



Advisory guide
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Extracting the full value of your business

With the growth of employment red tape, payroll administration has become increasingly complex, with constant changes to legislation.

Extracting the full value of your business

Eventually, every business owner leaves their business. However, many do not consider thorough succession planning and therefore do not leave on their own terms.

It is never too early to start thinking about your exit strategy. It is important to realise that exiting your business is not like a simple flick of a switch, but should be a tailored process, used to maximise the value extracted upon exit. Even if you are not currently planning to sell your business it is important to understand the process, making it easier to realise the full potential of the financial return when you are ready to sell or retire.

Exit strategy

It can take time for a business to become 'sale ready'. Your business needs to be a well oiled machine in order to maximise the value on disposal. Management should consider the current state of the business and set about a process of business maintenance which could include:

Operations

Ensure processes and systems are robust, consider pricing policies and proper registration of patents and IP.

Profitability

Improve current and forecast financial performance, cutting out non-essential costs and focus on increasing margins.

Presentation

Try to present the company in the best light, ensuring all branding and publications are up to date, and start to build a media presence.

Balance sheet

Give your balance sheet a 'tidy-up', paying down debt and hardening attitudes to working capital and stock management.

Management

If you are the owner manager of your business, significant value may be lost through your exit. Consider developing second tier management or training up potential successors.

Who will buy my business?

Identifying target buyers at an early stage will allow you to best prepare your business in order to attract premium offers. There are a number of potential buyers for any business, each offering different results or potential deal structures for the vendor. Potential exit options could include:

Trade sale

You could sell to a competitor, new entrant or supply chain integrator. Using sector knowledge, targeted research can be undertaken to identify operations whose own ambitions may lead them to pay a strategic premium for your business.

MBO

A Management Buy-Out can offer a simple and convenient way to exit your business, as the operational knowledge of the incumbent management team can alleviate much of the potential risk. An MBO can also be used as a tool to incentivise your management team, but finance raising can often be an issue.

IPO

Initial Public Offerings are suitable for vendors with ambitions for global growth and a long term exit plan. However, listing fees can be prohibitively expensive for smaller businesses, not to mention the public relations aspect associated with stock exchange listings.

JV / Strategic Alliance

An alternative long term exit strategy may be to embark on a strategic alliance with a partner with a view to developing your business prior to disposal.

Asset Sale

Failure to adequately plan for your exit may lead to asset realisation being the only viable option. There are tax implications of an asset sale and sale value is unlikely to be optimised if this route is taken.

Tax considerations

Entrepreneur's Relief ('ER') allows individuals to claim relief on certain gains arising on the disposal of a trading business. This means that gains of up to £10m in any individual's lifetime will be taxed at 10% rather than the full rate of capital gains tax of 28%, representing a tax saving of up to £1.8m for qualifying shareholders. To qualify for ER certain qualifying conditions must be met:

- The shares being sold must have been owned for at least one year.
- The shareholding being disposed of must be at least 5% of the company shares and have at least 5% of the voting rights.
- The owner of the shares being sold must be an officer or employee of the company the shares relate to.

ER is not always available but careful planning can improve the final tax position, as well help avoid the common pitfalls, such as leaving too much cash in your business, that can prohibit the use of ER. Other tax planning opportunities are available such as EMI (Enterprise Management Incentive) schemes and the Enterprise Investment Scheme (EIS), both of which can be used to encourage management and other investors.

The sale structure will be key in deciding how much of the overall consideration is lost to HMRC. There is the potential for poor tax planning to result in double taxation and an effective tax rate in the region of 45-50%. Clearly it is important to seek professional advice to avoid such mistakes.

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Personal planning

It would be unwise not to consider your personal plans and ambitions post exit. Too many business owners fail to identify what their goals are for the future, which can affect the proposed exit strategy. Starting your personal planning early can help you meet your lifestyle, income and security objectives. Personal wealth management advice should form part of the overall exit planning.

How Bishop Fleming Corporate Finance can help

Whether you have been approached by a prospective buyer, or are just at the outset of planning an exit from your business, Bishop Fleming Corporate Finance can provide valuable assistance and strategic advice to help drive the transaction process and realise the full potential of your company. We can help with any aspect of the transaction or provide a full life cycle service, assessing strategic options, preparing your business for sale, identifying and liaising with target buyers, negotiating and providing financial and commercial input in to the deal, and project managing the full transaction process.

Our experienced team have advised on a number of disposals, and achieved the best possible results for our clients. To view some of our recent deals, and further details on the services we provide, please visit our website at www.bishopfleming.co.uk.

No obligation initial meeting

If you believe that Bishop Fleming Corporate Finance can help you with your sale strategy or exit planning we would be happy to arrange a no obligation meeting with you.

Contacts

To find out how we can assist you with your corporate finance needs, please contact:



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