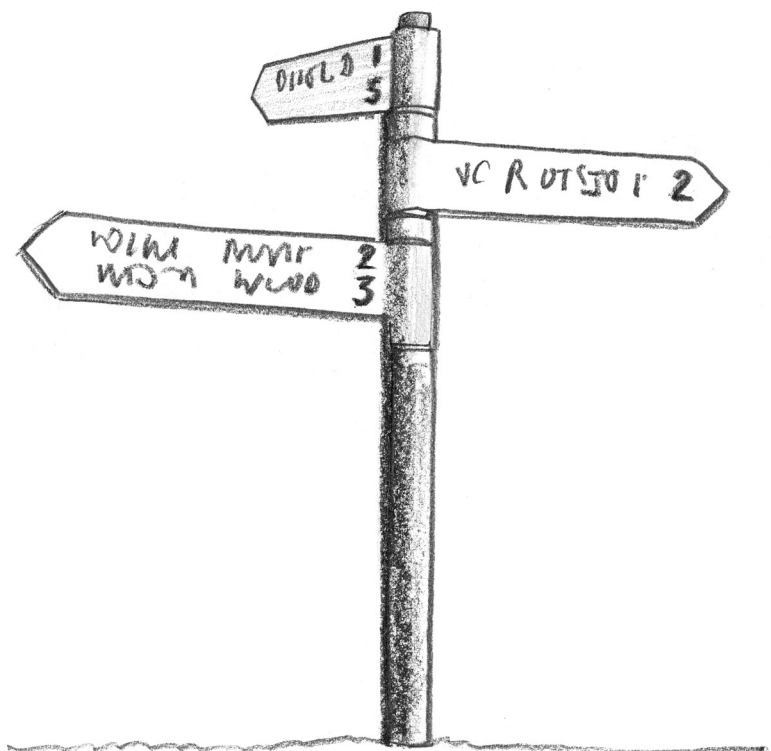
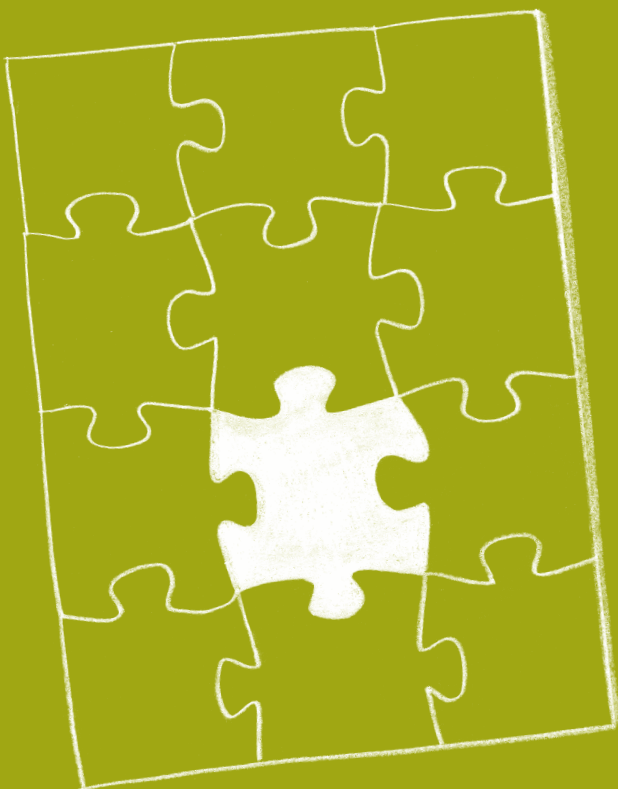


**Exit Strategy:** the best outcomes for business owners come through careful planning and preparation.



The process begins well in advance of putting up a “for sale” sign. In this guide to selling a business, Grant Thornton outline the key factors for business owners to consider.



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# Timing and the market

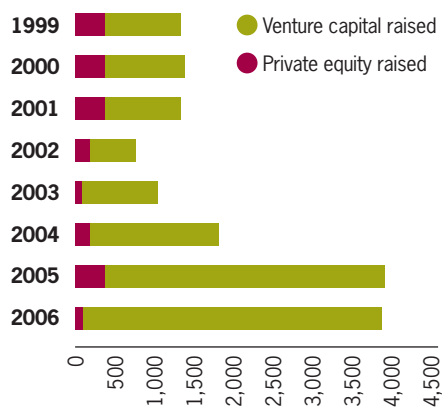
Over the last decade, capital markets around the world became awash with funds. These funds primarily accumulated through a decade of economic growth and compulsory superannuation savings. Low interest rates and low yielding traditional investments have driven fund managers to seek alternative investment strategies. Capital Association Limited Survey Fiscal Year Ended June 30, 2006.

Whether through expansion strategies of larger corporates, consolidation strategies of private equity managers or perhaps purely direct investment, this money is finding a home in middle market privately owned businesses.

Never before has such opportunity existed for business owners to accelerate their succession planning and consider the future of their equity.

## Private equity raised by fiscal year

Source: Thomson Financial & Australian Private Equity & Venture Capital Association Limited Survey  
Fiscal Year Ended June 30, 2006



# What is the business worth?

This is a question close to the hearts of every business owner. Understanding the components of value can steer the owner toward a “value improvement strategy” that results in a substantially better exit outcome.

Perhaps the single biggest determinant of the value of a business is its current and recent profit history. It represents the reward to the business owner, and of course, the future business owner.

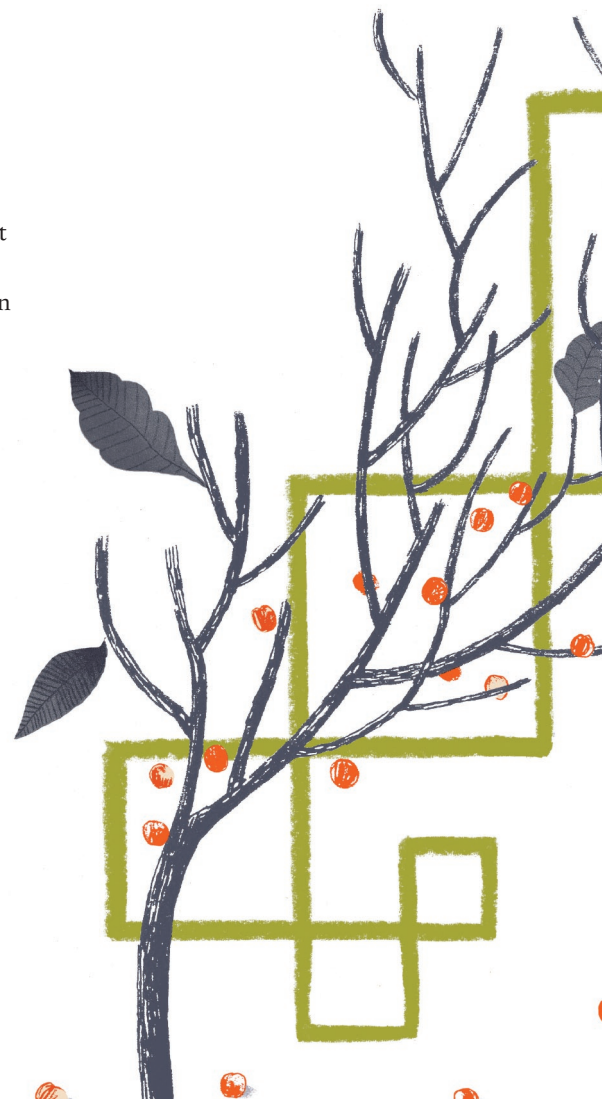
The second major determinant of the value of a business is “future risk”. It is an assessment of the probability that the profit of the business will be maintained or grow. Factors to be considered in assessing this risk include:

- the dependency of the business on the business owner
- sustainability of competitive advantage
- intellectual property
- growth and profit trends
- business disciplines and practices
- culture and professionalism
- the market in which the business operates.

Whilst “profit” and “risk” can see opposing accountants argue about theoretical value indefinitely, the ultimate determinant of value is the strategic position of a buyer.

Beauty is in the eye of the beholder.

Factors such as economies of scale, cross fertilisation of products and markets, market domination or even fast tracking of growth, can see particular buyers pay more for acquisitions than an accountant’s valuation.



# Improving business value

Most people will paint the house, weed the garden and fix the broken gutter before they put their house up for sale.

Business owners should undertake similar steps when preparing to sell their business.

So many businesses view their businesses as their “superannuation nest egg”. It represents a one-off opportunity to convert a lifetime of effort into wealth. All too often, the majority of the family’s wealth is tied up in the business, invariably all at risk and highly dependent on a successful exit outcome... that is of course, after tax, after debt repayment and after vendor warranty provisions.

Clearly a strategy must be set to maximise value. The aim is to get the business “investment ready”.

Attention must be focussed on those attributes of “future risk” described before. For example, what must be done to reduce the perception that the business will no longer prosper without the business owner? Hence, what are the implications for the management structure, policies and procedures, reporting, ongoing innovation and creativity and ultimately, the drive behind the business?

By attending to factors such as these, the business becomes more mature and will usually be in a better position to grow and prosper without the business owner’s daily influence.

**Properly executed, value grows exponentially.**

It can take up to five years to become “investment ready” so it is important to start preparing early.



# Selling the business

An Information Memorandum is the backbone of a professionally structured exit methodology.



An Information Memorandum is a document which highlights the key value drivers in the business and presents the opportunities and challenges in a positive but not misleading manner. Importantly, it must be structured such that prospective purchasers can quickly and easily access the strategic significance of the opportunity and be able to propose an indicative offer for the business.

It must be capable of withstanding a due diligence process without any material concerns.

Armed with an Information Memorandum, an investment ready business owner can commence the next phase of selling... identification of a buyer.

Not surprisingly, in around 60% of cases, business owners already know their future buyer. It may be a competitor, a supplier or even a client. A list of known suitors is easily assembled. Attracting the other 40% requires a sales program using mass marketing and multimedia outlets.

Throughout the process, a confidentiality strategy is usually critical.

Business owners might be wise to leave the negotiation, documentation, due diligence and settlement to the professionals. There would be nothing worse than frightening a prospective buyer away at the last minute when their due diligence reveals falling profits attributable to a distracted business owner.

Finally, it is the after-tax outcome which matters most.

**The whole selling process is a procedural methodology structured to attract the right buyer who is prepared to pay a good price for a business which clearly demonstrates strategic advantage through acquisition.**

# Concluding the sale

Once the money is in the bank, most business owners become risk averse, quite understandably.

For most of their lives, business owners have risked most of their wealth to be in this once-in-a-lifetime position. They know how to run a business, but how can they make the transition from a risk taker to that of custodian?

Sadly, too many business owners get this bit wrong!

What does this “pot of gold” represent? It represents the future security, income and lifestyles for the business owner and their dependents for the term of their lives. It represents the opportunity to pass wealth to the next generation and beyond.

How can investments be structured to provide good returns but mindful of the risk profile of the family? How can taxation be legally minimised? How can the estate planning be properly structured to incorporate superannuation, insurance, wills and trusts? How can the owner remain mentally challenged?

A comprehensive wealth management strategy should bring together all of these components. Importantly, like planning for the sale itself, it should not be left to the last minute.

Grant Thornton design exit strategies for business owners to meet their lifestyle, income, wealth and security objectives. Whether the exit horizon is near or far, the best exit outcomes require careful planning and preparation. We are here to help.

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