

Selling a business successfully

The battle for Safeway, which has become one of the most extraordinary for years, saw at least six possible bidders in the fray within days. Ian Bowland, corporate finance partner at the Birmingham office of top 10 accountancy firm Baker Tilly, looks at how vendors – Safeway or otherwise - can make the most of a sale.

It appears that Safeway is living up to its old advertising slogan: everything you want from a store ... and a little bit more. For it is this extra 'something' that seems to have driven bidders towards a company that is suddenly every high-ranking financier's favourite supermarket group!

Any one who knows anything about this deal will understand that the path ahead, from showing interest in the acquisition through to completion, will not be easy. In fact, it could be considerably thorny as the battle to purchase heats up amongst the competition. Let's hope they all have sound business advice to hand!

My comments about sound business advice also apply to Safeway itself. For what it's worth, I have outlined below some of the key points that any potential seller – of Safeway or otherwise – should bear in mind. Much of it can be viewed as common sense, but it is surprising how often it can be overlooked.

Selling a business represents a once-in-a-lifetime opportunity to turn a career into a tangible profit. A thorough understanding of the issues involved, as well as the necessary timescales, can help maximise the business's value.

Owner managers who aim to place their businesses on the market need to address fundamental issues such as moulding the business into a saleable form; planning the owners' financial position; evaluating market conditions; generating an attractive financial performance track record; and pinpointing the optimum time to sell. If all of the above are under control, maximum value can be extracted via the sale.

Shaping any business into a desirable enterprise can take up to two years, depending on the amount of work needed. During this period, particular consideration should be given to ensuring the incorporation of an unincorporated business, thus defining within a legal structure what is for sale; creation of a group structure which eliminates minority



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interests; provision of requisite management skills for the pre- and post-sale periods; agreeing key supplier and customer contracts; guaranteeing that litigation, environmental and safety issues are concluded; and ensuring that all assets required to run the business are actually contained within it.

Your business's tax position is pivotal, because you should maximise post-tax gain. Examine how shares in the company are held and your family's financial planning, including children's trusts and how the sale's timing will affect your future.

Tax changes are inevitable and may affect proceedings. Movements in taper relief, capital gains tax legislation and trusts are constantly under review. It's best to monitor trends with your advisers on a regular basis.

The optimum marketing period should be identified as part of the sale process. This is influenced by factors including conditions in the relevant sector and the general market for private company transactions, proposed tax and regulatory changes, the company's optimum timing in terms of readiness for sale, potential profitability and the need to sell.

As far as valuation of a private business is concerned, it is undertaken on a number of different bases - often a multiple of post-tax profits based on the price / earnings of similar quoted companies discounted to reflect the non-marketability of private company shares. Any valuation fluctuates according to the net assets of the business, profit growth potential and the acquirer's aims, allied with the state of the business being acquired.

Acquirers need to know whether or not the

business needs capital investment. Will it require active or passive management? Are there urgent issues which need to be addressed, such as environmental problems? Are its customer and supplier relationships good? Are there any fundamental uncertainties overshadowing the sale?

Ultimately, the value of any company is only agreed on a willing buyer - willing seller basis.

The final link in the process is dealing with potential purchasers, who can turn up 'cold' or be sourced by encouraging an MBO; defining the profile of a likely acquirer and researching specific targets; approaching M&A professionals; direct contact with management buy in teams or institutional investors; probing competitors; or advertising in the trade and business press. The latter approach usually involves professional advisers who lend credibility to the proceedings and manage the process off-site.

Beware: there is an art to dealing with potential buyers.

Imagine the telephone ringing and someone saying that they want to buy your company. After popping the obligatory champagne, steady on. This does happen - particularly if you have built up a successful business. At this stage buyers are looking for two things: information and a meeting. Your requirements at this juncture are also simple: a confidentiality agreement and affirmation of genuine interest.

Meet potential purchasers in an open forum. You must find out what the buyer genuinely wishes to pay for your business; core information is required for an informed bid. Reticence in key areas may give the impression that you have something to hide and quell a good deal.

Once bids have been received and the preferred buyer identified, heads of agreement are finalised. These define the key commercial terms of the transaction: price, warranties, on-going relationships, conditional factors and due diligence.

Once heads of terms are agreed, you may have shaken hands, but the paperwork has just begun. Many shareholders expect the process to be quick and painless - a naive assumption. Even if all preparatory work has gone smoothly, the sale itself may take four, six or nine months to complete - a once-in-a-career, all-consuming event. Planning and preparation reap significant financial rewards for the patient vendor.

And this is something for Safeway to bear in mind as the bidding heats up for its coveted supermarket crown.

For First Class Business Solutions

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