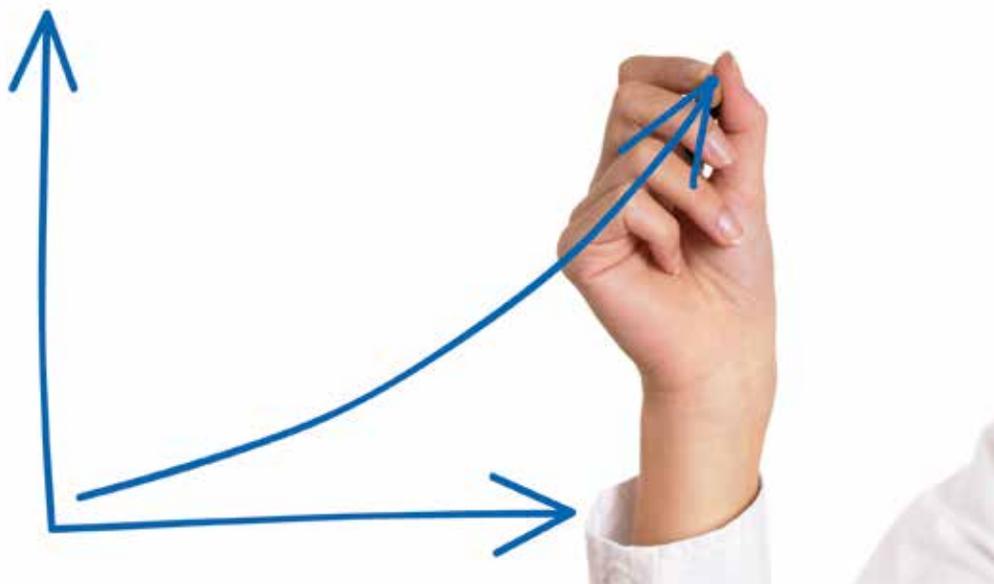


Achieving the Best Value

When it comes to selling a business, research shows that many owners have a limited understanding of the process and often make fundamental mistakes that can seriously undermine the final sale price.

This guide has been designed to help you avoid the common pitfalls.

It offers tips and insights on how to manage the process, in a planned orderly manner to ensure that sensitive information is protected, uncertainty is avoided and the best price is achieved.



Managing the Sale of Your Business

For many business owners, selling their business represents the culmination of years of personal effort and commitment, rewarded by the freedom that financial gains can yield.

For others, it's a time when opportunities have been maximized in one area and new challenges start.

Whatever your intentions, this book is designed to help you along the way.

Selling a business has become a complex transaction that is subject to many legal and financial conditions, a number of which have come into force in recent years.

The commercial environment is also more competitive than ever before and sensitive commercial information or intellectual property must be carefully protected.

Many businesses change hands every month in a planned, orderly way with owners realizing excellent value.

Others are sold in a less rigorous do-it-yourself fashion. This often leads to poor results which are compounded by frustrating delays, ongoing uncertainty and sometimes, lawsuits.

This book will demonstrate the value of using a disciplined approach to selling your business.

Maintaining Confidentiality

Many issues can affect the sale price of your business and a number of them are commonly overlooked.

For instance, confidentiality is critical to maintaining ongoing positive relationships with customers, suppliers and employees.

Should employees discover your intentions to sell prematurely, they may react in unexpected ways and jeopardize the performance of your business at the very time when it matters most.

Similarly, customers and suppliers may become unsettled and start questioning their long-standing relationships with your company.

Keeping Focus

It is also important that you are not distracted during the sale process from the day-to-day running of your business. If it suffers a downturn during this period, the final sale price could be seriously reduced.

These are just some of the reasons why an increasing number of business owners are choosing to market and sell their businesses with the assistance of LINK business brokers.

Working with Your Advisors

By co-ordinating financial and legal information from your advisors, LINK leaves you free to concentrate on running the business and maximizing its performance and potential value.

Many accountants, lawyers and business bankers prefer to deal directly with LINK brokers on a business owner's behalf. This helps ensure communication channels are clear and direct and that the

information required by Buyers is integrated into one condensed document.

It is common for accountants and attorneys on both sides to discuss various issues throughout the sales process. Having a LINK broker assist in the management of this dialogue often increases the efficiency of the transaction.

LINK - The Authority on Selling Businesses

LINK has one of the most comprehensive and sophisticated databases of business sales in the World. We have been tracking and analyzing trends for many years.

We are also one of the only companies to conduct regular independent research to determine the motivations of potential Buyers and identify the key issues that are important to them.

Using this exclusive information resource, LINK can provide significant insights into many crucial factors that can affect the marketing and sale of your business.

Interpreting the Reality of Today's Market

There is a wealth of data available on the make-up of businesses and their relative performance, based on different criteria including profit, potential, vulnerability to competition, barriers to entry and other factors.

One of the distinguishing features of a good business broker is their experience and ability to interpret this information and provide sound guidance on preparing your business for sale.

Approximately 50% of businesses listed for sale with LINK are sold to pre-qualified Buyers registered on the LINK Buyer database. Overall, most are sold within seven months, with large and more complex operations typically taking longer.

LINK maintains one of the largest databases (in the World) of individuals or organizations looking to buy businesses.

Expertise in Selling Businesses in Your Industry

LINK brokers include specialists in a wide variety of industries. Many have owned and managed businesses themselves and others have extensive financial, management, legal and accounting expertise.

By combining these specialist resources, LINK can provide the most balanced appraisal of your business, together with a thorough analysis of the most likely Buyers.

When dealing with LINK, you have the assurance that you will be working with professionals who have a thorough knowledge of the technical side of selling and can provide sound, reliable advice based on facts, not guesswork.

Confidentiality and Integrity

Most businesses have commercially sensitive information which must be guarded from competitors, employees, customers and suppliers.

By acting as intermediaries, LINK ensures that every inquiry about your business is carefully investigated for capability.

Furthermore, no information that could identify your business is released to potential Buyers without your approval and until a Non-Disclosure Agreement (NDA) has been signed.

Involvement at All Stages

Statistics show that a significant number of all business sales fail during the due diligence process.

This is not the case with LINK. Our brokers work with you throughout the process, managing issues as they arise and facilitating negotiations to smooth the way to a successful sale.

LINK's brokers will ensure that you are fully informed of all facets of the business sales process, and will act as a facilitator between you and potential Buyers (and often, their legal and accounting advisors).

Keeping You Informed

LINK brokers have access to sophisticated research and analysis software that enables us to provide valuable insights into the progress of your business sale process.

LINK provides detailed feedback covering marketing activity, level of inquiry, prospect profiles and comment, website tracking and a host of other factors.

It also allows for the marketing campaign to be refined or adjusted to maximize effectiveness, and keeps you completely informed of the campaign's progress.

LINK is the only business sales brokerage that provides service to this level, with regular detailed reports, supplemented by meetings and telephone updates.



LINK Manage Business Sales in a

Preparation

"Grooming" your business for its sale by maximizing its efficiency, earning potential, structure and presentation.

Minimizing costs and increasing profit by as little as \$5,000 per year could add thousands to the sale price.

We assist in recasting your P&L in determining your true Seller's Discretionary Earnings.

1

Valuation

There are several established methods of valuing or appraising a business. In most cases, LINK uses a combination of these to determine the most realistic selling price. The methodology used must be accurate, appropriate for your type of business and be able to withstand scrutiny by financial professionals.

There are established formulas for most business categories, but they can only be used as a guide. Every business is unique, which is why it is so important to deal with people who have proven experience in establishing true market value.

2

Information Memorandum

A comprehensive document prepared by LINK providing a detailed overview of your business. The document must be crafted to ensure it is accurate and honestly represents the business and its benefits.

There are numerous legal requirements and regulations which must be adhered to when preparing an Information Memorandum.

For example, business owners must disclose any information that may be detrimental to the ongoing profitability of the business.

3

Identifying Buyers

Some businesses listed with LINK sell before they are advertised.

LINK maintains a large database of qualified Buyers seeking businesses in all sectors.

As independent professionals, LINK brokers are able to discretely approach parties we believe might be interested, without divulging information that might identify your business.

4

Marketing

LINK is one of the largest business sales marketers and advertisers in the World.

Our marketing programs are closely monitored and through experience, we know which approaches are most effective.

Advertisements, brochures, web presence and other communications are carefully constructed to attract Buyers without identifying your specific business.

5

Planned and Orderly Manner

Finding “Real” Buyers

6

Acting as an independent third party, LINK brokers are able to maintain confidentiality until Buyers have been checked for buying capability. Checking a Buyer to ensure their intentions are “real” is often a surprisingly time-consuming and difficult process.

Statistics show that for every ten inquiries about a business for sale generated by a marketing campaign, only one is a “real” Buyer.

The other nine generally have mixed intentions.

Purchase Agreement

7

After a Buyer has reviewed the Information Memorandum and expressed interest, they will have additional questions and will usually require further information or documents.

The LINK broker co-ordinates the supplementary information required, by liaising with the business owner or their financial/legal teams, and a Purchase Agreement is negotiated. Commercially sensitive details are not supplied at this stage.

Due Diligence

8

The signing of the Purchase Agreement does not necessarily mean the business is sold; most Buyers will now want to proceed to verify the information supplied during a due diligence period.

They will also request and review information not previously supplied due to commercial sensitivity.

The due diligence process generally takes five to ten working days, although for more complex businesses, it can take up to thirty days or more.

Conditions Removal and Closing

9

Once all the conditions in the agreement have been satisfied, the Conditions Removals are signed and escrow will be opened.

Escrow is a means, time period and trust arrangement during which the paperwork required for the sale of a business is processed. Escrow acts as a “neutral” agent of seller, Buyer and broker to collect documents, money and to distribute the same pursuant to escrow instructions as directed by the principals

The seller usually assists in the business for an agreed period after the sale, to train the new owner and facilitate a smooth transition.

Most businesses listed for sale with LINK, sell within three to eight months, although, large and complex businesses may take longer.

Once an offer is received, it generally takes around four to eight weeks to complete the sale process.



1. Preparing Your Business For Sale

In an ideal world, business owners should plan for the sale of their business from day one and work through a process of “grooming” it to achieve optimum value.

Refine the operation so it produces maximum profits and structure the business in a way that ownership can be transferred with minimum impact on operations and profitability. Business owners can adjust costs, increase sales and margins as well as restructure and review other variables in preparation for sale.

Timing is important! Plan the sale for when the company is running at peak efficiency with a solid record of profits that are trending upwards.

Get the Records Straight

Some business owners are very diligent at keeping detailed, up-to-date accounts and records relating to contracts, customers, employees, leases, asset ownership etc. Smaller businesses that are run in a more entrepreneurial style may not be quite so organized.

The first step in preparing your business for sale is to get the books up to date so there is a clear picture of your operation, with supporting facts and projections.

In addition to your actual accounts, ask your accountant to prepare a set of “normalized” accounts to show maximum operating profits. This means adding back any expenses or purchases (sometimes personal) not directly related to the operation of your business. An explanation of any such corrections is often required and you should be prepared to discuss this openly.

Identify the Perks

You will need to review how unreported cash (if any) can be verified and how you report any personal items that are paid for by the company, such as personal insurance, personal vehicles, travel or entertainment.

Unravelling personal expenditure from that of the business can make a big difference to the selling price. For example, a \$20,000 trip paid for by the company is essentially \$20,000 off the bottom line and could reduce the sale price by two or three times that amount.

Review leased and financed assets to see whether they are better converted into fully owned assets.

“You only have one chance to make a positive first impression.”

Review Accounting Policies

Accounting policies vary widely. In some cases, business owners discover that their accounting policies are not the same as those currently adopted by others in their industry.

Some accounting policies are tax driven, resulting in conservative profit recognition. Whereas others are earnings driven, seeking to maximise profit.

Changing your accountancy policies to conform to those of your industry may increase the market value of your business.

Are You Critical to the Business?

A business is more attractive if its success is not solely dependent on the input of the owner in terms of operational know-how, technical skill or personal relationships with clients or suppliers.

It is helpful to have a reliable management team to demonstrate that the business will continue to be successful once the owner has left.

Most Buyers expect the seller to continue working in the business for a period of four weeks following the sale. Larger businesses may need a longer period, which can be negotiated and included in the Purchase Agreement.

This sometimes occurs when an owner is a critical part of the business. In some cases, a business owner may wish to stay involved in the business indefinitely.





Should You Invest in Your Business Prior to Sale?

When looking at a business, Buyers will consider the level of debt and the quality of assets, particularly in manufacturing operations. Generally the sensible advice is to continue investing in the business as if you were going to keep running it yourself.

LINK brokers can provide advice in these and other aspects as part of a structured program covering both preparation and marketing of the business.

Will You Offer Seller Financing?

It is common for a business owner to be asked to provide financing. This can be a good way of helping you achieve maximum value for the business. It gives the Buyer additional confidence in the business, knowing that you will continue to have an interest in maintaining its success.

Things You'll Need

LINK assists you with the preparation of the following information while working with your advisors to ensure the information is presented in the appropriate manner. All of these items may not apply in your case.

- Tax returns and/or Profit and loss statements for three years plus the ending balance sheet
- Partial year YTD profit and loss statement and the latest balance sheet
- A schedule of abnormal and/or non-recurring costs
- A schedule of all items of personal expenditure and cash withdrawals
- Brochures or marketing information of your product(s) or service(s)
- Historical background on the business
- List of assets – furniture, fixtures & equipment and any equipment leases
- Copy of franchise agreement (if applicable)
- Inventory and/or Accounts Receivable values
- Lease details including rent, term, options, etc.
- Employment levels, including part-timers and contractors
- Employee employment contracts
- Details on any trademarks, patents, licenses, agencies or intellectual property (IP)
- Details of any major strengths and/or commercial advantages
- Competitor analysis
- SWOT analysis (Strength, Weaknesses, Opportunities and Threats)
- Organizational chart
- Business plan

The financial information must be current and accurate.



2. Establishing the Value of Your Business

“Any desktop valuation involves a substantial amount of subjective judgment. The real test of the value of a business enterprise, like any asset, is what a Buyer is prepared to pay.”



Some owners have a figure in mind of what their business is worth; often it's inflated because of their emotional attachment. On the other hand, many owners undervalue their business because they do not understand the technicalities of the various valuation methodologies and which of these is most appropriate for their specific business type.

Experience has shown that there is also a large percentage of business owners who do not know what their business is worth, nor how to go about establishing its true market value.

LINK uses many of the established valuation methodologies, often using a range of different options in combination to establish the most accurate figure. This figure is then further scrutinized by comparing the theoretical value with current and historical sales information from the LINK database. This ensures that the valuation appraisal accurately represents what a Buyer will pay in the current market.

Each opinion of business value is reviewed by the LINK Appraisal Review Board to ensure there is consistency and that there are no discrepancies.

Profitability and Risk

Most businesses are valued based on a combination of assets and the cash flow generated.

The risk factor of the specific business is also taken into account. This is the degree of threat from existing or potential competitors, changes in technology or consumer trends and many other factors that may affect earnings or costs.

“Barriers to Entry” is another issue that is taken into account and involves evaluating the degree of difficulty or barriers a competitor may face should they decide to establish a similar business.

For example, businesses which require minimal capital investment or technical knowledge are said to have a very low barrier to entry and consequently, may have a lower value.

Most businesses are valued on a “Going Concern” basis rather than the value of company shares.

Buyers are reluctant to buy stock for a variety of reasons including the unknown possible future tax, credit or legal liabilities, or the danger of inheriting contingent liabilities based on historical trading. However, sometimes because of tax consequences or non-transferable permits/licenses, selling stock might make sense.

Price of the business is usually made up of two components that the business to generate future earnings based upon its historical earnings

1 Intangible Assets. The intellectual property, trade secrets, trade names, telephone numbers, leaseholds, contract rights, licenses, franchises, customer lists, procedures, covenants not to compete, goodwill and other non-tangible assets.

2 Tangible Assets. The furniture, trade fixtures, equipment, leasehold improvements, supplies, work in progress, inventory and sometimes accounts receivable used by the business to generate its income.

Valuation Methodologies

Generally, two or more of the following methods are used to appraise the value of a business:

- 1) Industry Ratios
- 2) Asset-Based Approach
- 3) Income Approach
- 4) Market Approach

The appraised value is then subjected to the “sanity test”.

Some businesses are in a growth industry where their track record is well established and their projections solid. Other businesses may be in what is known as a sunset industry where projections are less optimistic.

Many factors affect the true market value of a business, including business sector, economic conditions, business cycles, interest rates, labor availability and a whole host of other influences.

Similarly, the value of trademarks, brands, intellectual property and goodwill is not always easy to quantify.

Balancing all these factors with the book value of a business establishes the true market value.

1. Industry Ratios

The value of the business is based on its sales record compared with industry averages. This method is often used for small businesses and franchises where there is an established track record within a specific industry. It may also use a formula of multiples of weekly sales or an average derived from sales of similar businesses.

Example of Industry Ratios

A pleasant restaurant with excellent foot traffic in a popular suburb is for sale. Savvy Buyers know that a restaurant like this will probably sell for approximately 15-20 times its weekly revenue. Factors such as location, foot traffic, parking and so on will determine the appropriate multiplier.



2. Asset-Based Approach

In businesses where there is history of low earnings or perhaps even losses, the Asset Based approach is generally used. Using this method, the value of the collective assets (both tangible and intangible) will determine the value of the business.

In many cases there will be an element of goodwill payable, even where a business is not trading profitably. Although the assets alone may be purchased on the open market, there is often value in purchasing assets as a “Going Concern”, which may include customer lists, relationships with suppliers, an assembled workforce, brand awareness and reputation, among others. Calculating intangible assets, including goodwill requires some subjective judgement coupled with experience and the use of market comparisons.

Example of Asset Based Method

A dry-cleaning business has been breaking even and the owners would like to sell and move on. The business has tangible assets with a total book value of \$135,000 including \$5,000 of inventory (all saleable), no bad debts and no accounts payable.

The fair market value of the tangible assets has been assessed as \$110,000 and intangible assets and goodwill at \$15,000. Therefore the fair market value of this business is calculated as follows:

$\$110,000$ (tangible assets) + $\$15,000$ (intangible assets and goodwill) = $\$125,000$.



“There is no topic about which greater differences of informed opinion may exist, than the value of shares or the value of a Going Concern in a private company”

3. Income Based Approach

There are various methods used when employing the Income based approach to appraisals. Return on Investment (ROI) or capitalization of earnings is common, as is the application of earnings multiples. Generally the income approach is used for most businesses and places emphasis on earnings rather than assets, however one income based method, Excess Earnings looks at both assets and income. Here are the 3 most common methods used for this approach:

a. Multiple of Discretionary Earnings Method

This method is based upon a cash payback method. The Seller's Discretionary Earnings (SDE) is the cash flow available to the perspective Buyer to service acquisition debt associated with the business purchase, pay himself/herself a salary and pay the business taxes.

b. Excess Earnings Method

Originated in a 1920 US Treasury Department appeals and review memorandum ARM 34. It can be considered an asset-based method as well as an income approach method. Most appropriately applied for the purpose of allocating total value between tangible and intangible assets. Known as IRS Revenue Ruling 68-609.

c. Selling Price Analysis from a Cash Flow Perspective

This method looks at the cash flow from a Buyer's perspective to determine whether or not the selling price makes economic sense. Typically it only looks at the last year of seller's discretionary earnings, important to a Buyer. This method can also be used as a tool to analyze different finance options by comparing SBA financing to seller financing or different combinations of both.

4. Market Based

There will be certain instances where no amount of sound theory or application of complicated methodologies alone will suffice. It is not uncommon that a willing Buyer and a willing seller will agree on a value that defies all traditional appraisal methodologies.

In other cases the use of traditional appraisal approaches produce unrealistic values that have no bearing on market realities.

It is important in any appraisal to overlay relevant market data and multiples achieved in similar businesses "in the real world". LINK brokers have a substantial amount of comparable evidence across a wide range of industries, reflecting actual prices and multiples achieved.

Example of ROI

Tom's manufacturing company produced an adjusted net earnings of \$160,000 (SDE). The net assets (valuation of plant and stock) for the business were \$240,000 and a fair salary for Tom (owner) is \$70,000. If someone was looking to invest in this business they could expect a 25% ROI, as this business offers a low to medium-risk investment opportunity.

The following is a simplified calculation of the ROI value of Tom's business

Seller's Discretionary Earnings (SDE).....	\$160,000
Minus owner's salary.....	\$70,000
Profit.....	\$90,000

Return on Investment

Profit of.....	\$90,000
Divided by desired return	25%
Valuation appraisal	\$360,000

How Will Taxes Affect What You Take Home?

There are tax issues you may need to consider when selling your business. It is vital that you fully understand your tax position when selling your business and seek the advice of a tax attorney.

Other tax liabilities may be incurred on the profit of land and buildings if they are included in the sale.

Snapshot of Businesses Sold

Restaurant

Selling Price.....	\$183,000
Annual sales	\$520,000
Seller's Discretionary Earnings (SDE).....	\$100,000

Import Distribution

Selling Price.....	\$200,000
Annual sale.....	\$650,000
Seller's Discretionary Earnings (SDE).....	\$105,000

Commercial Printing

Selling Price.....	\$310,000
Annual sales	\$1,000,000
Seller's Discretionary Earnings (SDE).....	\$250,000

Childcare Centre

Selling Price.....	\$400,000
Annual sales	\$409,000
Seller's Discretionary Earnings (SDE).....	\$150,000

Video Hire Store

Selling Price.....	\$565,000
Annual sales	\$510,000
Seller's Discretionary Earnings (SDE).....	\$195,000

Specialist Retail

Selling Price.....	\$650,000
Annual sales	\$1,800,000
Seller's Discretionary Earnings (SDE).....	\$305,000

Fast Food Franchise

Selling Price.....	\$680,000
Annual sales	\$1,190,000
Seller's Discretionary Earnings (SDE).....	\$195,000

Manufacturing

Selling Price.....	\$1,390,000
Annual sales	\$2,380,000
Seller's Discretionary Earnings (SDE).....	\$695,000

Civil Engineering

Selling Price.....	\$4,500,000
Annual sales	\$10,200,000
Seller's Discretionary Earnings (SDE).....	\$1,550,000

3. The Information Memorandum

“A professionally prepared Information Memorandum will be a strong marketing tool in the sale of your business and will reduce the involvement of the owner in the initial meetings with potential Buyers.”

It is difficult to effectively sell a business without some form of Information Memorandum or business profile. This is the document that sets out all the relevant information about your business so that a prospective Buyer may appraise the opportunity.

The document must be prepared with great care to ensure it is comprehensive, accurate and honestly represents the business. To avoid any future problems after the sale a business owner should disclose any information that may be detrimental to the ongoing profitability of the business, or relevant in the Buyers’s decision to proceed.

Your LINK broker will co-ordinate the gathering of information.



Topics covered in an Information Memorandum may include:

- Executive summary
- Background information
- Management organization and control
- Staff infrastructure
- Historical financial information and comments
- Financial performance and outlook
- Opportunities and potential
- S.W.O.T. analysis and business plan
- Detailed breakdown of tangible and intangible assets
- Valuation
- Product/Service positioning
- Leaseholds, leasehold improvements and lease details
- Marketing materials
- Reasons for sale
- Other information and appendices

4. Identifying Potential Buyers

After preparing the Information Memorandum, your LINK broker will identify and compile a list of potential Buyers from the LINK database, from within your industry and from other sources.

In discussion with you, a decision may be made to discreetly approach some of these potential Buyers and seek Expressions of Interest. This is carried out in strictest confidence.

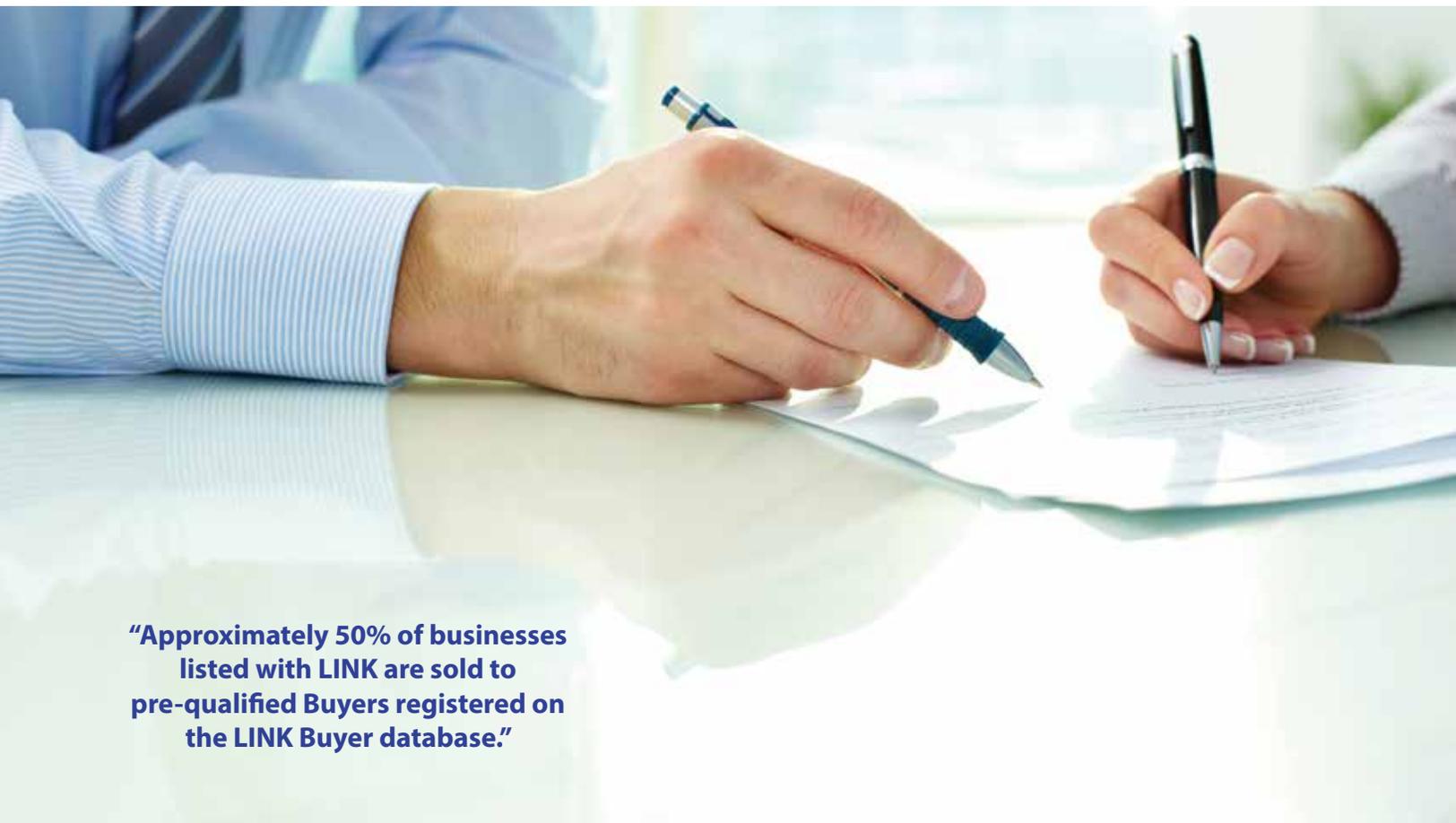
Approximately 50% of businesses listed with LINK are sold to Buyers who are registered on the LINK Buyer database, often accelerating the sales process.

LINK maintains stringent protocols to control who receives detailed information about your business. All Buyers must fill out and sign a Non-Disclosure Agreement (NDA), an Agency Disclosure and Buyer Profile prior to any information being disclosed.

A marketing campaign will be prepared, together with a monitoring program to measure advertising effectiveness and response. LINK will keep you informed of progress on a regular basis.

What Do Buyers Look For?

- History of positive earnings and cash flow
- Stable employees and infrastructure
- Strong brands in growing markets
- Long-standing customer and supplier relationships
- Genuine reason for sale
- Clean, transparent, simple
- Acceptable ROI
- Potential for increased productivity, sales growth and profitability
- Possible Seller financing
- No surprises
- Depending on the size of the enterprise, a good infrastructure that demonstrates the business can operate successfully without the current owner



“Approximately 50% of businesses listed with LINK are sold to pre-qualified Buyers registered on the LINK Buyer database.”

5. Marketing Your Business

“Experience has shown that the most serious Buyers often show interest in the early phases of a marketing campaign and they want all the answers readily available right from the start.”



Different Types of Buyers

Identifying the motivations of different types of Buyers is an important part of the LINK marketing program. Generally, Buyers fall into one of the following categories:

Buying a Job – People looking for a smaller company which they intend to run as owner managers.

Strategic – Larger companies or corporate entities wishing to make an acquisition for strategic reasons.

Family – Sometimes a business is transferred or sold to another family member.

Private Equity Funds – Investment groups wishing to maximize returns in industries that demonstrate strong growth prospects.

Existing Management – Sometimes management acts in conjunction with private equity investors to acquire a company they know intimately.

Trade Buyers – Competitors within the same industry who believe they can achieve cost reductions and improved operating efficiencies by acquiring a larger customer base.

Private Investors – People who are considering investing in a private enterprise with a less than fulltime involvement.

As a leading business sales advertiser and marketer, LINK recognizes that marketing is a critical element in achieving a successful sale and that the development and execution of the marketing campaign must be carefully thought through.

In most cases, it is to your advantage to advertise to create as much interest as possible in the early stages of selling the business.

It is also the only way to ensure you have reached the maximum number of potential Buyers.

LINK marketing programs are carefully monitored and through experience we know which approaches are most effective. Advertisements are carefully structured to attract Buyers without identifying your business unless it is advantageous to do so. Businesses are only identified where publishing the company name does not compromise the business or the sale in any way.

We have the **most powerful marketing** capacity of any Business Brokerage

6. Qualifying Buyers

Acting as an independent third party, LINK brokers are able to maintain confidentiality until the Buyer has been identified and found to be capable as a real Buyer.

This is extremely important when selling larger businesses where sales figures and other data are commercially sensitive.

LINK goes through a rigorous process of researching a potential Buyer's background, financial resources and career history to ensure their intentions are bona fide.

This qualifying process is designed to confirm that the Buyer is in a position to complete the purchase, and is motivated to do so.

Business owners who attempt to sell their businesses themselves often report that the process of meeting and vetting potential Buyers is the most difficult and time consuming of all. Distinguishing legitimate Buyers from among the raft of respondents, that may include time wasters or even inquisitive competitors, requires a great deal of judgment and background research.

LINK brokers handle this delicate and often difficult process with integrity and discretion, ensuring that any sensitive information that could identify the business is withheld until the Buyer has signed a legally-binding Non-Disclosure Agreement (NDA) and has satisfied the broker of their serious intent.



Don't Try To Sell It Yourself

The owner of a very successful, specialized manufacturing company decided to sell his business himself. He estimated that the business was worth around \$1.2 million.

Having advertised the business for sale he entered discussions with various parties. To his horror he later discovered that among the potential Buyers was someone on a fact finding mission for one of his main competitors.

The competitor, armed with the information provided (including commercially sensitive details that should never have been offered) then targeted the manufacturing company's staff, suppliers and customers, severely compromising the business and the sale.

The owner was forced to withdraw his business from the market immediately and spent several months repairing the damage caused by the disclosure.

7. The Sale Process



A potential Buyer will look closely at the Confidential Information Memorandum and will consult with their financial and legal advisors to evaluate whether the business suits their purpose.

If so, they will seek further, more detailed information. The level of information provided is determined by the business owner with advice from a LINK broker.

Selected information is supplied ensuring that any commercially sensitive material is withheld until an offer is made and progressed under the terms of the due diligence process.

The Buyer will eventually want to view the business and meet with the owner. This will be arranged at a suitable time so as not to interfere with the operation of the business.

Provided the Buyer has been supplied with all the basic information they require, your LINK broker will work with the buyer and their professional advisors in preparing a Purchase Agreement detailing the price, terms and conditions of the offer.

The agreement will nearly always include a due diligence clause, giving the Buyer a specified period of time to investigate and confirm that the information supplied to them is accurate. They will also wish to review any other information that may have been previously withheld due to commercial sensitivity.

Your LINK broker will liaise between you and the Buyer to facilitate agreement between both parties.

Normally, a deposit of 10% will be paid by the Buyer on signing of the agreement; this is lodged in a LINK Trust Account until the agreement becomes unconditional.

“Securing a Buyer’s trust and confidence is critical to achieving a successful sale.

Difficult questions will be asked and you must be prepared with honest, plausible answers.”

8. Due Diligence

The signing of the Purchase Agreement does not mean the business is sold. The Buyer will want to verify the information supplied and review any additional information not previously made available due to commercial sensitivity.

The length of the due diligence process a Buyer requests will often depend on the complexity of the business.

A Buyer can terminate an agreement for a number of reasons during the due diligence process, but this is less likely to occur if the Information Memorandum is explicit and accurate.

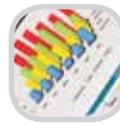


Items a Buyer may want to Examine in:



Due Diligence

- Plant and equipment lists
- Plant or equipment leases
- Computer programs
- Building Leases
- Supply agreements
- Distribution agreements
- Franchise or agency agreements
- Copyright or license agreements
- Local authority permits/zoning approvals
- Any pending legal actions
- Employment agreements
- Employee schedules/roster
- Insurance policies and claims history



Financial

- Profit and loss statements for two to three years
- The Latest Balance Sheet
- Monthly sales figures
- Year to date sales figures
- Returns & Warranty History
- Aged Receivable and Payables Statements
- Employees and payroll
- Inventory values and quantities
- Work in progress estimates
- Any new product development
- Budgets and forecasts



“The time allowed for due diligence will be detailed in the agreement and is normally 5 to 10 working days.”

9. Closing

After receiving written confirmation that both the Buyer and Seller Conditions Removals have been signed off, the sale is official and both parties must now prepare to close escrow. If required, the escrow company or escrow lawyers for both parties will proceed to finalize the details required for the closing to take place on the specified date.

The initial deposit and the closing funds being held in the an Escrow Trust Account will be paid to the Seller and the broker after all checks have been cleared.

In the time between the sign off of the Conditions Removals and the closing date, both parties will need to finalize the following issues.

Inventory

The Purchase Agreement defines the amount of inventory and it gives a maximum inventory number. This number often changes because of the movement in inventory value depending on seasonal adjustments, shipping or manufacturing cycles.

Inventory values are based upon the cost of purchasing the inventory and in the case of a manufacturing company it also includes the value of the work in progress.

A physical inventory will be conducted with both parties present just prior to closing to come up with a final inventory number to be used at closing.

Furniture, Fixtures and Equipment (FF&E)

FF&E is a carryover from the past, today the term includes furniture, fixtures, and equipment plus computers, software and vehicles. The Buyer will want to inspect the FF&E as detailed in the equipment list to make sure it is in good operating condition. If any FF&E is damaged or faulty, it is the responsibility of the seller to have it repaired or replaced, otherwise the value of the FF&E will be reduced.

Training

The Purchase Agreement will stipulate the period of time you have agreed to spend immediately after the closing to train the new owner. Depending on the complexity of the business, this is normally four weeks and will be anywhere from 20 to 30 hours per week.

If any additional training is required beyond that period, it is normally negotiated at a pre-agreed hourly rate.

Post Sale Checklist -

Every post sale checklist is slightly different but here are some typical items you could examine

- Physically move in and start assuming management of the business
- Sometimes you advise employees immediately of new ownership
- Sometimes you advise suppliers, customers and other appropriate parties
- The Seller will start the training
- Review inventory
- Sometimes you change locks/ security codes
- Sometimes you transfer names on electric, phone, gas and other utility accounts
- Transfer ownership of domain names



Key Factors in Successful Business Sales



Price it Right

If you price your business too high, serious Buyers won't even consider it. Price it too low and you are throwing away hard earned money.

Your LINK broker can guide you on what the market is paying for businesses similar to yours and what else is on the market in the same broad category.

Present it Right

You will get a better price if your business looks professional and organized and is clean and tidy in all respects including signage, interior, fittings, office, and storage areas. Your plant and equipment should be in good operational order.

Prepare for the Sale

Buyers (and their accountants) will want to see up-to-date figures – review checking account ledgers, YTD P&L's and the latest Balance Sheet. Lease agreements should be available for inspection and ideally have a reasonable term to run. Being ready with this information keeps the sale moving along smoothly.

Allow Time to Sell

On average, businesses take seven months to sell. If you have to sell in a hurry you are in a weaker negotiating position and likely to be disadvantaged.

Write Down Your Systems

Show the prospective Buyer how easy it will be to take over. List your suppliers and major customers, the jobs to be done, the hours of operation, service providers, and what records must be kept.

Be Totally Honest

Don't try to hide or disguise anything. Any irregularities or problems with a business will almost certainly be discovered by a Buyer and their advisors during the due diligence process. It's vitally important to establish trust up front and throughout the process.

Use a Business Broker

LINK brokers have specialist expertise derived from many years of experience in business sales. We can provide advice and guidance every step of the way, protecting your confidentiality, finding "real" Buyers and taking care of all the details.

All this leaves you free to do what you do best – running the business.

Promotion

Business owners who choose to sign an exclusive Representation Agreement with LINK and willing to invest in a marketing plan increase their chance of selling by over 350%*.

*(Based on our extensive sales data, as compared to non-exclusive listings without a marketing investment).

10 Biggest Mistakes

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Problems in the business are not corrected before selling

Confidentially is compromised

Staff, suppliers and clients become unsettled

Not understanding tax implications of sale

Not having clearly identified reasons for sale

Unclear objectives that are subject to change

An emotional connection with the business eclipses reality

The business is not priced to make economic sense (cash flow) to a Buyer

Proper professional advice is not heeded

Business problems are concealed from the Buyer by omission

Understanding the Language

Accrual Accounting

Income and expenses are entered into the books at the time of contract instead of when payment is received or expenses incurred.

Barriers to Entry

The degree of difficulty competitors face when entering a specific market, based on barriers such as high initial investment requirements, patents, trademarks, specialist technical knowledge.

Cost of Goods

Direct costs incurred in manufacturing a product or providing a service (usually includes materials and labor).

Cost of Sales

Includes the expenses involved in selling and delivering the product or service, plus the cost of goods.

Due Diligence

A period of between 5 to 10 working days (sometimes longer) where a Buyer is given the opportunity to verify information supplied in the Information Memorandum and to review other material or documents not previously supplied due to commercial sensitivity.

EBIT

Earnings before interest and tax.

EBITDA

Earnings Before, Interest, Taxes, Depreciation and Amortization.

SDE

Sellers discretionary earnings expressed as Earnings before taxes, Interest, one owners compensation, PERKS (owner's personal expenses – insurance, personal car, credit card charges for personal expenses, etc.) Depreciation, Amortization and any Nonrecurring Expenses (like Section 179's).

Grooming

Preparing in advance for the sale of a business by maximizing efficiency, earning potential, structure and presentation.

Gross Profit

Revenue generated by the business minus cost of goods sold.

Information Memorandum

A document providing a detailed overview of a business. The document must be drafted to ensure it is accurate and honestly represents the business and its benefits.

Intangible Assets

Non physical assets such as a customer base, supplier relationships, intellectual property, patents, trademarks, brand names and goodwill.

Net Profit

Total revenues less total expenses.

Net Worth

Assets minus liabilities.

Retained Earnings

Profits that are retained in the business and not disbursed to owners or shareholders.

Return on Investment

An indicator of profitability shown as a percentage, calculated by dividing the net profit by the net worth, and then multiplying by 100.





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