

CONSIDERING BUYING OR SELLING A BUSINESS?



11 KEY CONSIDERATIONS

During the pandemic, we've received an increased number of enquiries from people wanting to buy or sell businesses and this shows no sign of letting up in the near future.

Therefore, we have produced this useful guide which covers some of the key considerations as part of your due diligence and contract negotiations.

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A recent article by PWC states **“The conditions for Merger & Acquisition (M&A) activity appear well aligned: many businesses have a strategic need to consolidate, divest non-core businesses, or quickly acquire new capabilities and skills. And there is plenty of money available to fund deals.”**

This is supported by the latest Merger and Acquisition (M&A) figures from the Office of National Statistics (ONS), showing an overall increase in 2021.

If you are considering buying or selling a business, or planning on doing so in the coming years and want to ensure you are properly prepared, there are some key things you can do to ensure that:

- If selling – that you maximise the value, ensure that the people aspects are handled sensitively and ensure the smooth sale of your business.
- If buying – that you get the best possible price (value) and conduct suitable due diligence so there are no ‘nasty’ surprises.

Many points overlap when selling a business or buying; you both want the transaction to complete smoothly, so having a robust and thorough approach, with conscientious and thorough paperwork, financial data, due diligence and open and clear communication, benefits all parties.

This guide highlights some of the key considerations plus steps you can take to prepare for that sale or investment.

Sources

<https://www.ons.gov.uk/businessindustryandtrade/changestobusiness/mergersandacquisitions/bulletins/mergersandacquisitionsinvolvingukcompanies/apriltojune2021>

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01 Assemble the right team

Get the right experts in place to help you make smart decisions, and to represent and protect your interests.

Your team will typically comprise of key people from within the business as well as outside professionals – including an adviser who can manage the process, a solicitor, a chartered accountant and an investment adviser. Each should have relevant experience.

Together, your team will help you develop a plan, protect your interests, make sure you're aware of the tax implications of any decisions and invest the proceeds from the sale of your business or, if buying, structure the purchase in a way that will benefit you and your family in the long-term.

Not only will you need these professionals to 'get the deal done' but these professionals will deliver value by helping you get the best price, ensuring a smooth process and making sure the terms satisfy the needs of both parties.

02 Get your books in order

Financial books and records are of particular importance. The gold standard is audited financial statements which provide assurances to third parties that the financial position and results of the business have been accurately reported.

The books and records should, at minimum, be prepared and maintained in a manner to permit an audit in compliance with generally accepted accounting principles. Many buyers base their valuation of a business on its Earnings Before Interest, Taxes, Depreciation and Amortisation (EBITDA).

Tax returns should be filed in a timely manner and all taxes owed by the business should be paid, including applicable sales and use taxes, as well as payroll taxes.

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03 Calculate the value of the business

Valuing a business can be complex.

To start with you need to ensure you have robust and up to date records, including management reports, financial statements (to include balance sheet and P&L). A budget and cashflow forecast will also help to support your business valuation as a 'going concern' i.e., a business that is able to continue trading.

You also need to review business contracts and intellectual property (see point 9) and other assets plus consider how many years the business has been trading amongst other things to accurately value a business. Valuation of a business can include goodwill and reputation built up with customers and the local community.

04 Think about tax implications

How you sell or buy a business will have financial and tax implications for the business and you personally. Getting advice to ensure the deal is structured in the most appropriate way and that takes into consideration taxes and other aspects is crucial. If you are considering reinvesting proceeds in another business, it is important that these are set up correctly to maximise any available tax reliefs.

05 Funding

From bank loans, private equity and crowdfunding, there are many options for raising finance. Each option has pros and cons, and legal considerations. You should speak with your advisers to ensure you are fully aware of all the options available to you.

06 Structuring the deal

A sale can be structured in various ways. The 'best' option will vary from business to business. Different structures are worth exploring to ensure the appropriate solution for you – this could result in staggered payments, deferred consideration, earn-out mechanisms or another suitably structured deal.

07 Property

This is a particularly topical issue, the buyers of a business may not want to buy any unused premises or have long term lease commitments. There are various ways for a business to separate a business's property interests from its trading interests.

08 Employment contracts

There are various key considerations and responsibilities an employer has with regard to employees when selling a business. From the need for consultations to involving trade unions or employee representatives, this is a crucial area that you need to speak to an HR and legal expert about.

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09 Protecting the brand and intellectual property

Often these are key assets for a business which hold a value in their own right. Ensuring these are suitably protected are key. Intellectual property (IP) includes many things including brand, designs, technology or other solutions.

10 Contracts

Having robust contracts in place with suppliers and customers is key. Checking the fine print, ensuring they are relevant and up to date is vital. From terms of business to supplier contracts, these should all be reviewed.

11 Insurance considerations

There are insurance considerations when professional businesses are merged, bought or sold and these need to be budgeted for.

Clients can submit a claim for professional negligence for 6 years after an event (although it can be longer in certain circumstances). When a business is merged, bought or sold, these client obligations remain and can be covered by 'run-off' insurance.

A business buying another will want to ensure that they aren't responsible for pre-acquisition work that they had no influence over.

Equally, someone who is retiring or selling their business will want to protect their personal assets by ensuring their liabilities to former clients are covered.

Because, we're here to help

We hope you have found this guide useful and it has provided you with some helpful pointers if you are planning on buying or selling a business.

We do recommend that you speak to professional advisers at the earliest opportunity when planning a sale or purchase of a business so you can get tailored advice that is specific to you and your circumstances.

About Us

Based in Lewes, Knill James is an innovative firm of Chartered Accountants and has been providing specialist advisory and compliance services for over 135 years.

As a talented team of financial experts, our starting point is always the same: to understand our clients' needs first. We pride ourselves on our personalised client care, supplying tailor-made advice to help you and your business thrive.

The Knill James corporate finance advisory and transaction support services focus on small and medium-sized businesses, in particular owner-managed businesses.

Our dedicated, specialist team can provide support with mergers and acquisitions, delivering business disposals, management buy-outs (MBOs), business valuations, as well as strategic financial and structuring advice.



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