financials
 - Projection for future years
 - Monthly sales figures for last 24 months
 - Overview of the business
 - A copy of the terms of lease
 - Any other important information about your business
 - To produce a powerful marketing tool
 - Provided to qualified buyers under an NDA
- ✓ **Marketing Plan Discreet Advertising - NDA**
- ✓ **Qualifying prospective Buyers - NDA**
- ✓ **Contract for Buy/sell agreement – conditional agreement**
- ✓ **Due Diligence**
- ✓ **Negotiations**
- ✓ **Between unconditional and possession date**
 - The stocktake
 - Verifying the Plant and Equipment

HOW LONG WILL IT TAKE TO SELL

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HOW LONG TO SELL?

1. **The readiness of your business for sales**
2. **Satisfying the due diligence process**
3. **Time to possession and settlement**

Average is six months to sell a business

- ✓ On **average** it takes **six months** to sell a business
 - ✓ The readiness of your business for sales - getting your ducks in a row
 - ✓ Finding a “qualified” buyer - Satisfying the due diligence process
 - ✓ Time to possession and settlement
 - ✓ Terms and conditions of sale
 - ✓ Earn outs, golden handcuffs
-
- ✓ **The best way to sell a business is**
 - Realistic price – based on professional valuation
 - Make it easy for buyers to see what he is buying and its potential
 - Keep the sell/buy transaction simple

MARKET CONDITIONS

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CURRENT MARKET CONDITIONS

The Dangers of Waiting



1. **Property - Equity finance**
2. **Interest rates – Debt finance**
3. **Diversification - Property uncertainty**
4. **Immigration – Buy a job**
5. **Globalisation – Jobs disappearing**
6. **Foreign policy - Safe haven**
7. **Baby boomers – Supply**

- ✓ New wealth in property - equity finance
- ✓ Record low interest rates – debt finance
- ✓ Baby boomers reaching retirement - supply
- ✓ Diversification - uncertainty about property as an investment engine
- ✓ Immigration at record highs – buy a job
- ✓ Globalisation – middle management disappearing and buying a job
- ✓ Foreign Policy – foreigners getting money out of their home country Looking for low risk markets – tangible assets, regardless of profitability

SUMMARY

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SUMMARY

1. **Think of your business as if you are always preparing it for sale**
2. **Remember there are several "D"'s why you may need to sell be prepared for them.**
3. **Good Operational Mgmt - focus on reducing any perceived risks, maximising net profit keeping operating expenses to a minimum**
4. **The more transferable (de-risked) the more valuable your business is**

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"When ever you see a successful business someone once made a courageous decision...."

Peter F Drucker

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RICHARD JACOBS

Business and management consultant, diverse expertise across a wide spectrum of business enablement

- Sales training and change management
- Technology enablement and business processes
- Development of people and business culture

Associate - Tabak Business Sales

- Specialist Business Broker

Associate - TBK Capital

- Boutique merchant banking
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