

BARNES ROFFE LLP

Selling Your Business

**Paul Hughes and Graham Wallace – Barnes Roffe
And Jonathan Silverman – Silverman Sherliker Solicitors**

2 February 2011

Experience. The difference.

Selling Your Business

- + The three main questions:
 - How much will I get?
 - When will I sell?
 - How will I sell?

- We will address all the above

Selling Your Business

- + How much will I get?
 - The \$64,000 question (hopefully much more)
 - Proceeds
 - Cash
 - Debt
 - Equity
 - A mixture of the above
 - Valuation
 - What is goodwill? Why is it important?

Selling Your Business

- + When will I sell?
- + More accurately, when do I start preparing?

+NOW!

Selling Your Business

- + How do I sell?
 - Marketing for sale
 - Confidentiality
- + We will address the practical, the technical and the legal

Selling Your Business

- + How much?
 - Three main methods of valuation
 - Future sustainable profits
 - Dividend yield (usually not useful in a SME situation)
 - Assets value
 - What is import for our clients? Usually the profits.....
 - We can, however, be dealing with Intellectual Property (“IP”) or Buildings, beware the “pregnant gain”
- + Beware, also, the tax law drives vendors and purchasers in different directions – selling shares and selling assets or trades from within companies are radically different computations

Selling Your Business

- + Before we do the workings, let us consider why people buy businesses:
 - Expansion
 - Horizontal (e.g. Geographical expansion)
 - Vertical (e.g. Complementary services)
 - Before you negotiate, consider what they need from the deal
 - More profits
 - More turnover
 - Synergy

Selling Your Business

- + PROFITS VALUATION
- + The first step – what are your sustainable profits?
 - Accurate forecasting is better than historical numbers
 - Take out non-recurring items
 - Adjust for your costs (and replacement costs)
 - Make optimistic and pessimistic forecasts (and only reveal one for now!)
 - Don't forget synergy
- + The second step
 - What is a P/E ratio?
 - How do we judge this?

Selling Your Business

- + Any other adjusting factors?
 - Assets surplus to the trade
 - Cash
 - Buildings
 - Flash motor!
 - Paul will deal with extracting these
- + What assets can reasonably be expected to be included in the function of profits ratio?
- + How are minority shareholdings treated differently (if at all)?
 - Make sure you agree on sharing the cost of the sale
 - Beware trust shareholdings
- + What on earth is cash-free, debt-free?

Selling Your Business

- + Expect retentions under warranty clauses
 - Jonathan Silverman will speak on these dreadful issues!
 - Consider
 - PAYE/NIC issues
 - Any self-employed contractors?
 - Any director remuneration issues?
 - VAT issues – can be costly
 - Corporation tax issues
 - Employment issues
 - Other claims (warranties to customers, contractual liability, etc.)

Selling Your Business

- + ASSET VALUATION
- + An asset sale
 - In a straight asset sale the open market value is all important, double tax is the problem
- + Open market value for buildings
 - Adjust for corporation tax on pregnant gain if selling the shares
- + Royalty yield for IP
 - Predict future performance, calculate net present value of future cash flows, allow (again) for corporation tax if you are selling the shares
- + Other assets?

Selling Your Business

- + When will I sell?
 - Economic factors?
 - Personal reasons?
- + When do I start preparing?
 - NOW
 - The old adage is still true – build your business as if you wish to sell it, because even if you keep it, you will enjoy a better lifestyle
 - Ask yourself the simple question – what if I was indisposed for six weeks, would my business keep running without me?
 - Step outside your business and start to work ON it and not IN it

Selling Your Business

- + Let us review some checklists
 - Vendor Saleability Test
 - Review each point
 - Think about the attitude of a major purchaser of the business
 - Key second-tier management is vital
 - Why?
 - How do you lock them in?
 - Can you trust them?
 - How good are your management systems and information? You must invest in this
 - Can you do all that is necessary, whilst remaining detached?

Selling Your Business

+ Grooming issues

- See the next checklist
- Improving many things, each by a small percentage will give dramatic results
- Review our Topical Tips on the matters:
 - <http://www.barnesroffe.com/resources/news-item/maximising-the-potential-of-your-business1/>
 - <http://www.barnesroffe.com/resources/news-item/preparing-your-business-for-sale1/>
- Consider your industry issues (environmental, commercial, legal, etc.)
- Above all, concentrate on the Human Resources!

Selling Your Business

- + How will I sell?
 - Preparation
 - More preparation
 - Set out your stall – consider a pre-sale memorandum
 - Identify possible buyers – you might already know them
 - Consider whether you market the business for sale or make confidential approaches
 - Obtain confidentiality (VERY IMPORTANT)
 - Keep it confidential from staff
 - Share information with caution

Selling Your Business

- + How will I sell? (continued)
 - Negotiate heads of terms (non binding except for confidentiality and, possibly, exclusivity)
 - Due diligence
 - Review of audit file
 - Review of cash flow
 - Legal DD
 - Tax DD
 - Proceed to draft contracts
 - Proceed to final contracts
 - Don't be pushed around
 - Don't expect the first suitor to get to the altar

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+ Tax Rates

- CGT 0% 10% 18% 28%

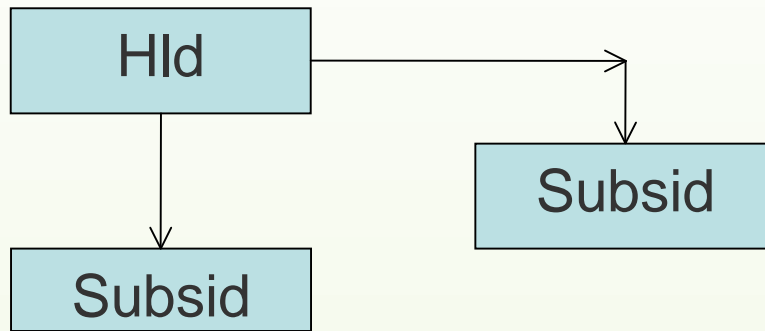
- IT/NIC 0% → >60%

- CT 21% (20%) → 28% (24%)

- Combined tax rate (CT + dividend) up to 54%

Selling Your Business

- + What are you selling?
 - sell topco – whole group



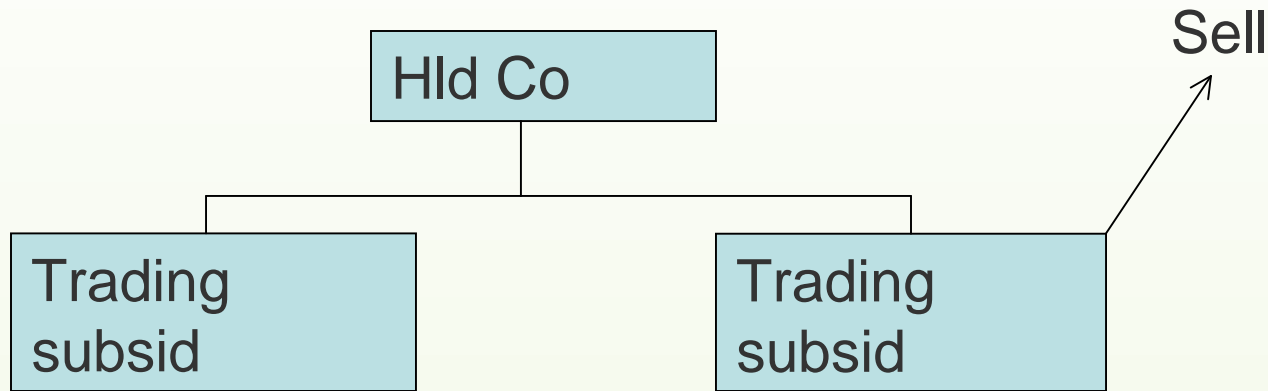
- CGT disposal
- Entrepreneurs Relief – effective rate of tax 10%
- £5 million lifetime allowance

Selling Your Business

- + All members of family have lifetime allowance
- + Employees or officers of company
- + 5% shareholding
- + Property or other assets – are you selling them?
- + Watch rent trap

Selling Your Business

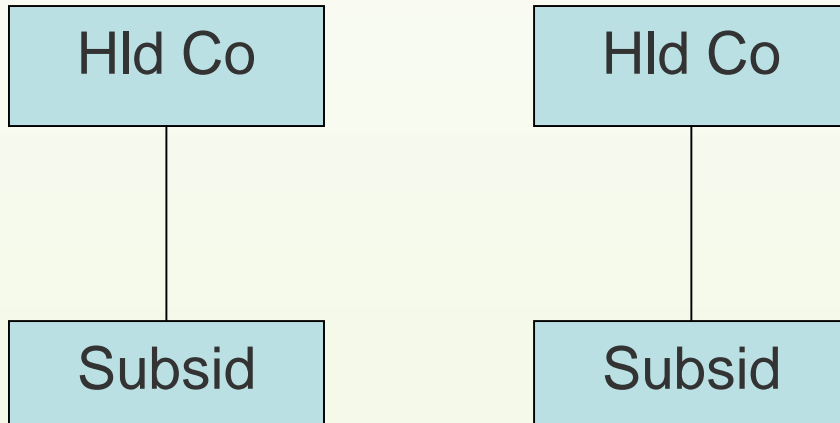
- + Sell part of group



- + Substantial shareholding exemption – tax free gain in Hld Co
- + Proceeds are locked into Hld Co
- + If selling sole trading company – no substantial shareholding exemption

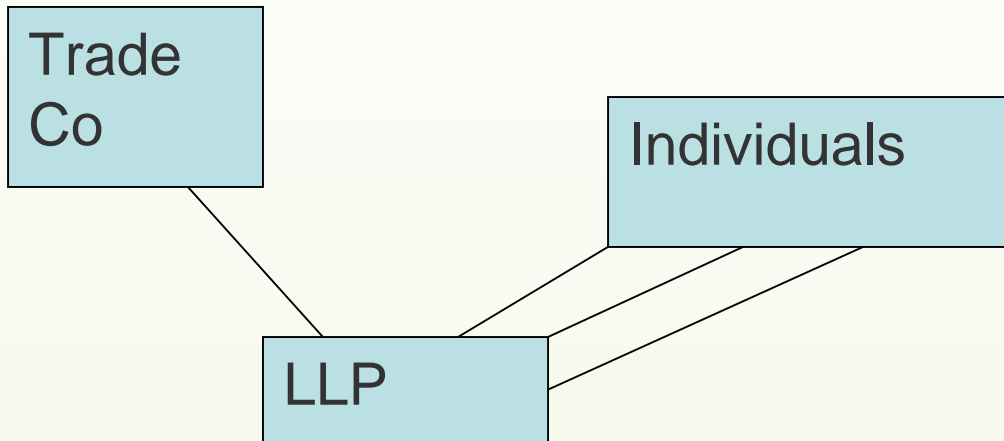
Selling Your Business

- + Demerge one of more companies from the group
 - statutory Demerger
 - liquidation re-organisation



Selling Your Business

+ Hybrid LLP Arrangement



- + Shelter Part of trading profits of LLP
- + Property LLP

Selling Your Business

- + Enterprise Investment Scheme
 - Tax exemptions and reliefs for share subscriptions
 - Unquoted Trading Company
 - Qualifying trade
 - 3 year period
 - Unconnected
 - Use as tax shelter

Selling Your Business

- + Company purchase of own shares
- + Deferred consideration/contingent consideration
- + Paper for paper sales
- + Loan notes

Selling Your Business

- + Sale of business and assets from company
 - Losses
 - Capital allowances

Selling Your Business

- + Unincorporated Business
 - Entrepreneurs Relief
 - Incorporate

Selling Your Business

- + IHT
- + Plan early

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About Barnes Roffe

Barnes Roffe is an independent firm of chartered accountants and business advisors. We've been providing audit and assurance, consulting, financial advisory, risk management and tax services to owner-managers since 1899.

We are one of the UK's top 50 accountancy firms, and our 17 partners and 150 employees are all committed to delivering outstanding value to our clients.

Having helped clients weather the turbulent times of the last century, we pride ourselves on being able to offer fresh perspectives and practical advice to today's clients.

With four offices throughout the South East of England, we are a local firm with a national reputation.

www.barnesroffe.com

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