

BUSINESS SELLER'S GUIDE

“Leave your worries behind”



COMPANY SALES
AND ACQUISITIONS

a division of Clyth MacLeod 2018 Limited

Licensed Agent REAA 2008



ABOUT US

We specialise in the sale of businesses from \$500,000 to \$20 million throughout New Zealand.

CSA was established in 1989 by Matt Gumbley, Matt a chartered accountant with a background in accounting, merchant banks and senior corporate rates, then became an M&A specialist with a merchant bank before becoming a very well respected business broker. CSA have thrived through the booms and the busts of the last three decades, and continue to broker numerous deals. In 2019 CSA amalgamated with Clyth MacLeod, a highly reputable and long-established business brokerage company.

We devote our time to handling each client personally, from preparation of the Information Memorandum and negotiating, right through to the Sale and Purchase Agreement.

PROFESSIONALISM

Professionalism comes from experience; from knowing how to do a job well and what is expected. All of the team have already owned their own businesses and sold them on already, so they know exactly what it is like for a buyer or seller.

Our team also knows what is expected of them throughout the business sales process. They are easy to deal with, which is why many of New Zealand's top accountants choose CSA when their clients want to sell. The fact that so many of their clients are repeat clients is also a great testament to this.

HONESTY

CSA has operated perhaps for one of the longest times of any brokerage in New Zealand, and in all that time they have been free from litigation. We offer honest feedback, honest comments and, when needed, honest criticism.

Be careful, some business brokers these days do what's called 'buying a listing'. They tell a business owner that the business is worth far more than it actually is so that they sign up with them to do the brokering. When it comes to the sale process, however, it is impossible for them to sell at that price point and the end profit is far lower. It means a few business owners sign up elsewhere, but they often end up disappointed in the end result.

Business owners deserve a fair calculation the first time. CSA delivers honest appraisals.

TRUSTWORTHINESS

Often when you are selling a business, you don't want your staff to know until things are further down the track. We are incredibly careful about confidentiality. The marketing of a business is done anonymously and any interested buyers go through a strict confidentiality agreement first.

INTRODUCTION



ONE WORD OF ADVICE, DON'T SHORT-CHANGE YOURSELF.

Selling your business is one of the most significant things you will ever do, as the price you receive may determine the lifestyle you can expect for the following decades of your life.

You have put in countless hours, money and energy building the business — so don't short-change yourself. Clyth MacLeod Business Sales have been selling businesses for over 53 years, and we have condensed the same advice we give to our successful sellers into an easy to read booklet. This guide is for Kiwi's who want to get the maximum return from selling a business.

There is no time like the present to start on a journey that will bring you a new life!



CSA SELLER'S GUIDE

This guide will assist you through the steps of the selling process. You will discover why it is essential to use a quality brokerage and how to prepare your business for sale to ensure you receive the best possible market value.

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WHY YOU SHOULD SELL

Because it's worth a lot of money. Probably even more than you think. Selling your business will free up your time to make lifestyle changes, pursue new challenges and money-making opportunities, or spend time with your family and friends. Selling enables you to retire and get out of the rat race altogether, or if you still want to have a say in your business you may be able to stay on as a consultant, monitoring the business without the stress of your current position as owner.

BEFORE YOU SELL: PREPARING YOUR BUSINESS

Do you really want to sell? Changing your mind halfway through the process can adversely affect your business reputation as well as any future sale of your business.

MEETING WITH A BUSINESS BROKER

The first step is for your broker to get to know your business. Together, you will discuss key drivers, what your goals are and how you can achieve them. You will then be issued with a listing document pack.

You will then need to supply financial statements for at least the last three years and also any other documentation needed to complete an appraisal on your business. The broker will go through your business accounts thoroughly, identifying items that are one-off, discretionary or of a capital nature. This allows the removal of distortions to normalise your results.

Once the appraisal is done, the broker will work through it with you, showing how the most probable market value was calculated. This includes all of your business information compared with actual sales data on similar businesses. This is when you will finalise the actual value of your business.

You then need to identify the key business drivers to reach an agreement on the best way to market your business. Owners who 'invest' in meetings and dialogue in the year or so prior to going to market gain tremendously from having a confident broker. Your business is now ready to list.

CREATION OF INFORMATION MEMORANDUM AND LISTING

Once thoroughly reviewed and analysed, your business will then be listed at an agreed-on price.

The next step is to complete the Information Memorandum (IM). Often a buyer will visit your business, but not their accountant or banker. This means they will be judging the worth of your business solely on what is presented in the IM.

Detailing exactly what is to be sold in the IM largely removes the likelihood of litigation after the sale. This ensures a smooth, stress-free transaction. The high standard of an Information Memorandum is one of the reasons to use a well-known and respected broker.

WHEN IS THE BEST TIME TO SELL?

The best time to sell is when your business still has potential for growth and is performing well. However, a bad year should not stop you from selling, as often this is recognised as a one-off result and will not necessarily affect the value.

More likely, the best time to sell is when you're ready, not when you are forced. That means planning ahead.

WHO SHOULD I TELL ABOUT SELLING MY BUSINESS?

You should tell as few people as possible, but you should also be aware of your legal obligations regarding staff. Selling your business can be very unsettling for your customers, staff and suppliers. In the initial stages you don't want to let anyone know of your intentions, as the news could affect your business operations and, ultimately, its value. In fact, the best way to ruin a business is to tell people you are selling it, because employees, customers, vendors and landlords often worry they won't like something about a new owner.

The only people who are happy to hear that a business is selling are your competitors, who will shout from the rooftops that you're 'going out of business', not selling your business.

Selling businesses is very different from selling houses. The real estate model is 'the more people you tell, the more houses you sell'. In our industry, it's quite the opposite. If you can't tell anyone you're selling, how are you supposed to do it?

We have proven strategies that overcome this.





HOW TO GET THE BEST PRICE FOR YOUR BUSINESS

HAVE AN EXIT STRATEGY

While it isn't always possible, the best time to plan for the sale of your business is two years before the time you wish to exit. You also need to:

- understand the complete **process** involved for selling your business
- be **committed** to the sale of your business
- know the proportion of **equity** you want to sell (we usually recommend 100%)
- be prepared for the required level of **hand-over assistance**
- consider the availability of **vendor finance**.

A broker prepares presentation material that is attractive to the right buyers for your business. They should maximise exposure and negotiate price with an acute knowledge of the market. Credibility in presentation and negotiation is vital to achieving the best value for your business.

MAKE IT A TEAM EFFORT

The sales process must be viewed as a team effort. This pooling of resources means that each party (broker, vendor, lawyer and accountant) can contribute their unique knowledge and information to the selling equation (see 'Member's involved in the Sales process' section). In addition, the broker should take a team approach to ensure an optimal result.

FIRST IMPRESSIONS

If possible, your accountant should also **prepare an interim financial statement** for current financial year to date. Your staff should be motivated and performing well and it is imperative that you have up to-date employment contracts in place.

Good documentation and effective systems are always attractive to a purchaser.

This may include supplier agreements, contracts with customers and any other legal, procedural or business-related items. You have only one shot at a good first impression, therefore make sure the physical aspects of the company are presented as you would if you were selling your own house.



ENSURE THERE ARE EFFECTIVE SYSTEMS IN YOUR BUSINESS

Minimise your business's reliance on the owner/operator by implementing effective quality and management systems, as well as fully training staff. Change your sales literature to focus on the business rather than the owner.

OPTIMISE YOUR BUSINESS PROFITS

To get the maximum from the sale of your business, you must optimise profits leading up to the period of sale even if it's at the expense of higher taxes. An investor looking at your business will be most interested in the profit, and whether it can be maintained. This may mean owners need to:

- eliminate all private expenditure and 'abnormal' expenditure from the company's financial records
- optimise the staff level and structure
- exercise budgetary control of costs
- maintain or, if possible, improve sales and gross profit
- prepare comprehensive plant lists
- ensure plant is in excellent working order.

REDUCE COSTS

Focus on increasing sales, reducing expenses and seeking ways to improve operations, as this leads to reduced costs. Operating profits must be 'normalised' by adjusting for items such as interest costs, shareholders' salaries and discretionary expenses not directly related to your business, and any one-off 'abnormal' costs.

This task may be carried out by your accountant or broker.

TAXATION REQUIREMENTS

When selling, there are often tax implications relating to the depreciation of your plant and equipment. CSA strongly recommends tax advice is sought during this process. Should the plant and equipment be sold at a value between the depreciated value and the original cost, you will have a tax liability known as 'depreciation recovered'.

On the other hand, if the plant and equipment is sold at a fair market value below the depreciated value, there will be a tax deduction. If you sell plant and equipment at any value above the original cost, under current legislation, generally this gain between selling price and original cost is tax free.

Tax issues may also arise if a profit is realised on sales of land and buildings, or the stock. There are currently no capital gains taxes in New Zealand. You should not be taxed on the proceeds of the sale of your business unless you buy and sell businesses for a living. We recommend you get the right advice on this.

SAFEGUARD CONTRACTS

Provide the opportunity to extend the lease. Tidy up employment contracts, supply agreements and the property lease.

CHOOSE THE RIGHT TIME

Don't wait until the business has exhausted every opportunity. The best prices are obtained when the business can still offer upside potential to the new owner.

CLEAN UP

Clean up the premises and the plant. Remember, first impressions are lasting ones. Bring in realistic stock and WIP valuations and eliminate obsolete or slow-moving stock. Sell any excess plant and equipment.

THE PAYOFF

Every dollar you add to your bottom-line net profit could add around three or more times that figure to your business's sale value. Buyers generally require at least the previous three full years of business financial results.



TEN STEPS OF THE BUSINESS SALES PROCESS

After creating your Information Memorandum and your business listing, there are 10 steps towards settlement completion.

STEP 1

Broker will present the IM to pre-screened purchasers who have signed the confidentiality agreement.

STEP 2

Broker will then discuss and resolve any issues a buyer may have.

STEP 3

Introductory meetings off-site with interested purchasers will normally be followed by a visit to the vendor's company premises.

STEP 4

Broker will then focus on working with the most promising investors to generate offers.

STEP 5

This leads to the preparation of the first draft of the 'Agreement for Sale and Purchase of a Business' (ASP) with the appropriate entities.

STEP 6

Broker will then help you negotiate and finalise the various terms and conditions; this will lead to the preparation of the final ASP with the most appropriate parties.

STEP 7

A satisfactory Due Diligence inspection will then be completed.

STEP 8

Conditions of Sale such as finance and landlord's consent will be satisfied.

STEP 9

The Agreement is formally confirmed as unconditional.

STEP 10

Settlement is completed on possession date.



MEMBERS INVOLVED IN THE SALE PROCESS

Selling your business is a team effort, led by yourself and your broker. Other important members include your solicitor and accountant, both of whom could make or break any deal depending on their actions.

YOUR BROKER'S ROLE

- Ensure the Information Memorandum does justice to your company. But you must review and approve.
- Market your business to as wide an audience as possible.
- Maintain your confidentiality from suppliers, competitors and staff.

- Achieve the maximum price possible from the market.
- Comply with your time frame and any other requirement you have.
- Reach agreement with the party/ parties that have the skill to operate the business and the wherewithal to complete the purchase.
- Utilise negotiation skills with lateral thinking to achieve the best sale possible.

YOUR ACCOUNTANT'S ROLE

- Provide a current year projection of profit and loss account. Between you, there is a need to identify any profit distortions in the last three years such as discretionary or capital-type expenditure.
- Provide copies of historical financial statements going back at least three years.
- Prepare interim financial statements when they are required.
- Provide information during Due Diligence.
- Advise on the tax implications of offers presented.

YOUR SOLICITOR'S ROLE

- Record in correct legal terms the agreement that has already been negotiated between the parties, whilst ensuring they preserve the integrity and spirit of the original agreement. This includes:
- Approving the final wording of the special conditions drafted by CSA that have been agreed in principle by the business owner and purchaser.
- Obtaining the landlord's consent for assignment of the lease.
- Drafting any restraints of trade special clauses.
- Holding the original Sale and Purchase agreement and ensure compliance dates are met so that the agreement is completed.
- Transacting final settlement funds.
- Registering the transfer of trademarks, copyright and trade names, etc.



HOW WE DETERMINE YOUR BUSINESS WORTH

Appraising a business is a complex process: no two businesses are identical. This means there are different factors that need to be applied even to what appear to be the same sort of businesses in the same industry sector.

- Using a normalised **EBIT (Earnings Before Interest and Tax), EBITDA or EBITPDA (Earnings Before Interest, Tax, Proprietor's Salary and Depreciation and Amortisation)** and applying an 'industry normal multiplier' risks an incorrect appraisal, which could have dire consequences if taken out to the market.
- We have sold thousands of businesses, so we know when appraising a business how vital it is to address and assess the key drivers in a business before trying to ascertain an appropriate multiplier. There are **six variables** we investigate and these are: the customers, the suppliers, the product or service, the plant, the premises, and profitability.
- Once the broker has gone through this process, they consult their database of businesses sold to see what has sold that is similar, how long it took, whether there were any sticking points and what the purchaser paid.
 - Also, statistics on sales made throughout the industry are compared. All the above data is then correlated to calculate the correct multiplier, which is applied to the EBIT or EBITPDA to arrive at a market most probable selling price.



THE SIX VARIABLES OF YOUR BUSINESS WORTH

There are six key variables to account for when assessing the worth of your business.

1. THE CUSTOMERS

Who they are and why do they deal with this company?

Do one or two customers make up the lion's share of turnover?

Will they continue to do business with a new owner?

Are they contracted in?

Is there a good spread of clients?

Do they pay on time?

2. THE SUPPLIERS

Are there any contracts in place?
Are they transferable?

When do they need to be paid?

Are they a reliable source for supply?

Are there any alternative suppliers in this field?

3. THE PRODUCT OR SERVICE

- Is it immune to cheap foreign imports?
- Are there barriers to entry?
- Does it have a point of difference?
- Is it a 'sunrise' or 'sunset' business?
- If a service, what is the availability of future staff?
- Is there an incidence of technology change/innovation with products?

4. THE PLANT

- Is the plant and equipment up to date?
- Is there new technology on the horizon?
- What needs replacing?
- What is the level of capacity utilisation?
- What is the real value, opposed to the book value?
- Is there is a maintenance programme in place?

5. THE PREMISES

- Can the premises accommodate growth?
- Can the lease be reassigned?
- Can the lease term be extended? Is it at market rates?
- Do the premises require repair, maintenance or reinstatement?
- How appropriate is the location for the business?

6. PROFITABILITY

- Are profits showing year on year growth?
- Is EBIT at a satisfactory level showing an acceptable return on investment?
- Have you a record of all significant distortions of profits over the last three years?
- Are personal and discretionary expenses recorded so that 'true profits' can be calculated?
- Is the profit level sustainable?



ADVICE FOR BABY BOOMERS

THE BABY-BOOMER BUSINESS OWNERSHIP BUBBLE

There has been much talk and anticipation over the last 10 years or so as to the dramatic effect this 'bubble' will have on the market when baby-boomers come to sell. To date, there is some evidence to suggest baby-boomers have started to unload their companies. To not do so would be to sacrifice their remaining quality years.

According to Forbes magazine, the biggest regret people had at the end of their lives was:

'I wish I hadn't spent so much time at work.'

There can be numerous barriers to sale that baby-boomer business owners face. Most fit into one of the following four categories:

EMOTIONAL

- Don't have a better plan B (i.e. what to do to replace time at work).
- Scared they will miss the camaraderie of the workplace.
- Feel defined by their job — an essential part of their identity.

FINANCIAL

- One or more bad profit years recently (impact on price).
- Need more cash to support lifestyle in retirement.
- Have had a catastrophic financial event (e.g. leaky home, finance company failure) and now need to rebuild wealth.
- Focused and working towards financing a large life goal.

ASPIRATIONAL

- Apathetic and not sure how to start the process of selling.
- Trying to rebuild into a profitable unit again after global financial crisis.

PHYSICAL

- Consider that they will live a lot longer than they first thought.
- In self-denial about how old they are.
- Consider current good health will continue indefinitely.

WHY SELL THROUGH ONE BROKERAGE?

DON'T BELIEVE THE HYPE

An overvalued estimate by a broker in the hope of listing you, will damage your ability to make key decisions. Good business brokers will give you a fair and honest appraisal based on the market – not as a way of securing your listing. Managing expectations is a core element of successfully buying or selling a business your CSA Business Broker can give you an accurate assessment of your business value.

Once your business is appraised, the sale process is governed by the terms agreed with you, so it is vital that everyone is on the same page. *Finding the right buyer* – who is not just interested in the price but able to actually operate the business – will allow the sale process to achieve the best price and terms for both buyer and seller.

Listing with an A+ business broker and following diligent and transparent process means client involvement can be kept to a minimum. You need to concentrate on keeping your business ticking and in healthy order, not being distracted by the ins-and-outs of the sales process. Your CSA Business Broker conducts negotiations (away from your premises to give you added privacy), identifies buyers from their extensive database list and pre-screens purchasers. Confidentiality is of the utmost importance at all times. Along the way, your broker will help analyse and evaluate offers and any special conditions associated with the sale.

A sole agency process provides better results for the vendor every time. *Selling a business is not like selling a house!* The process requires the commitment of all parties to achieve an optimal result. Unlike a house, a business is dynamic and in a constantly-changing environment. For this reason, a business sales specialist needs to create a level of empathy and trust with both owner and purchaser sufficient to work through potential 'deal breakers' that can arise during the process.

THE INGREDIENTS OF A GOOD BUSINESS BROKER

Integrity: They need to earn your trust. After all, they are dealing with your livelihood – and what is likely to be your retirement funds!

Experience: It takes a long time to learn the ins and outs of the business sales game. It is complex; each transaction can be a lengthy process and involving skilled negotiation, accountancy, and business nous.

Assessment: with knowledge gained from selling similar businesses in Auckland.

Lateral thinking: A capacity for lateral thinking is essential to get around potential deal-killers which arise. Having been down the path many times enables you to see problems coming before they hit.

Empathy: to hold negotiations together in complex transactions.

Negotiation Expertise: Probably the most important role. We know the virtually unlimited variations that are available in structuring a sale. This only comes with experience.

Market values: Every business is unique and valuing them is a complex skill. Requiring market knowledge

Exposure: The Broker will ensure your business is exposed to the maximum number of eligible buyers ensuring the price is maximised

WHY SELL THROUGH ONE BROKERAGE?

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WITH A GENERAL LISTING, THE BUSINESS OWNER CAN EXPECT:

Rushed or limited preparation – risking future litigation...

Compromised confidentiality through wide exposure to as many potential buyers as possible as quickly as possible

Discouraging potential buyers who cannot act immediately. Big decisions take time for people who want to make smart choices.

A bias to accept first offers as soon as possible for a quick sale – before a chance to compare or negotiate competitive counter-offers.

Pressure to accept a discounted price to offset uncertainties or lack of information that cannot be determined due to time pressure.

So the pitfalls of the general listing process is a race to produce a buyer at the minimum price acceptable. By using a sole agency, 'feedback loops' in communication enables dealing with objections and questions, that will inevitably arise, in a clear and steady way.

BY APPOINTING A SOLE AGENT, A BUSINESS OWNER CAN EXPECT:

Targeting of purchasers in order of suitability.

Time to evaluate the business correctly at each stage.

Confidentiality

Commitment to the project, confident in a process that is appropriately managed.

YOUR BUSINESS SALES BROKER

A successful sale is a team effort, with Vendor and Broker working together with professional advisors to achieve the best result. Pooling of resources is essential for an optimum result, as each party can contribute their own unique knowledge and experience to the selling equation.

OUR FOCUS

Optimising the relationship between price and terms.

Meeting the Vendor's time frame.

Protecting the Vendor's confidentiality instructions.

Conduct operating within the REAA Act 2008 and its various rules.

Professionalism – Acting with and in the best interests of the vendor.

WE ENSURE A SUCCESSFUL OUTCOME

Investigating and understanding the business sufficiently before attempting to appraise its value.

Preparing a professional Information Memorandum that invites the reader to take the next step and accurately reflects the business in its essence, thereby avoiding misunderstandings.

Planning and executing an effective marketing strategy.

Reconstructing your financial accounts if necessary to truly reflect the performance of your business. e.g. eliminating or highlighting discretionary or non-recurring costs.

Competency in appraising the business, possessing relevant market information and having the necessary experience.

Helping both the Vendor and Purchaser understand the selling process as prescribed by legislation, including the structuring of offers.

Negotiating persuasively to achieve a 'win win' result. The new purchaser must be appropriate for the business and buy the business on terms and conditions that meet the Vendor's objectives.

Communicating, persevering and coping with the ever-changing business and its environment.



OUR TEAM

We are a small but highly-effective team. CSA was established in 1989 and in 2019 was taken over by Clyth MacLeod 2018 Limited. It is now a division of Clyth MacLeod Business Sales. We've all got our individual skills, and we have experience owning and running our own businesses (more often, two or three).

What we offer is more than our individual experience – it's the way we work as a team. Many other brokerages

have their sales staff compete with each for every listing; instead we match up each business with the broker who has the most appropriate skill sets, then work together.

It's called partnership, and the key to getting the right results for our buyers and sellers. Our results speak for themselves, but so do our happy clients, many of whom have returned many times over the years to buy and sell with us. We pride ourselves on old-fashioned face to face business while utilising every modern tool and approach available.

We don't do hard sales tactics – we just take the time and effort to put the right people together for great outcomes.



ALAN BILLINGTON
LICENSED SALESPERSON REAA
2008

Alan's career began in the engineering world, and so because of that, and his wide business experience gained internationally as well as at home, his business broking focus lies in the manufacturing world. He's also spent several years running his own businesses both here and in England.

They include a recruitment agency and an import/distribution company. Alan joined Matt at CSA in 2003 and nearly two decades later, has a huge number of successful business sales behind him.

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CRAIG MCDONALD
LICENSED SALESPERSON REAA
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Craig has over 30 years of business ownership experience which enables him to readily understand the important issues in your business. Since joining CSA in 2013 Craig has successfully worked with a wide range of sectors incl manufacturing, training, hire equipment, temporary staff, retail, food, logistics, construction services, civil construction, import distribution and services. Craig believes that being proactive in all stages of a well managed process is the key to ensuring the best possible result.

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AMANDA REALE
LICENSED SALESPERSON REAA
2008

With 11 years of active experience in business brokerage, Amanda enjoys a Senior Intermediary role with Clyth MacLeod following her return to New Zealand from Canada where she had a long history of business ownership. Honing her skills over the years, her transactional experience is weighted around SMEs in Manufacturing & Distribution, Print & Sign Services, Tech & Online businesses and Boutique Food & Beverage (wine & spirits). Assisting and facilitating the critical transition of a seller or a buyer to their next venture.

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WHEN TO GET IN TOUCH WITH US

You may be in the very early stages of investigating how to exit your business, or need an urgent sale due to personal reasons. Whatever the reason, the time it takes to commit to beginning the process means sellers come in at all stages.

Ideally, you will be reading this two years before you intend to exit. Most importantly, confidentiality is a must.

WHAT HAPPENS FROM HERE?

The CSA process begins by preparing an appraisal of the business value. CSA will be appointed through a listing agreement with Clyth MacLeod 2018 Ltd as the Licensed Agent REAA 2008.

CSA then prepare a detailed Information Memorandum. This enables CSA to market your business most effectively, with minimum disruption to you and your operation. The business will be appraised by reference to the quality of earnings, staff, markets, assets, technology, barriers to entry and CSA's direct and ongoing involvement in the market.

CSA trust you have found their Seller's Guide helpful and the reasons as to why it is so important to bring a business broker on board for the process.

CSA specialise in medium to large private companies, across all industry types. If you have any further questions, please call us today.

Company Sales & Acquisitions - a division of Clyth MacLeod 2018 Limited

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