



How to prepare your business for sale

Jeremy Streten explains the importance of having procedures in place in the event that you are forced to sell your business. Neglecting this plan could result in selling the business for less than what it is worth.

Do you know when you want to sell? Are you prepared for something to happen to you in your company that may force you to exit your business? Usually the answer to these questions is a resounding 'no'. If you are in business you are doing everything you can to keep your head above water, service your customers or clients and bring money into your business.

Preparing for the sale of your company is a vital aspect of any business owner's journey. It is so often something that is missed. It is for this reason that I have developed the Business Legal Lifecycle, which is a framework for business owners to understand what they need to do in business and when they should take those steps.

Why is this important?

In any business that you operate you need to keep the goal and the end in mind. The fact is, that most people usually do not know what their end goal for the business is. Having an idea of the general direction and an end goal in mind (that may change in the future) is vital for the success of your business. As a business adviser, I have seen countless examples of business people who are operating successful companies who are stopped in their tracks: they (or a family member) become sick or they might lose the passion for what they are doing. If this occurs, then usually you will want to sell the business.

In my experience it can take two years from when a business owner decides that they want to sell until the business is in a position to be sold for the best possible price. This means that if something happens to you and you have not considered any of the sale of business factors, then you could be left selling a business for a lot less than you thought it was worth. During the operation of your company, there are many things that you can do to ensure that your business can be sold for the price that you deserve.

What are people looking for when buying a business?

It is important to understand why people buy businesses and what they look at for. Unless you have some great product or service that can be exploited, then generally a business will be valued by a multiple of their earnings. There will be a figure that the business owner takes that is



profit (often called EBITDA – Earning before interest, tax, depreciation and amortization) and a sale price is calculated as a multiple of that figure. Often other costs such as the value of plant and equipment can be added to the business.

What do you need in place?

There are many factors that need to be considered before you sell a business including:

- Firstly don't take cash for your income; make sure you record all of your income through your books. All too often business owners think they are clever in taking cash for their income to save paying the tax on the income in a single financial year. In doing this you save yourself the tax - say 30c in the dollar. This may be great in the short term, but due to the fact that the money is not in the official books, it will not count towards your EBITDA referred to above. This means that if the sale price of the business is based on say a 3 or 4 multiple of EBITDA when the purchase price is calculated, you will lose \$3 or \$4 per dollar of earnings that you take as cash from the eventual sale price. I have seen examples where this has cost business owners hundreds of thousands of dollars;
- Secondly, not having your legal documentation in place, for example
 - How do you engage with your clients?

- Do you have a debt collection process to ensure that the cash flows properly through your business?
- Do you have staff? If so what agreements do you have with them?
- Have you protected your intellectual property for example do you have a registered trademark or patent?
- If you lease premises, is it a commercially viable lease and is it properly documented?
- Is there any litigation that the business has been involved in?

Obtaining the advice of your consultants on all of these aspects of your business are critically important in preparing a business for sale. You may think that it will never happen to you but it is important to understand that if something goes wrong you may have to sell quickly and it is important to understand what you need to have in place.

Jeremy Streten is Director of Qld-based law firm Streten Masons Lawyers. Streten Masons is an innovative law firm with progressive attitudes which gives accurate and comprehensive advice to clients in order to obtain the best possible outcomes. Jeremy is the author of the Amazon best-seller "The Business Legal Lifecycle" - a guidebook designed to help business owners understand what they are doing in their business from a legal perspective.
 Phone: 1300 000 529
 Jeremy@smslaw.com.au
 http://smslaw.com.au