

HOW TO SELL YOUR BUSINESS

And maximise your valuation



M&A Deal Platform

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INTRODUCTION

This guide on “How to Sell Your Business” is intended to show how the use of a standard process and approach when selling a business can reduce the risk and complexity of mergers & acquisitions, while maximising the valuation of the business.

This process is built upon decades of M&A experience, and in this guide the most important steps have been clearly captured to help owner managers quickly understand the end-to-end process of selling a business and use that to select the correct M&A advisor to work with them on their own transaction.

*In the world of M&A **the process is key** and with the information this guide provides, an owner manager will learn about a proven and repeatable process that they can build upon in their own transactions.*

THE 3 PHASES OF SELLING

There are three main phases for an owner to manage when selling their business, these are the **preparatory**, **marketing**, and **legal** phases.

Each of these phases contains multiple steps that need to be completed for a successful M&A process.

A. Preparatory Phase	B. Marketing Phase	C. Legal Phase
Step 1 Why You Want to Sell	Step 1 Approach Purchasers	Step 1 Due Diligence
Step 2 Market Research	Step 2 Sign Mutual NDAs	Step 2 Legal
Step 3 Information Memorandum	Step 3 Information & Site Visits	Step 3 Resolve Issue
Step 4 Agree Approach	Step 4 Offers	Step 4 Deal Closure
	Step 5 Negotiations	Step 5 Post Deal
	Step 6 Heads of Terms	

From our experience if these steps are followed then exiting becomes nearly as simple as **ABC**.

A. PREPARATORY PHASE

A successful transaction, like winning an Olympic medal starts with plenty of preparation before the event. And like an Olympic athlete if you want to be competitive you will need a good advisory team to support you.

Tip: In M&A terminology a Seller is commonly referred to as the Vendor.

Step 1: Why You Want to Sell

It's very important for the owner to understand why they are looking to exit as this will drive the approach and directly impact the likelihood of success.

And to understand that you need to know why owners start and run a company in the first place. And it's not as most people think just for the money.

People start and run companies for the **freedom** it gives them.

Conversely, the only reason an owner is ready to sell is because their business no longer gives them that same **freedom**.

If you still love running the company, the early starts, the late nights, then for a typical small / medium company, you will earn more money from continuing to run it than selling it. That is, financial reasons are never a compelling enough reason to sell your company.

Freedom usually manifests in 3 broad areas when selling.

- 1) Retirement
- 2) Change of personal circumstance and
- 3) The business has grown to a point where it's no longer fun to work in

If any of these reasons speaks to you then **you're ready to sell**.

Advice: The M&A Advisor should help the seller understand and clearly document the reasons why they are selling as this will be a key area of interest for buyers.

Step 2: Market Research

Market Research is the process of understanding the selling companies' sector and identifying the **best strategic acquirers**, where 'best' is usually defined as providing highest valuation and most likely to protect your legacy.

This is the **single most important job** for your M&A Advisor and it's critical the vendor understands how their prospective advisors will unearth strategic buyers before signing with them.

Tip: Many M&A brokers will not put the effort in doing research and will rather just place an advert on a couple of websites and hope to get lucky!

The initial market research creates a very broad buyer map with more than 100 potential candidates by.

- Industry & Sector
- Competitive Industry / product mix
- Revenue / Size
- Location of Operations

This list is then further refined by understanding the mapping between.

- Industry sector and where value can be captured
- The technology trends and barriers to entry
- Key players domestic and international
- M&A Trends within this sector and across complimentary sectors

Then with further extensive market research it is possible to identify buyers that are a strategic fit for your company and therefore will **pay a premium** above the standard sector multiple.

Examples of strategic fits include, overlapping customers bases with complimentary products that can be sold into both customer bases and companies that are looking to rapidly expand into different geographies.

Advice: The M&A Advisor should share with the seller their plan for how they will perform market research and use it to identify and then contact potential buyers.

Step 3: Information Memorandum

The Information Memorandum (IM) is a **key document in a successful sale**, that really needs to show the best features of your company, by pulling out its Unique Selling Points (USPs) and growth story to convince the buyers make your company a strategic purchase.

However, it's important to remember that the Information Memorandum will also be referenced by buyers throughout the transaction and therefore its equally important to make sure you manage the message from day one.

Redacted Information Memorandum

This is a special version of Information Memorandum that is shown to buyers that may be just looking to steal your IP and / or business model and therefore all confidential information should be removed.

A Mutual NDA should not be considered a guarantee against Intellectual Property theft and if you unsure about any buyer's intentions its safer to provide them with a redacted Information Memorandum.

Advice: The M&A Advisor should produce the Information Memorandum and it's very important to verify that it provides your company in a positive but fair light. They should also be ready to produce a redacted version if you request.

Step 4: Agree Approach

At this point, it's very important that both you and your M&A Advisor are on the same page about your desires for **legacy and valuation**, your company USPs, and both understand the process, the risks and pain points to come.

Once that is all agreed, the marketing phase may begin....

Advice: The M&A Advisor should provide honest feedback on your business USPs and Issues, as well providing guidance on the owner's expectations of company valuation.

B. MARKETING PHASE

From the previous preparation phase, your M&A Advisor should now understand your business, the specific sector segments you operate in and be able to articulate your USPs, understand where you might add value to other companies in your and adjoining sectors and be ready to execute the agreed strategy with you. This means they are now **ready to market your business**.

Step 1: Approach Purchasers

With a long list (50+ companies) of potential strategic buyers created during the preparation phase, the M&A advisor should reach out to the potential buyer's executive team and / or owners to discover if they are interested in purchasing a company.

Obviously, the trick is to identify companies interested in acquisition but without letting them know the advisor has a client for sell and definitely not letting them **know who the selling company is**.

Advice: The M&A Advisor should be able to provide the vendor with their buyer targeting strategy.

Step 2: Sign Mutual NDAs

Once potential buyers have been identified (a short list), then the M&A advisor will reach out and ask if they are interested in potentially purchasing a specific target. At this point only teaser information is shared, enough to whet the buyers' appetites but not enough to **fail the google test**!

The google test is when you take the information teaser and google it. A fail is if you can identify the company and a pass if you can't!

Advice: The M&A Advisor should provide Mutual Non-Disclosure Agreements (NDAs) that are suitable for the M&A Process.

Step 3: Information & Site Visits

Additional information may (will) be requested by the buyer about the company and the vendor will need to provide full or redacted versions depending on how comfortable they are with the risks of **potential loss of Intellectual Property (IP)**.

Buyers will want to visit the company offices and / or factories to verify them.

The meeting also allows buyer and vendor to interact and engage in question-and-answer sessions and to gauge whether both sides can play well together.

Advice: The M&A Advisor should support the vendor by preparing them for the visits and helping them understand what documents should be sent at this stage and if any should be redacted to protect IP.

Step 4: Offers

At this point it is typical for one or more buyers to indicate interest and produce a non-binding Indication of Interest (IOI).

Selecting the “best” offer is complex and not just about picking the highest cash offer but balancing against owners’ legacy, understanding the reasoning behind the buyer’s interest and how the deal may be structured.

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The best deal might **not be the initial highest offer** but instead a balance of buyer’s interests aligned with sellers’ own goals, be that a quick exit or ensuring their employees and the business future are secure.

Advice: The M&A Advisor should support the vendor by ensuring the deals offered reflect the owners’ goals and align with “fair” valuations.

Step 5: Negotiations

If the Indication of Interest (IOI) covered in the preceding section is acceptable to the vendor, the next step is for Buyer(s) to meet with vendor's management team.

The vendor conducts the meeting, which provides a financial update as well as updates to any other issues that may be pertinent for buyer, such as new customers, lost customers, new hires, new product launches, litigation, etc.

The meeting also allows buyer and vendor to interact and engage in question-and-answer sessions and to gauge whether both sides will be able to work together.

Advice: The M&A Advisor should support the vendor by helping with meeting preparation.

Step 6: Heads of Terms

At this point, if the buyers are interested, they will submit a Letter of Intent (LOI), also known as "Heads of Terms", a nonbinding document that forms the basis of the final deal. It contains a specific purchase price, rather than a range and provides the steps needed to close the deal.

If there are multiple buyers and therefore LOIs, the seller can select their preferred option and sign the relevant LOI.

Advice: The M&A Advisor should provide guidance and help the vendor understand the options and while the "price" offered is a key consideration there are usually many other factors included including Earn Out Clauses.

C. LEGAL PHASE

From the previous marketing phase, you should now have agreed the Heads of Terms with your preferred buyer and are ready to work through due diligence, working together to resolve and document any issues in the relevant legal documentation. This means that you are both **ready to close the deal**.

Step 1: Due Diligence

When the vendor agrees the buyer's Heads of Terms, the process moves to due diligence, where the buyer conducts its own investigations of the business, also validating the information provided thus far. The vendor is expected to disclose all its contracts, financials, customer information, employee information, and much more to the buyer.

Typically, the due diligence information is uploaded to a secure, online data room, commonly known as a data room, where multiple persons are able to make access, make notes and then to ask vendor additional questions also known as Request for Information (RFI).

Advice: The M&A Advisor should support the vendor by ensuring the buyer is requesting valid documents.

Step 2: Legal

The legal stage is where the final nuisances of the Purchase Agreement are completed, matching all the previous steps to the due diligence documents, and capturing any remaining gaps.

Advice: The M&A Advisor should support the process by providing commercial insight to the business and strategic awareness to ensure the deal completion.

Step 3: Resolve Issues

Lots of **deals can fail at this stage**, which results in a large waste of time but if prepared correctly and perceived risks are properly explained away or mitigated, price chips or undesirable structures can be avoided.

Advice: The aim for the M&A Advisors on both sides is to work towards a non-zero-sum game as far as possible.

Step 4: Deal Closure

Once due diligence is completed, legal documentation finalised and all hurdles to the transaction are resolved, **both sides can celebrate** and continue on their own paths.

Step 5: Post Deal

Once the contracts have been signed, the transition between owner manager and buyer begins, following the process agreed within the Purchase Agreement and tying up the loose ends of the deal in the post-closing adjustments and integrating the acquired company.

QUESTIONS?

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FAQs

How much does it cost to sell my Business?

The buyers' fees are paid by the buying company.

The vendors M&A Fees are typically structured in one of two ways.

Retainer with Success Fee

In this structure, the owner pays a retainer, usually in the range of £15,000 to £30,000 depending on the estimated complexity and likelihood of sale. The sales process is then started, with an Information Memorandum produced. If the company is sold, an additional success fee, typically 2-5% (of gross purchase consideration) is paid upon completion.

This type of structure is typically preferred by M&A Brokers, who see it as a win-win, with hundreds of deals generating the majority of their revenue with minimal work and no risk. A broker expects less than 10% of their clients to sell and these are typically only the most successful and best run business.

Success Fee Only

In this structure, the owner pays small retainer of less than £1,000 or even no retainer. The sales process is then started, with an Information Memorandum produced. If the company is sold, an additional success fee, typically 5-7% (of gross purchase consideration) is paid upon completion.

This type of structure is usually offered to the higher value and more certain to sell companies allowing brokers a better return.

Who Pays the M&A Fee?

Sellers' success fees are paid by the company and are therefore effectively absorbed by the buyer as they are considered a company cost. However, retainer fees are typically paid by the owners to hide the listing until later in the process.

How do you find the “value” of the company?

There are many ways to find a value of a company with the most common explained below.

However ultimately the value of a company is only truly discovered when someone buys it either by M&A or if it's listed on the stock market.

Multiples Valuation

Multiple's valuation or relative valuation uses the known market valuation of number of peers within a sector, usually listed companies as their valuation is easily obtained. This ratio is then applied to your own company to provide an estimate of its valuation.

Multiples Valuation is therefore very much an estimate of your current valuation based on what the stock market believes are the future growth prospects of your listed peers rather than your own companies future potential.

A typical example is accountants, who have a multiple of 1.5 to 2x versus a FinTech that has multiples of 15x or more.

$$\text{Valuation} = \text{Profit} \times \text{Sector Multiple}$$

Discounted Cash Flow (DCF)

Discounted Cash Flow (DCF) is generally considered the most accurate method for valuing a company. In DCF, future cash flows are estimated and then discounted by the cost of capital to give their present values. This means DCF is more about the future growth and profit than past performance.

In order to calculate DCF, you therefore need to have your current cash flow with estimates of future cash flows and your cost of capital.

In DCF, cash flows generated over the next 5 years and in perpetuity are estimated and then discounted back to what their total sum would be worth today based on a 'discount rate' - usually weighted average cost of capital (WACC) In order to calculate DCF, you therefore need to have your current cash flow with estimates of future cash flows and WACC. DCF, like multiples have their flaws too, in general, the practice of valuing a company is an imperfect science. However, it informs a basis of discussion and overall market price.

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What is the strategic multiple?

A strategic multiple is where your company fits into another company's strategy, therefore increasing the value of your company to that specific buyer.

Auction Versus Negotiated Sale

An auction is a business sale process where a group of buyers makes their final and best bids, and the company goes to the best bid.

A negotiated sale occurs when a vendor talks with each buyer and perhaps tailors the pitch to highlight those benefits that will be most appealing to each individual buyer.

A negotiated sale still has elements of an auction (numerous participants making bids), but a negotiated sale involves a lot more handholding of the vendor.

QUESTIONS?

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ABOUT US

We advise owners of small and medium sized companies on growing or selling their businesses and then our online market connects them with potential buyers, manages the M&A process to achieve a transaction quickly and with the best possible valuation.

- We are an award-winning team with 20+ years trading history
- Our primary market is SMEs with transaction values between £1m-20m
- Our secondary market is Micro M&A with transactions under £1m
- We are powered by bespoke technology to provide superior client service
- Our platform manages transactions and focuses buyer & seller on completing the transaction

Our Services

- Our **Express Exit™** prepares owner managers to successfully achieve their exit at maximum value.
- Our **Precision.Market™** connects sellers with buyers to provide secure auctions, document workflow and automation to reduce overhead and speed successful transactions.
- Our **Company Valuation** service helps determine the present value of your company and includes industry benchmarking and comparable valuation against your peers.
- Our **Management Buy Out** services provides advice on all stages of the MBO process, including business plan, VC advice, modelling, negotiations, legal team selection and managing completion.
- Our **Business Growth** services help owners manage growth via acquisition, capital raising, moving, or acquiring new sites, incorporating a new product stream or business line, and structuring or hiring management teams.

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SME M&A GLOSSARY

Acquiree or Target

A company purchased or otherwise taken over during an acquisition or merger.

Acquirer or Buyer

The company undertaking the merger or acquisition of another company.

Acquisition

The purchase of the controlling interest in or ownership of one company by another.

Acquisition Premium

The difference between the price paid for a company and its estimated real value.

Adjusted Earnings

A method of assessing financial performance which compensates for atypical profits and expenses, such as capital gains, new investments, tax liabilities, loss revenues, etc.

Asset Acquisition

A form of acquisition in which the acquirer purchases the assets of a target rather than its stocks.

Asset Purchase Agreement (APA)

An Asset Purchase Agreement ("APA") is an agreement between a buyer and a seller that finalises terms and conditions related to the purchase and sale of a company's assets. It's important to note in an APA transaction, it is not necessary for the buyer to purchase all of the assets of the company.

Asset Sale

A form of acquisition in which an acquirer purchases a target company's assets without purchasing the company itself.

Asset-Based Approach

A company valuation metric in which total liabilities are subtracted from Net Asset Value. Used primarily to determine what it would cost to re-create a business.

Asset-Based Lending

A method of financing in which a business loan is secured using company assets as collateral.

Auction

An auction is a business sale process where a group of buyers makes their final and best bids, and the company goes to the best bid.

Book Value

The value of a company as determined by subtracting intangible assets and liabilities from total assets.

Business Valuation

The process of determining the economic value of a company.

Cash Consideration

The percentage of the purchase price of a company to be paid to the target in cash.

Cash Flow

The amount by which a company's net cash income exceeds its net cash expenses.

Cash Flow Statement

A financial statement displaying comprehensive data regarding incoming and outgoing cash flows in a business.

Consulting Agreement

A term-of-sale in M&A requiring select staff members of the target company to stay on as consultants for a predetermined span of time.

Due Diligence

Due diligence is the investigation or exercise of care that a reasonable business or person is normally expected to take before entering into an agreement or contract with another party or an act with a certain standard of care.

Non-Compete Clause

A covenant, often found in acquisition agreements, that prohibits the seller from engaging in future business in competition with the entity being sold.

Data Room

A data room, also known as a virtual data room, is an online repository of information that is used for the storing and distribution of documents used to facilitate the due diligence process during an M&A transaction and help process buyers Requests for Information (RFI).

Deal Structure

The combination of assets with which an acquisition is financed—can include cash, stocks, notes, consulting agreements, etc.

Due Diligence

The formal process by which an acquirer investigates a target company's finances before signing an acquisition agreement.

EBIT

Acronym standing for Earnings Before Interest and Tax. Calculated by subtracting operating costs from total revenue.

EBITDA

Acronym standing for Earnings Before Interest, Tax, Depreciation and Amortization.

Earnout

A provision included in some acquisition agreements obligating the the acquirer to make additional payments based on the future performance of the company sold.

Economic Life

The span of time over which an entity expects an asset to remain viable.

Economy of Scale

Term reflecting the proportional decrease in operating costs accomplished by increasing production.

Economy of Scope

Term reflecting the savings realized by manufacturing multiple goods together instead of separately.

Enterprise Value (EV)

The value of a company calculated as market capitalization plus long-term debt minus cash and short-term investments. Intended to represent the total cost an acquirer would pay to take over a business.

Excess Purchase Price

The difference between the price paid for a company and the total sum of its assets.

Fair Market Value

The price of an asset when both buyer and seller are approaching the transaction from a well-informed and unpressured position.

Financial Buyer

A company primarily interested in acquiring for purposes of increased revenue or cash flow. Contrast with Strategic Buyer.

Heads of Terms

A Heads of Terms are a document setting out the main terms of a commercial agreement reached between parties in a transaction. Following the parties initial negotiations, heads of terms are prepared to set out the agreed basic terms of a contract or commercial lease before the finer details are negotiated.

Holding company

A company formed to buy or hold majority shares in other companies.

Horizontal Merger

A merger between two companies in the same industry.

Indication of Interest (IOI)

The Indication of Interest (IOI) is the document given to a vendor by the interested buyer to indicate genuine interest in purchasing the business. The IOI is the first formal document that is exchanged during an M&A deal.

Information Memorandum

An information memorandum (IM), sometimes also known as a sales memorandum, is a document produced prior to selling your business, and functions as your opening pitch to any prospective buyers with details of how your company operates, its USPs, products and services, assets, do you operate?

Intangibles

Non-physical business assets including patents, trademarks, business methodologies, brand recognition and public goodwill.

Intrinsic Value

The value of a company according to a close analysis of its finances rather than its market rate.

Letter of Engagement (LOE)

A letter of engagement defines the legal relationship between a professional firm and its client. This letter states the terms and conditions of the engagement, principally addressing the scope of the engagement and the terms of compensation for the firm.

Letter of Intent (LOI)

A letter of intent is a document outlining the understanding between two or more parties which they intend to formalise in a legally binding agreement. The concept is the same as a Head of Terms.

Leveraged Buyout

A form of buyout in which a management team uses their own company's revenue to secure a loan to buy it.

Liquidation Value

The cash value available if the assets of a company were sold.

Mutual Non-disclosure Agreement (NDA)

A mutual confidentiality agreement (also known as a) where both parties will be disclosing confidential information to each other for general commercial purposes.

Negotiated sale

A negotiated sale occurs when vendor talks with each buyer and perhaps tailors the pitch to highlight those benefits that will be most appealing to each individual buyer.

Net Asset Value

The value of a company's assets minus its liabilities. Often calculated on a per share basis.

Net Book Value

The value at which a company records its assets in its accounting records.

Offer Price

The price per share offered by an acquirer to a target.

Purchase Agreement

A purchase agreement is typically entered into by and between a buyer and seller(s) of a company. There are two main types of purchase agreement, a Share Purchase Agreement (“SPA”) or an Asset Purchase Agreement (“APA”).

Share Purchase Agreement (SPA)

A share purchase agreement (“SPA”) is typically entered into by and between a buyer and seller(s) of a target company's shares whereby the seller(s) agrees to sell a specific number of shares to the buyer for a specified price

Stock Consideration

The portion of the purchase price of company paid in shares of the acquirer's stock.

Strategic Buyer

A company primarily interested in acquiring to enhance company functions, processes, or infrastructure. Contrast with Financial Buyer.

Unique Selling Points (USPs)

A unique selling proposition is a factor that differentiates a company and / or its product(s) from its competitors, such as the lowest cost, the highest quality, or the first-ever product of its kind. A USP could be thought of as “what you have that your competitors don't.”

Vertical Merger

A merger of two companies operating in different stages of the production process in the same industry.

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