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The guide to selling your business



BDO Stoy Hayward

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This booklet is written as a general guide and is not a substitute for professional advice. You are recommended to obtain specific professional advice before you take any action.

Case studies have been used where appropriate to illustrate the way in which such transactions work. In all cases, names and values have been changed in order to preserve client confidentiality.

Introduction

Selling your business is one of the most important decisions you will ever make. For many business owners, whether entrepreneurs or management teams, it will be uncharted territory: it may well be the first and only time that you sell a business. You have invested considerable time and effort in building your business and its sale probably holds the key to a secure and comfortable future.

Many owners find, in retrospect, that the sale of their business was far more emotionally demanding, stressful and time consuming than envisaged at the start of the process. Despite being successful business people and because, usually, they have never sold a business before, they have little idea of what to expect.

We have prepared this guide with people like you in mind. It gives an overview of the corporate finance issues involved in a sale, covering:

- making the decision to sell
- how to groom your business for sale
- valuation issues
- the sale process.

Experience has shown us that owners who approach the sale process in a controlled and structured way are far more likely to achieve good results.

The key is to seek professional advice at the earliest possible stage. This will enable you and your advisers to plan the sale process fully and identify any grooming issues well in advance so that the business is presented to the market in the best possible light. This proactive approach will be rewarded in terms of both a smoother sale process and a better deal.

Like most entrepreneurs, you see the sale of your company as the ultimate reward for the risk you have taken and the effort that you have put in.

Making the decision to sell

Why might you consider selling your business? Perhaps you want to realise some capital for investment or retirement. You might have received a tempting offer. The next stage of growth for your business may require additional capital which either you are reluctant to invest or unable to raise from your existing financial sources. Your fellow shareholders may be keen to realise their investment. There may be no obvious succession or perhaps running the business is simply less challenging or rewarding than it used to be.

Needless to say there will always be a number of factors to consider in making the decision to sell. Many of these may be outside your control. The key here is to know exactly why you are selling. The sale process is demanding, so it is important to understand and agree your motivations from the outset before the process commences.

Whatever your reason for deciding to sell, probably the most important objective is to achieve the highest price for your business. Like most business owners, you see the sale of your company as the ultimate reward for the risk you have taken and the effort that you have put in to the business over the years.

Is now the right time to sell?

You might think twice about selling if the economic situation is uncertain. It is true that general economic conditions should influence your decision. However, the stage of development of your business and the dynamics within your industry sector are likely to be even more important factors. Remember, there is always a market for quality businesses. Here are some key issues to consider:

The Private Company Price Index (PCPI)

Devised by BDO Stoy Hayward, in conjunction with *Acquisitions Monthly*, the PCPI benchmarks the relationship between public company multiples and those achieved on sales of private companies. The price/earnings ratio (p/e ratio) is calculated for private company sales and the average forms the PCPI.

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The PCPI is tracked against the average p/e ratio for the FT Non-Financials constituent quoted companies. On average, private UK companies are sold at discounts of between 20 per cent and 40 per cent to quoted public companies. The PCPI discount exists due to inherent differences between quoted public companies and private companies, such as size, liquidity and risk.

The PCPI is generally recognised as the most authoritative source for establishing trends in private company values by practitioners in the market, including the Inland Revenue and other leading accountancy firms. Contact your local BDO Stoy Hayward business centre or visit our website (www.bdo.co.uk/pcpi) for the most recent PCPI publication.

The private equity market

The quantum of money raised by the private equity industry has resulted in significant funds being available to acquire or invest in the right businesses. It is likely that private equity firms, acting as financial buyers of businesses, will be approached in parallel with trade buyers when your business is sold. Financial buyers are normally more than willing to enter sale processes and are often highly competitive in terms of pricing and creativity of deal structure.

The tax environment

Aspects of the tax regime which may affect the sale of your business include:

- Capital Gains Tax (CGT): the taper relief regime means you could pay an effective 10 per cent on your capital gain on the disposal of qualifying business assets after just two years of ownership
- substantial shareholdings: the CGT exemption on the disposal of qualifying substantial shareholdings in subsidiaries may be an incentive for you to sell part of your business
- intellectual property and goodwill: an acquirer can gain tax relief on the amount they spend on intellectual property and goodwill.

Note that while you will probably want to sell share capital to take advantage of either of the first two exemptions, the tax deduction available on intellectual property and goodwill is an incentive for buyers to structure the deal as a trade and assets purchase.

Timing

Bear in mind that a typical sale process will take six months to complete. Where possible you should try to predict the optimal sale date and work the timetable backwards to ensure best value. We recommend you contact a corporate finance adviser to discuss timing issues specific to your business in more detail.

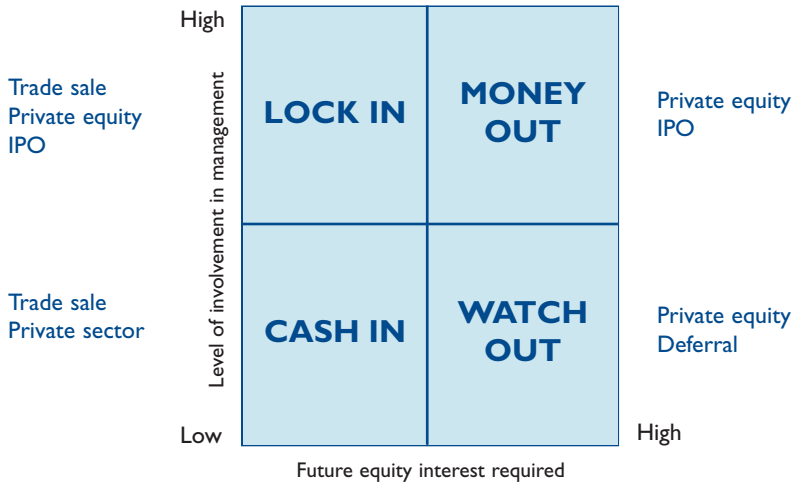
Your options

Your preferred routes may be a trade sale or a sale to a private equity acquirer. Of course there are other options, such as a flotation. The diagram on page nine charts your available options by reference to two key factors:

- the actual and perceived level of involvement of the owners in the management of the business
- the level of the owners desire to retain an equity stake post deal to participate in the future growth in value of the business.

In each case it shows which routes are appropriate – and which to avoid.

Exit options



LOCK IN = you take part of your consideration on the sale but are 'locked-in' through an earn-out mechanism which delivers the remainder of the sale consideration over a period after the deal by reference to agreed targets. You remain key to the running of the company but you are no longer a shareholder.

CASH IN = you cash in your equity at the time of the sale and have no ongoing equity interest, or management involvement, in the business.

MONEY OUT = you make some money immediately from the transaction but you also stay with the business and continue to be a significant shareholder, thus benefiting from future growth.

WATCH OUT = with little involvement by you in the management of the business but a significant equity interest in its performance, you are heavily reliant on your management team for your future wealth. Your equity interest in the business may not be well aligned with your level of control over your investment.

Grooming the business for sale

You have established that you want to sell but how do you achieve the best deal? As with the sale of any other asset, some preparation may be required to present the business so as to maximise value.

It is important to take a critical look at your business and identify any areas of weakness which a buyer could potentially use against you during the sale process. These may be obvious to you or it may be difficult to recognise where these lie so an open discussion with your advisers is recommended.

The objective here is not simply cosmetic enhancement but real operational improvement if necessary. This could require considerable effort and discipline and may not be something that can be completed within the timeframe of a normal run up to a sale.

Not all private companies will require such grooming. The relationship between effort and reward should be your guide. Below are some of the key questions to ask yourself as you prepare your business for sale.

Strategic issues

- Do you have an effective strategy for future growth and can you communicate it clearly? Ideally, you need to produce robust and reliable projections that the business continues to meet throughout the sale process. You should target completion of the deal at the time at which there will be a fair degree of certainty of the business meeting or exceeding these projections.
- Do you have an effective system of internal financial control?
- To invest or not to invest? Deciding whether to incur significant capital expenditure or discretionary spend, such as marketing costs, in the run up to sale is always difficult. A sensible approach is needed and you should continue to run the business as if you were going to continue to own it in the future. If buyers feel remedial investment is required they will want this reflected in a reduced sale price.

People issues

- You may be involved in the day-to-day running of the business, including winning and retaining new business. If this is the case it is likely that the purchaser will want you involved with the business for a hand over period post sale. The length and terms of such a hand over period are obviously subject to negotiation and will reflect the perceived level of your involvement and value contribution to the business.
- Develop a strong first and second-tier management team. This greatly enhances the value of a private company and helps demonstrate that you are no longer critical to the business, thereby reducing the buyer's investment risk.
- Agree bonus or share incentive schemes to encourage your management team to help with the sale process and to keep them focused on growing the business. Do this well in advance of a sale. Seek professional advice on an appropriate structure and ensure that there are timing and performance criteria – it is important to the acquirer that your management team has an incentive to continue beyond the sale itself.

Legal issues

- Legal due diligence conducted by the buyer's lawyers includes a review of all material contracts and title to assets. A common issue is the absence of a formal contract – in relation to a key employee, customer or supplier – where one might reasonably be expected to exist. Try to address this before the sale.
- The sale and purchase contract will contain extensive warranties and indemnities you must give as the vendor – demanding that you have a good understanding of the state of the company and areas such as tax, financials, assets owned and customer and supplier relationships.
- Is there any outstanding or threatened litigation?
- Intellectual property used by the business is critical to its on-going value. Make sure all patents, trademarks and domain names are properly registered before embarking on a sale process.

Financial issues

- You will need to focus on maintaining the sales, profits and margins of the business – it is particularly important during negotiations that the business meets or exceeds its forecasts and does not move backwards.
- Undertake a review of accounting policies compared to those adopted by other companies in the industry. This can yield unexpected benefits as private companies will often focus on tax driven accounting policies whereas quoted companies will tend to focus on earnings driven accounting policies. Quoted buyers are unlikely to argue with a restatement of your policies so that they are more in line with theirs, even if this means that they end up paying more.
- Identifying non-recurring expenditure is a valuable exercise. Non-recurring expenditure could include exceptional owner's expenses and remuneration and one-off expenditure, such as the costs of relocation. Highlighting these adjustments and focusing the buyer on underlying earnings should be the prime concern. Buyers are happy to accept adjustments to reported profits if they are robust, justifiable and enable them to establish the maintainable earnings of the business going forward.
- Credible budgets and forecasts can enhance value enormously. They should be underpinned by reasoned assumptions and be prepared on a 'bottom up' basis with the full involvement of the management team. There are two key points here; firstly a buyer will expect you to hit your forecasts and secondly, in certain circumstances you may be asked to give warranties over the achievement of forecasts.

A word of caution though – a buyer's due diligence is likely to discover any quick fixes and will have particular regard to the sustainability of sales and profits. There is no advantage in presenting a well-groomed company which, on detailed investigation, does not have the operating base to sustain the business going forward.

Valuation

When it comes to selling, the question on most owners' minds is: how much is my business worth?

Several factors will affect the value of your business, including the timing of the sale, the condition of the business and any unique or strategic interest the buyer may have in acquiring your company. During the course of negotiations on the sale of a business, potential acquirers will use a number of different valuation techniques to establish the range of prices within which to negotiate. It is important for the vendor to understand these techniques and the issues that arise. Ultimately, valuation is a theoretical exercise and is, in many cases, quite subjective so the real test of the value is, of course, what a willing buyer will actually pay for the business.

Methods of valuation

Although there are a number of methods of valuing a company, the following are most commonly used:

- multiple of the normalised earnings of your company
- capitalisation of future cash flows.

Multiple of normalised earnings

This method uses the technique of applying an appropriate multiple to the normalised earnings for your business, thereby arriving at a capital value. Normalised earnings are your business's reported historic or projected profits adjusted for abnormal or non-recurring items (although expect any potential buyer to challenge the adjustments).

Calculating the multiple

Having established normalised earnings, you should consider the appropriate multiple that should be applied to arrive at an overall value for the business.

Three multiples are commonly used:

- price/earnings (p/e) ratio
- Earnings Before Interest and Tax (EBIT)
- Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA).

P/e ratio

Historically, the p/e ratio has been the most common multiple used in the valuation of companies. The p/e ratio is the ratio of the market value of the equity of a company to its after-tax earnings. See page six for information on p/e ratios and BDO Stoy Hayward's PCPI.

Earnings Before Interest and Tax multiple

The principle for the EBIT multiple is similar to that for the p/e ratio but is a pre-tax rather than post-tax multiple. It is considered by many to be a more appropriate multiple where a company has significant levels of debt.

Companies have different financial structures and therefore different interest costs and different effective rates of taxation. Because of the way the p/e ratio is calculated, two quoted companies identical in every way except for the level of debt finance will have very different p/e ratios. It is often difficult to know which one to choose when valuing a private company.

This can be avoided by calculating EBIT multiples for comparable quoted companies and then applying discounts, in the same way as with quoted p/e ratios, to the company's normalised EBIT.

Earnings Before Interest, Tax, Depreciation and Amortisation multiple

In using an EBIT multiple as discussed above, the overriding assumption being made is that the depreciation charge for the year broadly equates to the company's capital expenditure for the year. This clearly may not be the case depending upon the capital expenditure profile of the business. In such circumstances it is necessary to value the business based on the underlying profitability before depreciation charges and then adjust it for capital expenditure requirements specifically.

Similarly, an acquisitive company will be amortising purchased goodwill through its profit and loss account. Using an EBITDA multiple removes any associated amortisation charges and therefore more accurately reflects the true underlying earnings of a business.

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As with EBIT multiples, EBITDA multiples can be calculated for comparable quoted companies and then discounted before being applied to the company's relevant normalised EBITDA figure.

Whichever approach is used, determining an appropriate multiple for a private company is always going to involve a significant degree of subjectivity as only quoted companies have valuations which are readily accessible and which have been established by the market.

Applying discounts to quoted public company multiples

As discussed previously on page six, the PCPI discount – the average differential between the p/e ratios of private companies on sale and those of quoted public companies – is helpful in calculating an appropriate p/e ratio for the sale of a private company. Comparable quoted companies' multiples are identified and the appropriate discount is applied. The discount applied can be reduced by particular strengths of your business such as growth, market share, size, quality of management and strategic importance to the buyer.

Similarly, EBIT and EBITDA multiples can be calculated for comparable quoted companies and then the discounted multiples applied to the normalised earnings of your business, giving an 'enterprise value'. Deduct any interest bearing finance debt or add cash which is surplus to working capital requirements of the business and you have the value of the equity in your company.

Deals in your sector

Once a valuation has been reached by discounting multiples of similar quoted companies, the next step is to look at the exit multiples of recent completed deals in your sector to give an indication of pricing and trends in your market. The lack of information on current or prospective results for reported deals will mean that such information will be largely historic, therefore such comparable deal data should usually only be taken as a benchmark guide.

What accounting period should I use?

For the purposes of the valuation exercise, adjusted after tax profits, EBIT or EBITDA should be identified and agreed for the historic, current and projected accounting periods. Then the appropriate multiples for similar periods derived from comparable quoted companies should be applied to the respective period. This will produce three values from which the appropriate valuation range can be ascertained. For high growth private companies whose profits are growing faster than those anticipated for their quoted company peers, it is likely that the valuation based on the projected profits and multiple will exceed the valuation based on current periods. In these circumstances, some form of earn-out structure is likely to form part of any deal structure so that the vendors achieve the top valuation only if they actually go on to achieve the projected results.

Valuation – an example

A.B. owns 100 per cent of a company, XYZ, and is considering selling the business.

The key financial information for the business is:

	Historic	Current	Future
	£000	£000	£000
EBITDA	2,400	2,640	3,036
Depreciation	(400)	(400)	(400)
	<hr/>	<hr/>	<hr/>
Operating profit/EBIT	2,000	2,240	2,636
Interest payable	(240)	(240)	(240)
	<hr/>	<hr/>	<hr/>
Profit before taxation	1,760	2,000	2,396
Tax (assume 30%)	(528)	(600)	(719)
	<hr/>	<hr/>	<hr/>
Profit after tax	1,232	1,400	1,677
	<hr/>	<hr/>	<hr/>

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The depreciation is calculated on capital expenditure of £2m incurred two years ago, which has been depreciated on a straight-line basis over five years. No further capital expenditure is required for the next three years. The present value of the capital expenditure benefit is £1m. The interest payable is on a loan of £3.2m with an interest rate of 7.5 per cent.

In this example, p/e ratios for comparable companies are in the range 10.9 to 12.9, EBIT multiples are in the range 7.8 to 10.1, and EBITDA multiples are in the range 6.9 to 8.3. The current PCPI discount is 35 per cent.

An indicative valuation of XYZ can be calculated using the multiples as follows:

P/e multiples:

	Historic	Current	Future
Post-tax earnings (£000)	1,232	1,400	1,677
P/e multiple	12.9	11.4	10.9
PCPI discount	(35%)	(35%)	(35%)
Discounted multiple	8.4	7.4	7.1
Equity valuation range (£000)	10,349	10,360	11,907

EBIT multiples:

	Historic	Current	Projected
EBIT (£000)	2,000	2,240	2,636
EBIT multiple	10.1	8.9	7.8
PCPI discount	(35%)	(35%)	(35%)
Discounted multiple	6.6	5.8	5.1
Enterprise valuation range (£000)	13,200	12,992	13,444
Less: debt	(3,200)	(3,200)	(3,200)
Equity valuation range (£000)	10,000	9,792	10,244

EBITDA multiples:

	Historic	Current	Projected
	£000	£000	£000
EBITDA (£000)	2,400	2,640	3,036
EBITDA multiple	8.3	7.6	6.9
PCPI discount	(35%)	(35%)	(35%)
Discounted multiple	5.4	4.9	4.5
	<hr/>	<hr/>	<hr/>
Enterprise valuation range (£000)	12,960	12,936	13,662
Less: debt	(3,200)	(3,200)	(3,200)
Add: capital expenditure (Net present value)	1,000	1,000	1,000
	<hr/>	<hr/>	<hr/>
Equity valuation range	10,760	10,736	11,462
	<hr/>	<hr/>	<hr/>

A valuation calculated using p/e multiples assumes that the comparable listed companies' levels of gearing and tax are consistent with that of XYZ Limited. Using EBIT multiples accounts for any taxation and gearing differences but still assumes that XYZ's depreciation policies are similar. Applying an EBITDA multiple deals with all depreciation, gearing and taxation differences between comparable companies and XYZ, and therefore provides the most refined valuation mechanism.

The equity valuation derived from the above calculations is in the range £9.8m to £11.9m. To achieve a deal at the top end of the range the vendor would probably need to consider accepting a form of earn-out or deferred consideration.

Earn-outs

Buyers may want to mitigate their risk by locking you in for a set period and paying you an element of deferred consideration linked to future performance – usually called an ‘earn-out’. Earn-outs may increase the overall value you receive for the business but they clearly carry more risk than consideration payable on completion and can be fraught with complications. They are particularly common in deals involving ‘people’ businesses where the buyer seeks to use an earn-out structure to tie the owners in to the business. This will be for a suitable period after the sale, sufficient to ensure that the value, or goodwill, vested in those people is transferred to the buyer.

Example – earn-out

An example of an earn-out based transaction is as follows. A payment is made on completion of the transaction, which is based upon a set multiple of EBIT. An interim payment is made in year three, which is based on average profits for years two and three, less the completion payment. The final payment in year four is based upon the average profits of years two, three and four.

Maximisation of value is dependent upon selling on an upward profits trend. For the purpose of the example, we have used an illustrative growth of 15 per cent per annum. The management team remaining with the business will also be an absolute requirement in such a situation.

	Year 1	Year 2	Year 3	Year 4
	£m	£m	£m	£m
EBIT	1.0	1.15	1.32	1.52
Growth		+15%	+15%	+15%
EBIT multiple (average profits)	3.0		4.0	5.5
Completion payment	3.0			
Interim payment			1.9	
Final payment				2.4
Cumulative payments	3.0	3.0	4.9	7.3

Discounted cash flow valuations

The other common valuation method takes your future cash flows and discounts them to give the present value for your business.

The appropriate cost of capital is calculated by taking an average of the costs of meeting the investment returns demanded by owners of capital employed in the business. Such capital would include all the different types of equity and debt in a business.

The appropriate costs of equity and debt are determined by reference to comparable quoted companies and debt instruments for which statistical data is available. The higher the perceived risk of investment, the higher the required rate of return, and hence the discount rate, that will be applied.

As with all valuations reliant on projections, the result is only as good as the assumptions made. However, this is a useful valuation tool particularly where the trading or profit stream is irregular or there is significant investment required before delivering profit growth.

Concluding thoughts on desktop valuation methodology

Ultimately, the value of an asset is what a willing buyer will pay for it. Different buyers will place different values on your business. If you are considering a sale, you will want to achieve the best possible price. It is essential, therefore, that you discuss your business and its likely value with your corporate finance advisers. They will give you a view of the range of values that can be placed on your business.

The sale process

As well as being one of your most important transactions, the sale of your business is also likely to be one of the most complex. The keys to a successful sale process are maintaining confidentiality, controlling the information flow and dictating the timetable. That is why a structured sale process is essential. It requires far more effort than a reactive approach, but the results, in terms of improved deal value, are invariably well worth it.

Here is a step-by-step guide to selling your business and realising value.

1. Prepare an information memorandum

- This is the principal selling document and it must have an immediate impact and present your business enthusiastically in a clear and accurate manner. Any elements which are misleading could undermine a buyer's trust in you, their interest in the transaction and, ultimately, the price.
- The document should provide potential acquirers with enough information to make a reasonable assessment of your business and, crucially, to formulate the price they would be willing to pay.
- Commercially sensitive information, perhaps relating to customers and margins, should generally be withheld until the later stages of the sale process. This avoids the potential for damage to the goodwill of the business.

2. Identify buyers

- Identifying target buyers is a critical part of the process. You will have specific views on who you want to approach and those you do not want to be included in the process. Your advisers will present you with a detailed list of buyers and their rationale for acquiring your company.
- BDO Stoy Hayward has a dedicated corporate finance research team with access to all necessary external statutory and corporate finance databases enabling us to establish a list of potential acquirers. We also use our own databases of acquisitive companies and our extensive contacts in both the corporate environment and the mergers and acquisitions field.

- Given our reach in the UK market and our international presence we have a real ability to identify willing buyers across a wide range of sectors both in the UK and overseas. We are skilled at identifying less obvious buyers who can add significant value in a competitive sale.
- Approaching the right companies and stimulating a competitive process is critical to maximising the value of your business.

3. Make the confidential approach

- Do not divulge the name of your business to a third party – restrict disclosure to the business sector, and outline turnover and profitability and the key selling points of the business.
- Your adviser will contact prospective buyers, preferably by telephone. Once their interest is established they should be required to sign a confidentiality agreement before receiving the information memorandum.

4. Seek indicative and revised offers

- Your adviser will invite offers from interested parties on the basis of the information memorandum while giving buyers an indication of the kind of deal you are looking for, guiding them towards your preferred structure by highlighting the potential benefits.
- Agree a shortlist of preferred buyers, followed by meetings with them to ascertain what further information they need to submit a formal offer.
- Further negotiations will then be required to secure the best offer which is formalised in principle in a letter known as 'Heads of Agreement' to be entered into by both sides.

5. Exclusivity and contracts

- Once the Heads of Agreement has been signed and an exclusivity period granted, the buyer will instruct their accountants and lawyers to undertake an in-depth investigation of your business – known as financial and legal due diligence. Due diligence may be widened to cover such areas as property, environmental, IT and HR issues, depending on the complexity of the business.

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- The results of due diligence are often used by buyers to attempt to renegotiate terms
- The lawyers on both sides will then draft and negotiate the formal legal documents to effect the transaction, primarily the Sale and Purchase Agreement but also any financing documentation required and service contracts for directors.

It is important that you use your corporate finance adviser to co-ordinate the whole process during this period as there are often a large number of parties and other advisers involved and you will have to cope with the provision of information for the due diligence process which can be demanding. Your corporate finance adviser will also be able to identify issues in advance, ensure that any resulting negative effects are minimised and conduct negotiations to deliver the best result for you.

If you would like further information about this guide or our wide range of services, please contact us via your usual BDO Stoy Hayward contact, your local business centre or by emailing: sellingyourbusiness@bdo.co.uk.

In conclusion

- Analyse your motivations for selling and make the decision to approach the sale in a structured fashion.
- Discuss grooming issues early with your advisers and bring out any specific concerns you may have about your business well in advance of embarking on a sale process.
- Agree on appropriate incentive schemes with your adviser for second-tier management as they may be important in getting a deal completed.
- Understand the valuation parameters for your business and key valuation drivers.
- Give input into the buyer's research through the information memorandum – you will know your market as well as, if not better than, your advisers.
- Work with your advisers to ensure the Information Memorandum articulates the key selling points of your business and presents it in the best light possible.
- Prepare yourself so that you are in a position to respond quickly to information requests from your advisers who will need to reply to interested buyers on your behalf.
- Discuss offers received fully with your adviser and take advice with regard to which deal you should pursue – your adviser will be focusing upon both price and deliverability.
- Be prepared for the due diligence process and the level of information required by the ultimate buyer.
- Remain focused throughout the process and ensure that the business continues to be driven forward despite the distractions of the sale process.

The keys to a successful sale process are maintaining confidentiality, controlling the information flow and dictating the timetable.

Glossary

The purpose of this section of the guide is to explain some of the more commonly used terminology used during the sale of a business.

Amortisation/depreciation charges

The gradual and systematic writing off of an asset (tangible or intangible) over an appropriate period.

Capital expenditure

The cost of an improvement made to extend the useful life of a property or to add to its value.

Capital gain

The gain arising on the sale of a capital asset/investment.

Capital gains tax

A tax on the gains of a capital asset/investment, payable only when the capital gain is realised by selling the investment.

Deferral

A method of postponing the payment of taxes on an investment.

Deferred consideration

The amount of the total consideration that is deferred until a certain date or until certain achievements have been made.

Due diligence

Formal investigation of the company by the buyer's accountants and lawyers

Earn-out

Deferred payment based upon the future earnings of the business

EBIT

Earnings before interest and taxation

EBITDA

Earnings before interest, taxation, depreciation and amortisation

Enterprise value

The sum total of the market value of a company's debt and equity. It represents an open market valuation of the business or enterprise that supports it. In other words, how much a company is actually worth including the value of its indebtedness.

The guide to selling your business

Exclusivity

Period entered into after signing Heads of Agreement when the buyer conducts due diligence.

Financial buyers

Venture capitalist buyers.

Flotation

The occasion on which a company's shares are offered on a market for the first time.

Goodwill

An intangible asset valued according to the advantage or reputation a business has acquired over and above the fair market value of its tangible assets, usually due to reputation, good customer relations, or similar factors.

Heads of Agreement

Document setting out the key terms of the deal agreed by both parties

Information memorandum

Document setting out information about a business for prospective buyers.

Intellectual property

Intangible property that enjoys legal protection and stems from the exercise of the mind. Includes patents, trademarks, copyright, design protection and some minor rights.

IPO

Initial public offering – originally a US term for a flotation of a company on a stock market.

Multiples

The valuation of a company expressed in terms of some multiples of financial performance. Examples include p/e ratio, EBIT multiples or EDITDA multiples.

Normalised earnings

Reported historic or projected profits adjusted for abnormal or non-recurring items.

PCPI

Devised by BDO Stoy Hayward, in conjunction with **Acquisitions Monthly**, the PCPI benchmarks the relationship between public company multiples and those achieved on sales of private companies. The price/earnings ratio is calculated for private company sales and the average forms the PCPI.

P/e ratio

Price/earnings ratio

Price/earnings (p/e) ratio

An indicator of current financial performance and investor expectations for future performance. It is the ratio of the market value of the equity of a company to its after-tax earnings. The higher the p/e ratio a company commands, the higher the expectations for future rates of growth.

Private equity

Private equity mainly involves investment by fund managers in unlisted companies. Equity capital is provided by venture capitalists, angel investors, family and friends, management buyout firms, and other non-public market sources of funds.

Sale and Purchase Agreement

A contract between the vendor and the purchaser which sets out the final agreed terms of a transaction including price, payment structure, warranties and indemnities.

Share capital

Capital of a company represented by different kinds of shares. The name given to the total amount of cash which the shareholders have contributed to the company.

Taper relief

Relief given for capital gains purposes by scaling down the gain on the disposal of an asset by reference to the period of ownership of that asset after 5 April 1998, with more generous reductions for disposals of business assets than for non-business assets.

Trade and assets purchase

A purchaser can buy the trade, assets and liabilities of a business, rather than the share capital. There are a number of reasons to do this, many relate to tax.

About BDO Stoy Hayward

BDO Stoy Hayward specialises in advising owners of entrepreneurial, growing businesses. We can help you get the best deal on the sale of your business – here are several reasons why.

Dedicated M&A team. Our dedicated mergers and acquisitions team combines excellent technical background with many years of practical experience of advising owners on selling their businesses to ensure you get the best deal possible for your business. We have a strong network of contacts, both national and international and are highly motivated to achieve best value.

Our personalised service. You will have a dedicated, partner-led team working on your sale from start to finish, including your own day-to-day contact who will drive the transaction. Selling your business can be stressful but we will give you all the support you need.

Focus on entrepreneurial companies. BDO Stoy Hayward is respected as the leading firm in the mid market and we work closely with entrepreneurial businesses on a daily basis. We understand the key issues and drivers surrounding these businesses and we know how to maximise value for owner managers.

Our international network. If there is an international dimension to your transaction, you can benefit from our network of member firms which extends to approximately 600 offices in some 100 countries. Our consistent worldwide approach combines international expertise with the best available local business and advisory services. We regularly advise on the sale of UK businesses to foreign buyers.

Wrap around advice. Our mergers and acquisitions team works closely with our tax and wealth management specialists. We offer a fully integrated advisory package. This ensures you get best advice on all aspects of your deal including minimising your tax liability and advice with regard to investing the consideration achieved from the sale post deal.

As specialist advisers we can increase both the sale price and the ease with which the sale proceeds. A typical sale takes six months, although this can be anything from three months to over nine. During that time we drive the sale process and shoulder much of the administrative burden. You will remain in complete control of the process but will have more time to concentrate on continuing to grow your business. It is crucial not to take your eye off the ball if you are to secure the best deal.

