PREPARATION IS EVERYTHING

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Getting your business sale ready can be daunting. Alex Bell speaks to some of the region's top auditors about the key steps companies can take – right through to the exit point

"Give me six hours to chop down a tree and I will spend the first four sharpening the axe."

A quote from Abraham Lincoln, and one that captures why organisation and preparation is key to succeeding in any aspect of life.

So, when you've devoted so much to building a successful business, what's the thought process when you entertain a potential exit? A diligent 'who, what, where, when, why, how?', or a more cavalier 'this business is in great shape and will get snapped up at a great price'.

Regardless of what may creep into the mind it's apparent that, like Lincoln, it's well worth sharpening the axe to get the sale ready.

'The longer you have to prepare, the better'

"You can never be too early in starting conversations," says Beever and Struthers executive partner Caroline Monk.

"If you are looking to sell in five years it's not outrageous to start conversations now. The longer you have to prepare, the better.

"As an auditor, by getting in the head and thought process of the business owner you can eke out when is the right time to bring in your corporate team."

Helen Mills, Cowgills audit partner says a pre-sale audit identifies opportunities for improvement. "Not only does it help to substantiate the numbers," she says, "but it can enable you to identify areas of risk or weakness in the business.

"These may be regarding the finances but may also be around systems, wider governance issues or perhaps an over-reliance on individual suppliers or customers.

"Identifying and rectifying those kinds of problems before bringing a business to the market will always help to achieve a better sale outcome."

One-off opportunity to solidify value

When you've worked hard to create and run a healthy and successful business, why risk faltering when the final hurdle appears on the horizon?

It may be that a sale opportunity has unexpectedly arisen. Perhaps you've been working towards a specific exit date for several years. Personal circumstances may have changed. Or maybe it's come to a point where you just want to sell and walk away into something new.

Regardless of what the driving force is towards selling, the process that ends with finalising a deal is more often than not a one-off chance.

So, how important is it to think like a buyer?

"Make it so that someone else thinks 'I can come in and I can run that business from day one'," says Monk.

"That's what you're trying to achieve. Make sure all the information that a purchaser will want is easily available and accessible and speak to your audit team about that."

As Monk points out, the purchaser is looking at where the opportunities are and what they will be able to do differently tomorrow to what they can do today. "It's important to think about what could go wrong, where the risks are and what they should be taking into account," she adds.

"When it comes to value, as an auditor you're looking at multiple of earnings and an asset value. Making sure it is crystal clear what the company does within its sectors, and all the nuances that could affect those multiples, is also crucial."

The bit that can be more obviously managed is the level of maintainable earnings that the multiple is applied to. "The auditor can provide some real value when looking at the cost base that the company is carrying, and whether that could be better," says Monk.

"Reviewing employee benefits for efficiency is an example, looking at salary sacrifice.

"Although the saving in an annual cost might be relatively modest, if you're multiplying it by a big enough number that could result in quite a win. For example if there's a £10,000 saving in an annual cost and you've got a six-times multiple in place, that's a £60,000 increase in your sales value.

Maximise value, minimise stress

"Knowing your business is watertight and will be able to stand up to the robust scrutiny of a buyer not only gives the seller peace of mind but it really does maximise the chance of a successful disposal for the highest possible price," says Mills. "Having an independent person doing a root-and-branch analysis of a business can highlight some easily rectifiable changes which can add significant value further down the line."

Monk adds: "The purpose of an audit is expressing an opinion on fit and financial statements.

"When you are acting for a listed company or a public interest entity there are very strong lines on what an auditor can or can't do. When you're acting for owner-managed businesses and family businesses, the knowledge and the input that you can give through your audit work can be valuable to the whole process."

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> Beever and Struthers

Monk stresses the importance of the business owner working with the audit team every year to make sure records are all in alignment.

"When it's your business, you own 100 per cent and you've employed everyone and have got complete trust in your team," she says.

"And ideally, you need the client, audit partner, corporate finance partner and the solicitor to be working together to maximise your value and minimise your stress."

A matter of perception

"The process might be that the purchaser has approached the vendor," says Monk.

"Perception is important. When you put your house on the market there are the old clichés of having your carpets cleaned and fresh flowers out rather than having your teenage son's wardrobe on the floor for instance. It doesn't change the value of the house you're buying but it does change the perception of the person buying it and whether they want it or not on that day."

Mills adds: "Yes, an audit is often seen as a necessary evil but it can be really valuable, providing reassurance to a potential purchaser and delivering a significant advantage to the seller.

"It is all part of the strategic planning for a business, you need that detailed level of information to hand to see where improvements can be made and to box-off any issues before approaching a sale."

Build buyer confidence and seal the deal

Failing to sell happens in business. Deals can fall down early, at the negotiating table and at the 11th hour.

What's apparent is that a robust sales model will increase the chance of businesses reaching that all-important desired outcome.

Business sales advised on by Beever and Struthers in 2022 included Blackburn-based Bliss Distribution becoming part of PHD (Peachstate Hobby Distribution) Group.

At the time, Cathryn Dunstan, director of Bliss, said that it had become clear that "the time had come for the business to be part of a larger organisation".

So what are Monk's parting words on getting a sale ready?

"Work with your audit team before you think about the sale and at the point that you stop thinking about the sale, that is when the audit partner

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needs to liaise with the client, but also their corporate finance team," she says.

"Because the combination of that good corporate finance team, audit team and a helpful vendor due diligence exercise that you've put in place and responded to and reacted to, will undoubtedly increase the value of the business and make it less stressful." ■