



# SELLING YOUR BUSINESS

*The right kind of selling guide.*

## ADVICE.

See what's possible with sound, experienced and trusted advice. Your business becomes crystal clear.

## CLARITY.

It starts with understanding what's important to you and your business. Let's talk.

## DIRECTION.

Direction is about single-minded intent to achieve your way forward. No distractions. No barriers.





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*About*

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# THE PEAK PARTNERSHIP

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Based at Upper Mt Gravatt in Brisbane, we're a firm of business advisers, chartered accountants and financial specialists with a real purpose...to support your financial and business progress.

Unlike most other firms out there, we won't tell you we're different – we think you'll discover and experience that for yourself. And instead of ranting about passion and focus, we talk about purpose and intent – we'll give you common sense advice with a real energy for what we do.

We hope you'll find what we can offer you interesting and informative, perhaps even inspiring you to aim for a higher peak with your business and personal financial ambitions.

“ **OUR VISION** is to be your first point of contact for all your financial and business solutions. ”

**We help you and your business with ADVICE. CLARITY. DIRECTION.**

We'll help you to better understand how intelligent financial decisions create opportunities that can make a positive difference to your business and personal financial wellbeing.

# INTRODUCTION

Selling your business can be equally exciting and daunting – especially when you consider all the time and effort you’ve put into developing your product or service, building your team, your brand, a customer base, and growing the business.

Once you start thinking about selling or someone approaches you with an offer, the process can quickly become overwhelming.

But with a plan and the right people in place to guide you through every stage, selling your business can be less stressful.

When the financial impact of the COVID-19 pandemic and cost-of-living pressures due to inflation became apparent, many business owners were prompted to delay a potential sale. It also raised the question...

“When is the right time to sell?”

There’s no definitively correct answer to that question – it’s all about your circumstances. You may want to sell to retire, you want to explore a new venture, or it’s because you don’t have a succession plan.

In addition, there are many exit options available to you. For example, a sale could be to a strategic buyer or to your management team – you may even want to transfer internally to your extended family.

The most important thing for owners who are thinking of selling their business is to start preparing. Planning ahead (at least two years in advance) will make the process much easier, and potentially make your business worth more. It also helps to have a team of professional advisers – experienced in business valuations and the sale process – to support you along the way.

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CHARTERED ACCOUNTANTS  
AUSTRALIA + NEW ZEALAND

DAMIAN KNOBLANCHE  
Director & Business Adviser  
*CA Business Valuations Specialist*



## PREPARING YOUR BUSINESS FOR SALE

REMEMBER, the trade-off between effort and reward is your best guide when getting your business ready for sale.



IF YOU ARE THINKING ABOUT SELLING YOUR BUSINESS IN THE NEAR FUTURE, YOU MAY BE ABLE TO ENHANCE ITS VALUE BY PREPARING IT FOR SALE NOW.

This planning is not just about cosmetic enhancements, but structural and operational changes - depending on the situation - that can create greater value. Some of the required changes may involve considerable effort and discipline, and might not be achievable in the short-term.

Different tax implications can apply, depending on whether you're selling shares or assets. For instance, getting ready for sale may reduce the overall tax burden by accessing the 50% Capital Gains Tax (CGT) concession, and/or small business CGT concessions - subject to meeting certain criteria.

Another key tax item to consider during a divestment process is the tax-efficient repatriation of any excess cash funds in the business.

While your business might not require such in-depth preparation, the sensible approach is to discuss your situation and expectations more fully with a business adviser if you decide to go ahead with selling your business.

We can help you complete a review of your current business to identify quick wins that, if implemented, could significantly enhance the attractiveness of your business to potential buyers. Remember, the trade-off between effort and reward is your best guide when getting your business ready for sale.

It's also important to recognise that a buyer's due diligence will almost certainly discover any 'cosmetic' fixes that are unsustainable - particularly those relating to revenue and profit margins.

There's no advantage in presenting a great-looking company to a buyer when it becomes evident during the due diligence process that the presented performance is not sustainable.



“ Planning ahead can maximise the sale value and reduce or eliminate the tax payable on the sale of your business.

”





## MANAGEMENT

If you're heavily involved in the day-to-day running of the business, the buyer may want to retain your services for some time after the sale. Depending on your personal situation, you might not want to continue in the business.

Creating a sound management team and having a succession team in place for key positions can greatly enhance the value of a private company. It helps to demonstrate that you're not critical to the business and it reduces the buyer's investment risk.



## PROFITABILITY

Increasing sales and margins – as well as controlling overhead spending before entering into a transaction – are both important and beneficial. Most likely, you're already doing this in the normal course of running your business.

Easy solutions that quickly generate extra profit are rare and often need to be viewed with caution. It's better to focus on existing opportunities, such as increasing genuine sales per customer, to improve the profitability of your business.



## CAPITAL EXPENDITURE

Deciding whether to incur significant capital expenditures during the lead-in to a business sale is always difficult. A buyer will consider the quality of assets when deciding how much they think the business is worth.

If the business has been managed to maximise cash and there's been underinvestment in capital and operational resources, a sensible purchaser will focus on what remedial investment is needed and factor this into the assessment of the value of the business.

In most cases, it's sensible to continue investing in your existing business as though you were going to continue running it. However, it's also often sensible to avoid major capital expenditures on new projects leading up to a sale as it can introduce unnecessary risks for the buyer.



## NON-RECURRING EXPENDITURES

Identifying non-recurring expenditures is a worthwhile exercise. These expenditures may include exceptional owner's expenses and pay, and one-off expenditures, such as the costs of relocation or unusual disruption to normal business.



## FORECASTS

Most buyers will want to understand your forecasts for the business over the next few years. Credible budgets and longer-range forecasts can significantly enhance a business's value. They should be underpinned by reasoned assumptions and be prepared on a bottom-up basis with the full involvement of the management team.



## LEGAL

Your buyer's lawyers will conduct extensive legal due diligence, including a review of all material contracts and title to assets. A common issue for entrepreneurially-managed businesses is the absence of contracts or documentation where they might reasonably be expected to exist.

This issue can become a sticking point in relation to a key employee, customer or supplier, intellectual property or asset ownership. Where practical, you should update or create the necessary administrative documents and contracts before opening your business up for sale.

The sale and purchase contract will contain extensive warranties and indemnities you must give as the seller. That means it's imperative to have a good understanding of the state of your business and its tax, financial, environmental, customer and supplier relationships and other legal affairs.



## WORKING CAPITAL

Working capital (current assets less current liabilities) is required for the buyer so they can continue to run the operation once the business is sold. Calculating working capital on the last day of every month for one year and averaging it out over a year is typically fair for both the buyer and seller.

Working capital is often included in the sale price of your business. Sellers shouldn't expect to be paid extra for these assets, although there usually is special treatment for cash.

There are often opportunities to lower the amount of working capital in the business and take more cash out of the business. However, often there needs to be a track record of being able to operate the business at lower working capital levels for at least one year.

**Our advisers will give you guidance on key valuation drivers and a potential value range that buyers might place on your business. As you prepare your business for sale, these drivers provide insights for evaluation from an operational perspective.**



# THE SALE TRANSACTION PROCESS



The successful sale of your business is the ultimate reward for the risk, effort and investment that you have put into your venture over a long time.

While the key goals of the sale process will vary for different business owners, they almost always include maximising the sale price and finding the right new home for employees and customers. Achieving your sale objectives will require significant research and leveraging of that information, detailed planning, and maintaining a control over the process – as well as strategic negotiation skills.

Implementing and following a **Structured Sale Process** can be time-consuming, so having advisers you can trust to help you achieve your desired outcomes is vital.

Our business advisers can advise on the optimal deal structure, carry the administrative burden and manage your controlled exit so you can continue to run the business. They help alleviate distractions that invariably come with an important transaction, and ensure that your other goals for the sale are met.

# STRUCTURED SALE PROCESS

The **structured sale process** involves:

- preparing the business for sale.
- understanding the likely value and developing a preferred deal structure.
- tax planning.
- undertaking vendor due diligence to mitigate any historic or tax issues.
- compiling information and preparing an information memorandum.
- identifying and contacting potential buyers.
- receiving initial offers.
- holding meetings with shortlisted buyers and receiving revised offers.
- undertaking further negotiations.
- signing a letter of intent.
- facilitating the due diligence process.
- facilitating legal documentation and finalising the sale.
- post-closing support as it relates to purchase price adjustments and post-closing matters.

*Further information about key steps in the sale process is set out in the following sections.*



# READY TO SELL

Selling a business creates the need for a lot of information. Our advisers can help co-ordinate and prepare this information, building confidence with potential buyers.



If you ultimately decide to sell your business, it can take six to 12 months or longer to complete a transaction.

During this time, the business still needs to run effectively despite the diversion of your time. Your management team needs to be capable of coping with any additional demands during the sale process.

We already know that the planning process should begin well in advance, allowing time to prepare for tax planning and to clean up the balance sheet. Most buyers usually look at the past three years of the business's operations, so the better shape the business is in, the more likely you can get a better price.

It makes sense to start preparing the information that potential buyers require well in advance of any sale process. Also, ensuring that information is comprehensive and well-organised is essential for the smooth completion of the sale transaction.



## INFORMATION FOR POTENTIAL BUYERS

Examples of the types of information you may need – supported by an adviser – for the benefit of potential buyers include:

- Corporate/legal information.
- Company information.
- Management/organisational structure.
- Details of products and technology.
- Systems and financial reporting.
- Tax information.
- Historical and forecast financial information.
- Insurance details.

Much of this information is typically contained in key transaction documents to a buyer, including an information memorandum, process letters, a draft sales and purchase agreement, due diligence reports, etc.

Our advisers will provide the right balance of disclosure and confidentiality, and helps to ensure management focus on running the business.

## STRUCTURING THE SALE

Having a view on your preferred structure is important before starting the sale process. Informing buyers at an early stage will help ensure the offers you receive comply with your objectives.

If you plan to leave the business soon after the sale, you will most likely want your consideration paid on completion. If, on the other hand, you believe there are significant opportunities for additional growth under the new owners and you wish to stay on with the business, you may want to consider an element of deferred consideration linked to future performance, usually called earn-outs. These are less risky for buyers and can increase the final value you receive for the business. However, they could be risky for you and are fraught with complications.

If you have private use of assets owned by the company that are not required for carrying on the business, these should be identified early so that they can be transferred out of the business and the buyer is informed of this intention. For example, if you have property or cars owned by the company which are not part of the sale, these could be transferred prior to sale.

It's fair to say that almost every aspect of a sale has tax implications associated with it. As a result, it's crucial that you receive detailed tax advice at the earliest possible stage of the sale process to help ensure any tax paid on the sale is minimised.

Pre-sale tax planning is important to enable any reorganisation or removal of assets to occur in a tax-efficient manner. Doing this in advance helps ensure you give enough notice to a buyer of your requirements.



In general, you will need to consider your requirements in relation to the:

- sale of shares or sale of assets.
- form of the consideration offered (e.g. cash or shares).
- timing of the consideration offered (on completion of the sale, deferred, or contingent consideration).
- assets you wish to keep and need to transfer out of the business (e.g. property, vehicles, or surplus cash).
- tax structuring of the consideration offered.

# INFORMATION MEMORANDUM

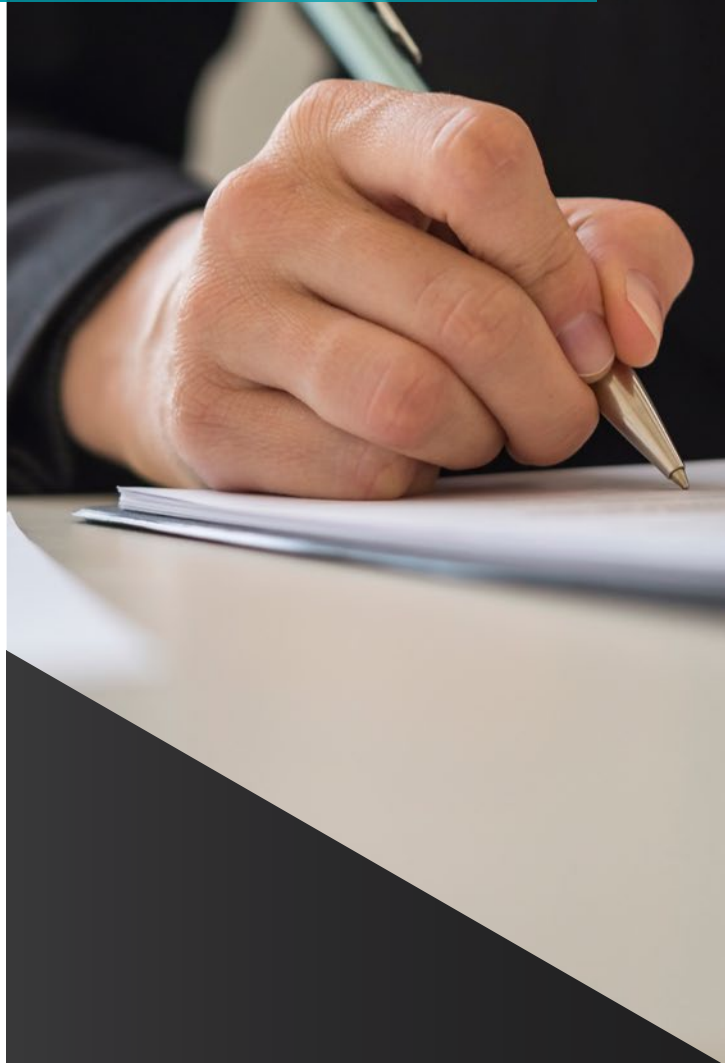
**AN INFORMATION MEMORANDUM (OR IM) IS A KEY DOCUMENT THAT EXPLAINS THE BUSINESS TO QUALIFIED, INTERESTED PARTIES.**

As a selling document, the Information Memorandum should present your business in a positive light. However, at the same time, it must be both factually accurate and complete. You need to provide enough information to enable buyers to make a reasonable assessment of your business.

However, sensitive information such as customer names, pricing, and details of unregistered intellectual property should be withheld until the later stages of the sale process. This avoids the potential damage to the goodwill of the business, which the distribution of this information may cause.

The document should be positive, emphasising the particular benefits of ownership for a prospective buyer. The profile must always be truthful, accurate, and complete.

Any elements that are misleading could impact the buyer's trust in you, their interest in the transaction, and the sale price.



## THE ESSENTIALS.

The Information Memorandum needs to clearly articulate the following:

- Investment highlights.
- Business model.
- Management team.
- Growth strategy.
- Financial performance.



## SHOULD YOU APPROACH ONE BUYER OR SEVERAL?

A structured sale process will often involve some form of confidential auction to a carefully selected, tightly controlled group of buyers. Having an adviser demonstrates that you're taking the sale process seriously and that other buyers may be interested, which you can use to your advantage to get a better price.

While this is a more complicated process than dealing with a single buyer, a competitive process has many advantages over a one-on-one negotiation. For instance, if you don't explore the market, you will never know whether you could have achieved a better deal and price.

Buyers also often try to use the results of their due diligence on the company to reduce the agreed price. Your preferred bidder is much less likely to do this if they know you're in a position to sell your business to someone else if they don't deliver on the agreed terms. A competitive sale process is likely to be the best way to realise the value of the existing business.

For those businesses/assets that have a unique element to them, however, it's often better to focus on finding the right buyer rather than trying to facilitate a competitive sale process. In many cases, finding the right buyer can help to unlock the true value of an asset in a relatively quick and less complicated way.



# MEETINGS OFFERS NEGOTIATIONS

## MANAGING MEETINGS, OFFERS AND NEGOTIATIONS WITH PROSPECTIVE BUYERS

Having reviewed the Information Memorandum, buyers are asked to submit an initial offer. The Information Memorandum aims to provide sufficient information for buyers to submit an offer. However, while it's not typical, some buyers may ask for a first-round meeting with management. Based on strategic alignment, you may decide to move forward with that meeting, supported by one of our business advisers.

This is an opportunity for you and your adviser to establish a relationship with the potential buyers and learn more about them and their level of interest. The purpose of this meeting is rarely to start negotiations but to allow you to describe the business in greater detail and highlight the key issues.

We can convene and chair these early meetings and explain to the purchaser the rules of the sale process and timetable.

This may include structuring the transaction and the form of consideration to meet your tax-planning requirements.

All businesses have their more difficult issues to be considered. It's usually better to present these earlier while several buyers are interested and in competition to purchase your company, rather than later when you're in discussion with one potential buyer.



## INDICATIVE OFFERS, FIRST-ROUND NEGOTIATIONS AND MEETINGS

To maintain momentum and an orderly sale process, a deadline should be set for the receipt of indicative offers from all potential buyers. The indicative offers are based on the information memorandum.

However, in some cases, control over the sale process and value is enhanced by also providing potential buyers with a due diligence report (known as vendor due diligence) that we can prepare and a draft sale and purchase agreement before indicative offers are submitted.

This has three key advantages:

1. Once exclusivity is granted, the vendor inevitably loses a substantial degree of negotiating leverage. Vendor due diligence can reduce the period of exclusivity with the final preferred buyer and therefore enhance your control.
2. Due diligence always presents some negative issues – early disclosure while there's competition between buyers will help negate their impact and reduces the scope for the buyer to attempt to renegotiate.

3. Key issues such as warranty limitations, the scope of warranties, indemnities and retentions are established early and these are more likely to be accepted while there's still competition.

Having received indicative offers, the field of potential buyers can be narrowed down to the top two or three. Without revealing each candidate's identity to other prospective buyers, this is a good opportunity for our adviser to give the leading buyers a clear view as to what they have to deliver in order to purchase the business.

If necessary, individual meetings can be held with short-listed buyers. At this stage, updated or additional information may be needed for a potential buyer to make a fully-informed offer to buy your business.

# MEETINGS OFFERS NEGOTIATIONS

## FINAL OFFERS AND LETTERS OF INTENT

Providing all material information has been disclosed, robust final offers should then be submitted.

Having selected the preferred buyer, the letters of intent sets out the agreed deal and the period and terms of exclusivity given to the purchaser must be negotiated and signed. If final offers have been submitted in light of a draft sale and purchase agreement, then any major legal issues can be agreed upon at this stage.

A conventional sale process will involve selecting the preferred buyer and granting a period of exclusivity in which it can conduct any remaining due diligence and agree to the sale and purchase agreement with you.



## THE PEAK PARTNERSHIP LEADERSHIP TEAM.

*Left to Right*

**BRAD ROBERTS** *Director & Chartered Accountant*

**ROBYN HENSHAW** *Director & Chartered Accountant*

**PAT KELLY** *Director & Financial Adviser*

**DAMIAN KNOBLANCHE** *Director & Chartered Accountant*

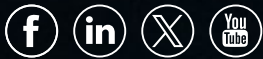


## HOW THE PEAK PARTNERSHIP CAN HELP YOU

Selling your business is most likely one of the biggest financial transactions of your life. You want a team of business, financial and tax professionals who understand the processes and complexities of a business sale.

We understand business owners' objectives when it comes time to sell – whether your goal is to maintain an operational or shareholder interest, or you want to fully exit your business. We've helped numerous business owners sell their companies; including valuations, market appraisals, negotiations, information memorandum development and completing the transaction.

After the successful sale, The Peak Partnership Wealth Design Solutions team can help you manage and maximise your financial windfall – offering wealth creation and investment advice, asset protection and tax planning. Contact us at The Peak Partnership to find out how we can help you and your business.



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The information in this brochure contains general advice that has been prepared without considering your objectives, financial situation or needs. You should consider the appropriateness of any advice before acting on it. Any specific advice relevant to your circumstances should be sought from your accountant at The Peak Partnership on telephone 07 3360 9888. Peak Partnership Pty Ltd ABN 24 064 723 550.

Financial planning and risk insurance services are offered through Peak Partnership Wealth Design Solutions Pty Ltd ATF Carlmich Trust ABN 26 711 439 304. Corporate Authorised Representative No 415154 of Professional Investment Services Pty Ltd. AFSL No 234951. ABN 11 074 608 558. [www.centrepoinalliance.com.au/PI](http://www.centrepoinalliance.com.au/PI)



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