

## **The Secrets of Preparing your Business for Sale**

**By Robert Willis, Partner – CST Nexia Ltd**

Baby boomers, that group of people born between 1946 and 1964 and today typically aged between 41 and 59, are becoming very active in cashing in on their life's work, often selling their businesses to take early retirement. Some of these businesses are worth a fortune, and for every business up for sale by a retiring baby boomer, we estimate there are 2-4 others who are waiting to snap them up.

It has been said that the reason you start a business is to sell it, so preparing a business for sale is therefore critically important to achieve the best sale value for its owners. However the process of planning for sale is usually quite involved, and it is essential that it is thought through carefully to present the business for sale in the best light.

CST Nexia has extensive experience in preparing businesses for sale, and over the past 18 months alone, we have advised 12 clients who were selling their businesses and achieved a total gross enterprise value of over \$220 million.

This process is called Succession Planning, and should start up to 5 years before the business is sold. Planning for what is essentially a change of ownership has many dimensions and involves coaching the client through the process by having them address a variety of management issues, business structures, and presentation of the business for sale.

Most clients will have some sort of idea who is likely to buy the business, as many are trade sales to someone else in the industry looking to buy turnover, and remove a competitor. Other businesses will sell to staff, called a management buyout. Private Equity funds in recent years, have bought many businesses with solid earnings histories and growth prospects. Some businesses on the other hand will be passed to the next generation, not always with a successful outcome.

Our experience is that these purchasers pay good money for well-structured and well-run businesses. They will carry out extensive due diligence to identify risk factors in your business and

it is those risk factors we work on during this 5-year planning process to give the purchaser as much comfort and certainty as possible.

Most business people have never sold a business before, which is why calling in the experts is the right move to ensure the outcome nets the highest possible value for the business owner. Part of the planning process is to include the right advisors at the right stages, where a business broker is generally the last person we call, if at all.

Some of the issues that require attention include:

- Review of the business structure, removing non-business assets, expenditures, and debt. Essentially a tidy up of the balance sheet, auditing the financial statements if necessary
- Prepare documentation as to processes and procedures in your business and inventories of assets. Identify and register intellectual property associated with your business. Prepare and implement employment policies. Prepare a strategic plan as to the companies 5 year plans. Identify and document all contracts and business relationships.
- Have the business valued to create an expectation as to what it is worth now, or in the next 5 years, as you identify the best time to sell.
- Develop strategies around profitability, growth, systems, staffing and structure. Leave no surprises for a purchaser. Minimize their risk.
- Involve other advisors, such as lawyers, bankers, and business brokers who can create value.
- Prepare an information memorandum about your business, to tempt those purchasers of your business you have identified.

So begin with the end in mind when it comes to operating your own business and start planning as soon as possible. Many business purchasers will approach you wanting to make a strategic acquisition - be prepared. A significant portion of the sale proceeds will be goodwill, which is generally a reflection of profitability and growth. Focus on these areas.

We at CST Nexia have the experience, depth of knowledge, and contacts to work with clients for succession planning. Contact any of the Directors to make a time to discuss your own future business needs.

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