How to prepare your business for sale

- Joanna Oakey, author of Buy Grow Exit, founder and Managing Partner of commercial law firm, Aspect Legal

Preparation is critical for maximising value at exit. Businesses that are prepared from a legal and accounting perspective generally experience a larger pool of buyers, a higher sale price and a quicker sale.

However, many businesses come undone by gaps in their legal protections and financial preparation. When exiting a business, consider these elements.

Understand the business from a buyer's perspective

Determine key areas of value in the business. It is critical to understand what a buyer will value and what could scare them away. Assess the current and possible key areas of value and lock those in.

Assess any risks that could destroy value before sale. Once the risks are established, use your insights to import systems for reducing those risks.

Systematise the business

Systematise the business as much as possible by transferring reliance on key staff into systems and processes that capture critical business knowledge.

Buyers love businesses with good systems and processes. A lack of systemisation attracts a smaller pool of buyers and reduces value at sale.

Become independent of the business

Retain a management team and progressively step out of the business. Businesses that are run under management experience a large uplift in their valuation multiple and a quicker transition.

Share knowledge around to reduce key person risk; build strong systems and processes; create incentives for key staff to help maximise the sale value; consider staff ownership; and prepare strong legal documents to ensure key staff can't threaten the value of the business by taking clients, suppliers, staff, IP or confidential information.

Understand the sale process and the timelines

Once you have decided to sell, you need to engage help to find a buyer. Then you will go through the process of providing the information they need, negoti¬ating the deal terms, waiting for them to complete due diligence, and then slowly transitioning across the business.

You must understand what the process of preparation and sale will look like for your business.

Being ready for DD

You want the buyer to feel confident that the business is well organised, that you're well prepared and that they won't come across any issues after acquisition.

Preparation for legal due diligence means ensuring the business is legally compliant; value has been captured and can transfer; risks have been minimised; documents can be found easily; critical contracts are properly signed, current (not expired) and complete; and the business looks well run and 'clean'.

Build your deal team early

Build your advisory deal team from day one. Ensure you have a team of advisors who can work together—a tax accountant, a lawyer with experience in dealing with businesses at exit and a corporate adviser or business broker.

Build a united force to help you achieve the best exit possible.

Having a post-exit plan

If you are unclear on why you are exiting, it can create a problem in achieving your desired outcomes and can be a catalyst in a lack of satisfaction when the deal is complete. Get clear on why you are exiting and what you will do post-exit. Start to visualise that life.

Running your business in a sale-ready state

The goal of all business owners should be to run their business perpetually in a sale-ready state. This includes locking in the elements of value in your business, minimising the risk and being aware of what creates value in the mind of a buyer.

The best time to prepare a business for exit is on the first day you own it. Sellers who fail to prepare properly will suffer a massive impact on sale progression. Businesses that are considered less risky and more sale-prepared experience fewer speed bumps along the way.