

SELLING YOUR BUSINESS GUIDE



Selling a Business

Selling a business is a great opportunity for owners to reap the rewards of years of hard work. It can also be a challenging and emotional and sometimes stressful time dependant on circumstances and the market a business is selling in. This guide is designed to give business owners insights on how they can best prepare their business for sale, the sales process and some of the common challenges faced during the selling process.

YOUR JOURNEY STARTS NOW

INSIDE GUIDE

Getting Ready to Sell
Business Worth
Inspections
Common Reasons Why
Sales Fall Through
Negotiating
Why use SBX?



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Prepare a Timeline

As soon as the first seed is planted in your mind that you plan to sell your business, even if you are planning for a few years down the track, you want to start working towards making your business as saleable as possible. Have a discussion with your accountant and discuss how to reduce unnecessary expenses and work towards showing profits in your profit and loss statements. The weekly or annual profit is often the first thing prospective buyers will look at. Keep good financial figures, buyers feel confident when they can see proof of your trading. Have your exit strategy ready.

Urgent Sales

If you have pressing reasons such as health, family or are relocating it's important to be even more organised and ready to sell. Alert your broker to your urgency and consider additional advertising to boost the visibility of the business on the most popular web portals.



Think Like a Buyer

Most owners know their businesses inside and out, so they know the value of their business in their minds. To sell a business, owners need to think like a buyer and will have to paint the picture of the business clearly so a buyer can see the value of buying this business. What would you need to see to be convinced on the value of a business? Put your buyer's hat on and think like a buyer.

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How Long Does It Take To Sell?



Did you know that it can take much longer to sell a business than it can to sell a house? This can be due to several factors. The right buyer must be in market at the same time, looking for a business in your location and your industry and additionally have the right skills and experience to successfully take over and run the business. If you plan to exit your business within a certain period, it might be worthwhile considering bringing your business to market earlier than you had initially planned. You are better off giving yourself plenty of time to sell rather than having to sell in rushed circumstances. Remember, even though you only need one buyer, it can take many to find the right one.

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IF YOU WANT TO SELL QUICKLY, BE PREPARED AND HAVE EVERYTHING READY

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Get Ready to Sell

Once you have decided to sell your business, you need to start preparing all the additional information a potential purchaser will want to see prior to making an offer:

Financials

Get as organised as possible. The more years the business has been trading with good financials, the easier it will be sell. Profit and loss, BAS statements, POS, Invoices. Collate all the relevant information to have on hand to present to the prospective buyer during due diligence. Please discuss with your broker if you do not have some of these things

Lease

Get a copy of your lease and disclosure statement and review the lease terms. Can you extend the lease, is there a demolition clause? These will impact the business value.

Equipment

Make a full list of all equipment, purchase date, the condition and estimated value. Leased equipment or equipment owned by the landlord should be disclosed with costs included in expenses. Equipment will be included in the sale price.

Staff

Ensure you staff entitlements are up to date. Prepare staff rosters and be clear about the owner's role or any manager's role in running the business.

Other Requirements or Expenses

Disclose any other fees associated with the business such as franchise or training fees, licences or certifications, applicable Council approvals such as DA's, footpath seating.

Intellectual Property and Trademarks

Confirm if brand and IP are being sold with the business. Have all documentation collated and ready including artwork and files for branding and logos.

Stock at Value (SAV)

Estimate the average amount of stock you carry. SAV is usually always added on top of the asking price (in some cases stock is included). The stock is valued at the contract preparation stage. Prior to settlement a final stocktake is undertaken and there might be a price difference between what was initially included in the contract and the final stocktake.

Solicitor

Have a solicitor on hand to be available to draw up the sales contract.

Business Reputation

Look at your online reviews, can you improve your brand reputation. Buyers like businesses with good history and good reviews.

Digital Assets

Update your website and social media platforms. Collate all your username and passwords.

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What is Your Business Worth?

The value of a business is based on a multiple of the annual profits or the annual EBITDA (Earnings before interest, tax, depreciation and amortisation). This multiple can vary depending on several factors such as length of lease, location, fit out, quality of plant and equipment, history in the business and customer base and many more. It can also vary from industry to industry. Your business broker will be able to help with appraising your business and working out what asking price range your business should be in. They will be able to advise you on the current market conditions and know what other similar businesses have sold for recently. Please contact your broker for more information.

Buyers and Finance

Is your business suitable for a prospective buyer to be able to obtain finance? Many buyers will require finance for a business purchase and for a business to be suitable it needs to have strong financials available for at least the past 3 years. If you don't have financials available notify your broker so they will only put forward prospective buyers who have the full funds available.

Vendor Finance

Consider if offering a buyer Vendor finance is a path you are willing to go down. If you are willing to accept a % of the sale price and then have the new owners pay you back in instalments it can be a good solution for all parties. The terms are negotiated by the broker for a suitable outcome and added as conditions to the Sales Contract.

INFORMATION MEMORANDUM

An Information Memorandum (IM) is a document or PDF that is prepared to give a full overview of your business to a prospective buyer. An IM will include a full summary of the opportunity, the finances, the premises, organisation and management, SWOT, marketing, and image gallery. An IM is generally prepared on businesses with a high sale value, are unique or include intellectual property or patents. Buyers looking to invest in businesses over \$500k will always ask for an IM. Speak to your broker.

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Business Processes, Training & Handover

Buyers need to feel confident that they will have the processes and training to be able to successfully run the business when they take over. Many owners are such integral parts of their business success however we need to ensure the business has value to a prospective buyer without the owner. Consider what processes you can put in place and what training period you may offer a new buyer, or if you would stay on for a period of time to assist with the transition (this will be negotiated by both parties).

WIWO

Walk in walk out means a new buyer comes in and the new owner walks out. A WIWO sale usually means that there will be very little due diligence information available and usually everything is included. This can benefit both the buyer and seller as it can facilitate a quick sale. Hospitality businesses most commonly sell as WIWO as they hold very little stock and a new owner can get trading quickly and at a much lower expense than setting up and fitting out new premises.



Buyer Inspection

During the process of a sale you will be asked to conduct buyer inspections of the business. These may occur after hours if you are keeping the sale confidential from employees. The purpose of the inspection is to allow prospective buyers the opportunity to meet the owners, inspect the premises and the state of the equipment and get a sense of what it would be like to own and work in the business. Ensure that you give a full tour and showcase how the business is run. Your broker will qualify a prospective purchaser prior to setting up any inspections and will organise these meetings.

INSPECTION DO'S AND DON'TS

Do:

- Give a full tour of the premises
- Equipment age and value
- Discuss fit-out value
- Share insights on customers and suppliers
- Share information on lease and landlord

Don't:

- Judge the prospective buyer
- Imply the business cannot be run without the owner
- Over inflate sales or profit
- Hide or not disclose issues or limitations
- DO NOT DISCUSS PRICE

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Common Reasons Why Sales Fall Through

Finding the right buyer is often challenging and it can be extremely disappointing when a buyer is found but the sale falls through. Below are the most common reasons sales fail to proceed.

Asking Price Too High

This is without a doubt the biggest barrier to selling a business. A lot of owners are trying to recoup the cost of a fit out or cost they have put into setting up and running a business over the years. Unfortunately recouping this amount is not always achievable. Owners need to be realistic about what they can expect to get for a business based on the trading value of the business not the setup cost. If you are not getting many enquiries on your business, it is most likely due to being overpriced. You broker will advise you on the price they think is achievable, however if you decide to go higher be prepared that you may need to drop the price over time to be inline with market expectations.

Buyer Finance

SBX encourages buyers to secure finance as early as possible in the business sales process, but unfortunately the loans are not always approved. The lending market is extremely conservative at present and borrowing funds is more challenging than ever for prospective buyers.

Relationship Breakdown

Brokers are very experienced in managing the expectations and desired outcomes between an owner and prospective buyer. As tempting as it may be to develop a direct relationship with a prospective buyer it is one of the most common mistakes that occurs during a sale. Relationships can quickly become strained, personality clashes and disagreements over the negotiations and conditions in the sale contract can commonly prevent a successful sale.

Due Diligence

Owners need to be upfront and forthcoming with information in a responsive and timely manner. Buyers need to feel confident that the information they are receiving is authentic and true. It is the buyers right to ask a lot of questions and together the broker and the owner need to be available and responsive to answer all questions and concerns.

Honesty and Transparency

The best way to sell a business is to be honest and transparent. What is your reason for selling? Is the sale urgent and why? If a buyer thinks an owner is hiding something, they will lose confidence and not proceed.

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Opinions of Accountant and Solicitor

Buyers will often seek the advice of an accountant or solicitor and in most cases, they will only have financials and the sales contract to review and will not have viewed the business premises or compared others in the market. They will give advice based on the figures alone which can quickly put buyers off. Additionally, SBX encourages vendors and buyers to use solicitors that have some experience in business sales as the contract negotiations can become drawn out and argumentative – causing either party to pull out of the sale.

Landlord Approval

Buyers need to get approval from the landlord to take over an existing lease or establish a new lease and most sales are dependent on landlord approval. Landlords will generally not approve a buyer that has no experience running a similar business. SBX will assist buyers with applications to ensure they are completed fully to improve their chances of obtaining approval.

NEGOTIATING SALES PRICE

Do not discuss a sale price with buyers directly, especially during an inspection. Some buyers in their nature need to feel that prices can be negotiated down and will always try to do so, no matter how well priced a business is. Let the brokers do the negotiations, an offer too low can break down relations and owners will stop treating a buyer seriously. Brokers can work with buyer's offers to make them realistic in light of the value of the business and the current market.

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Why Use SBX Business Brokers?

Selling a business through a broker has many advantages for an owner. Firstly, the brokers have access to a large database of buyers that they will contact and promote your business to. Additionally, SBX listings are advertised on the most popular businesses for sale websites which increases the visibility of your business to buyers in the market.

Selling through a broker means the sale can be confidential from staff and suppliers and you don't have to deal with the time wasters and tyre kickers. SBX Buyers are required to be registered and complete a confidentiality agreement prior to receiving any information about your business. Brokers will qualify the buyers and evaluate their experience and suitability for each business.

Our Brokers will also:

- Appraise the business based on current market conditions
- Prepare a listing for sale
- Advertise and promote the business
- Prepare an Information memorandum (where applicable)
- Qualify buyers to match to the business
- Ensure confidentiality and privacy
- Organise and coordinate inspections
- Facilitate due diligence and information gathering
- Negotiate sales price
- Negotiate sale conditions
- Assist buyer with landlord approval

**SBX HAVE A
RANGE OF
MULTI-LINGUAL
BROKERS.
PLEASE REQUEST
IF YOU PREFER.**



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Advertising

SBX offers a range of advertising packages to promote business listings on the most popular websites for selling businesses. These websites and the SBX website drive hundreds of enquires every month and SBX is committed to supporting business owners. We also offer packages for advertising in range of multi-language publications and promote on Facebook and Instagram.

For more visibility we recommend our owners invest in advertising to drive more enquires.

Commission Payable

Business Brokers conduct a lot of upfront work for owners before they receive any payment of fees which only occurs on the successful sale of the business. When listing a business with a broker you will be asked to sign an agreement and confirm you clearly understand the fees payable on the sale of the business. Even if you drop the price of your business significantly there is still a minimum fee applicable which covers the cost and time of the brokers managing buyer enquiries and the cost to SBX for continual advertising for your business. It is your duty as a vendor to be aware of the commission as it will be deducted from the asking price.

KEEP IN MIND

Selling a business can be an emotional and taxing time, and there are a lot of complexities in finding a buyer and negotiating the price and sale conditions. Brokers are experienced in this process and are there to facilitate between the owner and the buyer who are both looking to achieve the best price possible. What you want and what is achievable at the time of selling may be two different things. Be realistic, be flexible and listen to experience, we are all working for the best outcome – a successful sale.

**SBX Business Brokers
30+ Years Experience.**

The information in this document is intended as a guide only.
Please seek independent advice suited to your individual situation.

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