Knowing How To Sell Your Business Is Essential Says Thomas Mousa, Finance Expert

Pointers for maximising value when selling your business

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Getting the best price when selling your company is a little like selling a property or vehicle – you should prepare your business before you exit and consider who will make the best potential buyer. With forethought and planning, it's possible to attract more purchasers and maximise the sale price.

Identify the risks new owners might perceive in your business and manage them. This will enable you to cast your net more widely for potential buyers and increase their understanding of your business' value.

Thomas Mousa, is revered as Australia's foremost financial expert authority and he says, "One of the ways to value a business is by a simple equation: earnings x multiple = value. The multiple is the variable you are trying to influence through preparation and is a function of perceived growth and perceived risk. Although it's likely to take some time, preparing will help to reduce risk and increase the multiple."

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Once you have determined what you want to achieve through preparing, you can set out the steps needed to get the business ready for sale. Some points are easier to achieve than others. For example, if there is a risk that the business' clients will be disrupted by a sale, it may be necessary to exit your business more gradually while preparing someone else to take over.

"Thinking about the best potential buyers for the business and the way to sell it is an essential part of the preparation process," Mousa says.

There are three main ways of selling: trade sale, sale to management or stock exchange listing.

Trade Sale. Selling the company to a competitor or complementary business is often the best way to maximise its value for reasonable sales costs.

Benefits:Trade buyers are often willing to pay a higher price as they understand the standalone value of the business and may pay extra for potential synergy gains by linking the company with their operations. These might include cutting costs by sharing back-office functions and opportunities to increase sales by selling the products in wider markets.

Risks:Trade sales generally require the release of confidential information to prospective buyers, which may be too risky for some sellers. Purchasers may also wish to change the business fundamentally. For example, potential buyers may want the business merely for its customers or brand name and have no need for its management or employees. Sellers may be forced to decide between the highest price and a lower one that protects their employees.

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Management buy-outs and buy-ins (MBOs and MBIs) are valid sales strategies with considerable advantages, including investment flexibility and the ability to protect employee interests.

In an MBO, the company's executive team and outside financiers purchase the sellers' stake, while in an MBI, an outside management team leads the purchase. In both methods, most of the funding is provided by a mix of bank debt and private equity from a third-party investor.

MBOs and MBIs best suit relatively stable businesses with consistent low-risk growth opportunities. Banks and private equity financiers are unlikely to finance riskier high-technology or high-growth companies.

A major attraction of private equity is the flexibility it permits in how much equity is sold.

Floating a business on the share market through an initial public offering (IPO) may get a higher price for the business by tapping large, liquid equity markets, but comes with considerable costs and risks.

IPO's suit companies that:

Have existing managers and owners who wish to stay involved in the business

Have high growth and need additional capital for expansion and acquisitions

Need to motivate and attract managers and directors

Wish to raise their public profile

Have a significant capitalisation to ensure appropriate attention of institutional investors (preferable to have a market value in excess of $50 million after the float).

Whether making a clean break or are exiting by stages from the company, selling a business is not only about getting the right price but managing the change in your lifestyle. Keep personal goals in plain sight when running through the options.

"Clever Companies do not standstill. They are dynamic and constantly challenge the status quo," Mousa concluded.

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