

When is the best time to sell your business?

One of the most overlooked questions by any business owner is "When do I get out of it?" It's something every business owner needs to know and plan for.

Being prepared with a sound exit strategy means you can enjoy your business ownership, secure in the knowledge that you'll be able to leave when you're ready, not because you have to.

Part of every business plan should be an estimate of your time in the business.

Are you in it for five to ten years with the idea of selling out for a profit at a predetermined time? If so, you need to have a good idea of the time you want to sell and the price you expect to get.

Your departure from the business might be accomplished in phases. It's often a big help to selling a business if the former owner is willing to stay around in a defined capacity while the new owner



acquires an in-depth knowledge of all the systems and processes.

This can also help you make a gradual

adjustment if you're retiring or planning a 'holiday' from owning a business for a time.

Remember too that circumstances can change. You might want to sell out well before you'd intended, or even that you want to stay on for a longer period than you anticipated.

You always need to keep the books up to date using comprehensive management reporting systems to run a business properly.

A big added benefit is that this will facilitate the valuation and due diligence processes in a sale.

■ Refer to article on page 2 about planning for retirement

Welcome

Welcome to the first edition of our newsletter for 2007.

Selling or buying a business doesn't have to be a challenging experience. It can be a positive part of making progress to an eventual goal or a way to take advantage of new opportunities.

In this issue we discuss the importance of timing in selling a business. We tell you how important profits and cash flow are to prospective buyers and how they can affect your retirement plans as well.

What is 'due diligence'? Whether you're the buyer or the seller of a business, you need to know all about this complex topic. We also talk about the need to keep it quiet when you're selling a business.

Our twenty years of experience matching business sellers and buyers has given us a wealth of knowledge that we're pleased to communicate to you in these pages, including six ways to ensure that your business fetches full value when it's sold.

Whether you want to sell a business or acquire one, we're always pleased to share this expertise with you.

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Profit and cash flow can affect your retirement planning



By Paul de Rome

It's fairly easy to set a date for leaving your business, whether it's based on family needs or simply on the number of years you've been holding down the CEO's position.

It's also pretty straightforward to anticipate how much income you'll need in retirement, although experience shows that most retirees find they need more than they originally anticipated, so always include a contingency in your estimates of the income required.

You can also make a calculation of how much your company will be worth when it's marketed, and hopefully have worked through all the financial implications with your financial advisers.

As an experienced business owner you'll have an appreciation of profits and cash flow. They are referred to as the 'lifeblood' of a company and rightly so, as they will also have a bearing on when you can actually retire from your company.

The first consideration when you're looking for someone to buy your business is that they'll be looking carefully at its profit and cash flow.

The profit and cash flow generated by the organisation are what give the business its real value. To put it another way, buyers of SME businesses are reluctant to pay for 'blue sky' or 'potential'; what they purchase

is the reliability of a machine that makes money.

It's profit and cash flow that will enable the buyer to justify to themselves, their advisors and bankers how much to pay you for the business. It's equally important if you're selling out to employees or expecting a member of the younger generation to take over and provide an income flow for years of retirement.

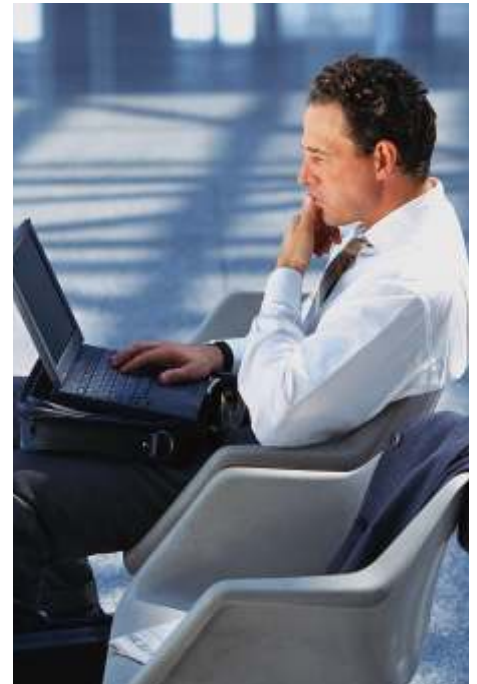
The maintainable level and transferability of the profit and cash flow to a buyer is the link between the date of your retirement and your income in retirement because it underwrites the sale price of your business.

When you look at the businesses' financial position from this perspective it may well be that things aren't quite as they seemed back when you decided 65 years of age would be old enough or 25 years would be long enough.

Not attractive enough?

If the businesses' profits and cash flow won't be sufficiently attractive to prospective buyers to get the price you need to fund your retirement, you may then have to do one of the following:

- Set a later retirement date
- Phase out your departure from the business more slowly
- Find a purchaser with cash instead of financing a relative into the business
- Find ways to increase the value of the business so it brings a higher sale price



- Reduce your retirement lifestyle expectations

An owner needs to understand the value of their business at its current profit level, the risks of the business and what its present market value is to decide if a sale at this value is sufficient for their retirement needs.

- *Jamieson can help you with pre-sale assessments for this purpose, and can also help you monitor that the business stays on-track for your preferred sale timing and price outcome.*

Business Opportunities

Occupational Rehabilitation Management

Well established injury and wellness management practice. Provider of services for insurer panels and direct to employer groups. Experienced team of staff, good systems and programs, can be operated under present management. Annual income over \$900,000. Owner will provide transfer assistance.

Fish, Biofiltration, Pond Equipment, Waterplants and Accessories

Supplies a large variety of koi, goldfish, tropical and native fish, waterplants, pumps and filtration media, ponds and all associated equipment and accessories to the retail and wholesale market.

It is situated in a purpose-built facility with an attractive shopfront, beautiful display ponds and landscaped gardens. Current year return to owner approx \$270,000 (forecast). Price \$750,000.

Radio Communications Sales and Service

Thriving regional two-way radio business also selling mobile phones and GPS systems. Sales \$2.5m with broad customer base. Preferred supplier to government departments.

Market serviced covers large part of NSW. Purpose-built premises, fully equipped electronics workshop. Large vehicle

installation area. Normal return to owner-operator \$400,000pa.

Distributor of Educational Products

Profitable education market importer/distributor is the leader in an important niche.

Holds exclusive licences, serves national market with strong repeat customer base. Long history of continuous, growth and profitability.

Return on sales exceeds 20%. Suitable for home office. Minimal investment required in stock.

- *Refer to our website for more Business Opportunities*

What is this thing called 'Due Diligence' anyway?

By Rodger Williams



You've probably heard about 'due diligence' when a business is being sold or taken over and wondered what it meant.

If you want to sell or buy a business of your own you'll certainly need to know just what due diligence means and how it's applied.

In its simplest form due diligence is a comprehensive process that investigates a business to assure the intending purchaser that all facts and financial figures are as stated by the vendor and that there are no unpleasant and unwanted surprises that have been concealed.

Due diligence is a part of every business sale or purchase, regardless of the size of the enterprise.

The more complex the business is, the longer the due diligence is likely to take, but today's purchasers shouldn't sign a purchase contract for a business until due diligence has been completed.

Is this a good business?

Due diligence is conducted to answer a number of questions, including whether the timing is appropriate for the purchaser to buy and why the vendor is selling the business.

Some businesses have peaked and are starting to slide which might make them affordable but also means they aren't capable of improvement and represent bad investments for purchasers.

How are its finances?

Every business for sale comes with claims of turnover, expenses and profitability, but how can the purchaser know that these are accurate representations?

Due diligence inspects the books of the business including tax records for up to the previous three years to validate or challenge claims by the vendor.

Who are its customers?

Due diligence will examine all existing contracts and sales agreements, and if necessary introduce new agreements to



carry customers over to the new owner.

It will also verify claimed purchase levels of key customers and evaluate their growth potential if required.

What's the condition of the premises?

The acquisition of most businesses involves taking over premises, usually ones that are being leased by the former owner.

The due diligence process looks at the condition of the premises so that the purchaser is aware of the potential need for repairs, and investigates the terms of the lease to ensure it's sufficiently long and the rental amount is appropriate.

Is it compliant with legislation?

Due diligence will identify all those permits required by the business being offered for sale and ascertain whether the company is in full compliance.

It will also examine proposed or pending legislation to ensure that no changes to the regulatory environment will affect the business.

How good are its people?

People are essential to most businesses. Due diligence examines the staffing of the

enterprise and whether the people now in the business will remain there under the new owner.

It also considers any need for redundancies of existing staff and the estimated cost to the business.

What's the IP worth?

Due diligence will establish the validity of all intellectual property that is included in the sale and ensure that it is transferred along with the other assets being bought by the purchaser.

How does the ownership change?

Due diligence will establish whether the outgoing owner needs to remain with the business for a period of time to assist the new owner, and determines an appropriate length of time in which the previous owner is 'locked out' of competition with their former firm.

Due diligence is an essential yet flexible process that every purchaser needs to understand and incorporate into the acquisition of a business.

It normally takes place after an offer has been made and accepted, but it can be used to help the purchaser determine the most appropriate price to pay for the business.

Keep it quiet when selling a business!

Once an owner decides to sell a business it's not always a good idea to tell the world immediately.

There are many issues that require careful consideration so that the value of the business remains unaffected while the sale process is carried out.

A business known to be for sale raises suspicions among several important groups of people. Employees wonder about job security and may look for new positions.

Suppliers become concerned about getting paid for their latest invoices and can tighten credit terms. Competitors reach for their phones to contact every customer of the business they know of to offer an 'unbeatable deal' to change supplier.

Nothing spreads quicker than the news that a business is for sale, and it can become a real problem for the vendor as well as for the agent handling the sale transaction. It can certainly make it difficult for the buyers and advisors to establish the fair market value of the business.

Extreme care

All parties involved should take extreme care to keep the fact of the business being sold a secret. Information disclosed by the



owner must be treated as highly confidential and will not be released unless the owner's permission has been received and the advisor feels it can be made known without compromising aspects of the sale.

Professional advisors are rarely the source of leaks about a business coming onto the market.

It's too important for their professional standing to put at risk their ability to keep

things under wraps until the appropriate time.

The problem can usually be found in the buyer's or seller's ranks.

One important safeguard is that the name of the business should not be mentioned in the context of marketing it.

Instead, an accurate summary of the key points about the business is used to capture the attention of prospective purchasers without giving away enough to allow the identification of the seller.

Confidentiality agreement

Prospective buyers can be asked to sign a confidentiality agreement (also called a non-disclosure agreement) before any further details are revealed.

The list of prospective buyers will be carefully checked so that direct competitors can be identified and won't benefit from some critical market knowledge.

The underlying aim of all this secrecy is to retain the value of the business as a going concern, and that includes the stability of its employees and the company's position in the market.

6 ways to ensure your business fetches full value

There are many errors committed by businesses that can reduce their appeal to prospective purchasers. These are the 6 most common.

1. Understand cashflow management

No matter how much money you're making 'on paper' you need real cash to pay the bills. Income and expenditure cash flows rarely coincide, with inflows often lagging behind.

Many regular cash outflows such as salaries, loan repayments and taxes, must be made on fixed dates.

The business must always be in a position to meet these payments so that it avoids angry creditors or a disgruntled workforce.

2. Keep records up to date

Every business needs to keep relevant and accurate records. These can include equipment maintenance histories, personnel information, and information related to your income and costs of business.

Without these records a purchaser has no way of really knowing how the business is performing or what areas need attention.

3. Minimise inventories

Inventory is an expense, and having too much stock on hand can make a business hard to sell.

Keep inventory levels high enough to meet anticipated demand, but keeping extra on hand 'just in case' can lead to excessive stock no purchaser wants to buy.

4. Collect outstanding debts

Nobody likes to hassle customers but unless you have a systematic plan for collecting outstanding amounts and make sure it's carried out you'll wind up with debts that have become too old to collect.

A prospective purchaser will always look at the businesses' customers and their payment histories. Have a credit policy and enforce it.

5. Delegate work

The less you're doing to personally run the business the easier it is to sell it. Turn as much of the work as possible over to your employees and give them the abilities to do the job.

You also want to eliminate any perceptions that the businesses' relationships with clients or customers are personal in nature.

An incoming business owner will need time to work ON their business. If they have to spend too much time working IN it there's not going to be enough time to develop the business and make it grow.

6. Keep costs under control

Costs have to be controlled regardless of how much money the business is bringing in. Purchasers want to buy a business that has already achieved a consistent level of profitability enabling it to stay in business.

A business that has consistently low profits relative to its competition is headed for a 'fire sale' and won't bring a premium price, regardless of its turnover.

About Jamieson Corporate Services

For over 20 years Jamieson Corporate Services has provided business valuation and broking services to owners and managers of private businesses.

Our principals are licensed as business agents by the NSW office of Fair Trading.

The firm is a member of the Australian Institute of Business Brokers and the Real Estate Institute of NSW.

Further information is available from our website: www.jamiesons.com.au.

If you don't want to receive further copies of the newsletter please notify us at info@jamieson.com.au and your name will be deleted from our mailing list.

This newsletter is intended to provide general information only and is not to be construed as financial or legal advice. Before making investment or divestment decisions independent advice should be sought.

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