

# TIME TO EXIT?

FIND OUT **WHAT YOUR BUSINESS IS REALLY WORTH**

AS 2012 HERALDS ANOTHER TOUGH YEAR FOR THE REGION'S OWNER MANAGED BUSINESSES, MANY BELEAGUERED BOSSES MAY BE TEMPTED TO SELL OUT AND SAIL OFF INTO THE SUNSET. BEFORE DOING SO, **ANDREW COATES**, OF STRATEGIC CORPORATE FINANCE, EXPLAINS WHY ROBUST PLANNING AND TIMING ARE KEY TO REALISING THE TRUE VALUE OF YOUR BUSINESS.

**A**s tempting as it might be to jack it all in, pack a suitcase and jet off to a sun-soaked beach for an indefinite period, ensuring your company is in peak condition - which could take as much as three to four years - is vital if you have plans to sell.

Having made the decision to exit, it is vital that you are aware that every major business decision you make has the potential to either enhance or suppress the value of your company. The importance of talking to the best advisers, who will guide you through the fundamental actions required to ready the business for sale, cannot be understated.

Never forget that the financial health of the firm is your strongest selling point and will be put under a microscope by potential buyers in the due diligence process.

Your buyer's accountants will examine accounts for the past three years; monthly management accounts over the same period and through the current trading year; the most recent balance sheet; and financial projections for the next 12 months.

Timing is critical as a quick sale may produce quick cash - but maybe not the amount you are seeking - whereas waiting until the last possible minute can trap you in the wrong deal. Getting the timing right is not just about how the business is performing and what you want - it also entails pre-empting factors affecting potential buyers' ability and appetite to complete an acquisition. This can include deal activity in the sector, general economic sentiment towards the sector and lenders' appetite for the sector, particularly if the buyer needs to raise finance.

The majority of shareholders and directors often have a 'magic figure' in mind when it comes to the value of their business. However, it can often bear little relation to the commercial reality because it is based on perception rather than widely accepted commercial, financial and business specific factors.

Believing that the value of your company is far less or far greater than it really is, and



misunderstanding the factors driving its value, increases the potential for making ill-conceived strategic or business investment decisions which reduce the price that a purchaser might eventually pay.

Shareholders are often so close to their business that they can be blind to how negative issues, such as a weak second tier management team, heavy reliance on key customers or on themselves - coupled with the threat posed by competitors - can impact on the value.

Conversely, inherent factors such as a market-leading position, quality customer base, patent protected products and unexploited sales opportunities could be strategically important and valuable to a potential buyer - and can unwittingly be underplayed by shareholders.

Factors driving and suppressing value will be unique to every company and will change over time, so comparing the price paid for a competitor in the past may be a misleading indicator of what a future purchaser will offer.

Discovering your company is worth much more than expected can accelerate the timing of a sale. However, knowing that the

value is much less than anticipated - coupled with an understanding of the factors behind the value - gives you time to implement a plan of action for improving its 'saleability'.

Even if you think you know what your business is worth, don't leave it too late to find out if you're right. Being equipped with the knowledge about the current value and desirability factors, coupled with taking time to address key issues, will maximise your chances of obtaining the best price when you do eventually sell.

At such a formative period, surround yourself with the best professionals who have amassed the expertise to do the deal and who can provide three key services:

- Early valuations (current and what could be possible)
- An exit plan of action highlighting fundamental business issues to be addressed before marketing the business for sale
- Coaches/mentors to help deliver the action plan and prepare the company to be ready for sale.

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