



PRIVATE COMPANIES

Grooming Your Business for Sale

Plan for the Future but Be Prepared for the Unexpected

KPMG ENTERPRISE





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Getting your business ready for sale can improve pricing and reduce the time to complete a transaction, but there are two other compelling reasons to begin grooming your business:

- Most of the steps you will take are, in fact, good business practice.
- You never know when the opportunity for a sale might arise, either because of ill health or injury, or because an offer comes along that is too good to pass up.

Grooming your business for sale takes time, which means that you need to get started well in advance. Your reward is a feeling of confidence that you can seize the interest of more qualified buyers quickly, and possibly get a better price. You will also know that you are passing on the business in the best possible condition.

Could You Sell Your Business Today?

- Are you in a position to respond if a strategic purchaser makes an unsolicited approach to buy your business?
- What kind of first impression would you make?
- Can you show a buyer a business plan that articulates your growth strategy and prospects?

- Do you feel good about the prospect of walking a prospective buyer through your premises?
- As the business' leader, are you critical to day-to-day business operations?
- Is there a contingency plan so that the business can continue without you if your personal or family circumstances change suddenly?
- Does the plan address short- and medium-term issues to preserve value through any transition?
- Is your management capable of filling your shoes?

What Is Your Business Worth?

Do you know what value your business might achieve in the current environment? It may prove beneficial to discover what multiples comparable businesses have sold at should an unsolicited opportunity arise. Today's combination of low interest rates, capital market liquidity, and significant pools of private equity and debt are driving a high level of merger and acquisition activity. This can be a great opportunity for business owners. The competition for quality deals is intense, putting upward pressure on business valuations.



Begin the Grooming Process Now

The following outline summarizes the areas you should focus on to prepare and improve your business.

Your Objectives

Your values can help guide you in setting your objectives. Take some time to think these through. Your objectives could include

- Maximizing the total value received for your business.
- Maximizing the cash received on closing of a transaction.
- Receiving support (financial or other) for strategic growth initiatives.
- Achieving financial security, minimization of investment risk.
- Securing long-term employment.
- Pursuing a new venture or a hobby.
- Retiring early (or late).
- Preserving the well-being of existing employees, customers, and suppliers.

Business and Financial

- Prepare an annual business plan, including a 3-year projection. The more a buyer can count on expected future revenue, e.g., a contract backlog, the better.
- Prepare a SWOT (Strengths, Weaknesses, Opportunities, and Threats) analysis. A buyer will want to know not only your strengths but also your weaknesses. A good analysis of opportunities and threats can tell the buyer a lot about how problems can be solved.
- As part of your business plan, construct a brief summary of your industry, its key success factors, and future growth prospects.
- Know your competitors and be able to explain how your products, services, or business are positioned to succeed.



- Identify and document all expenditures that a buyer will likely not incur, such as outsized management bonuses, so that the profitability of the business is clear.
- Have your annual financial statements audited or at least reviewed.

Management Succession

- Evaluate your second-tier management team members. Do they possess (or show potential to develop) the skills to step into your shoes after the sale? Think about how they can achieve their potential, and develop individual plans to help them get there. If you can't see a strong future for a team member, consider replacement.
- For key members of management, formalize relationships through employment contracts. Consider transaction "stay put" clauses to help ensure an orderly transition of the business.

Employee Retention

- Identify employees who are key to the business and attempt to predict their reaction to a potential sale of the business.
- As with management, consider ways you can encourage them to stay with the company post-sale.

Third-Party Relationships

- Ensure contracts with third parties are in place and current, particularly those with key customers and suppliers.
- Consider customer and supplier contract transferability clauses.

Intellectual Property

- Protect intellectual property through patents, trademarks, or copyrights.

Premises and Equipment

- Ensure premises are clean, neat, and well organized.
- Organize inventory and sell obsolete or slow-moving items.
- Ensure equipment is well maintained.
- Sell or remove redundant or obsolete equipment, machinery, and parts.



Business Documentation

- Organize contracts and records and ensure they are easily accessible.
- Document key processes, procedures, and methodologies.

Corporate Reputation

Buyers may be concerned about potential liabilities lurking inside your business, and you need to show them a clean bill of health. This includes having a good corporate reputation or image.

- Document any public relations initiatives you have undertaken to build your company's reputation.
- Gather positive customer testimonials.
- Summarize any past, current, or pending litigation affecting your business, and show how you are handling any risks.
- Ensure compliance with all regulatory requirements, including environmental. Have documentation of regulatory compliance available to reassure buyers.

Polish Your Business with the Prospective Buyer in Mind

When grooming your business for sale, consider it through the eyes of a prospective purchaser. This will help you show your business in the best light possible. The decision to sell your business will be driven by your personal and financial objectives. However, it's good business sense to recognize that life and business are unpredictable and that events and opportunities may mean you find yourself pursuing a sale earlier than you had planned. The investment you make in planning will be well worthwhile and give you the peace of mind of knowing that you are able to respond to events quickly and from a position of strength.



Nine Questions on Selling a Business

For many, the sale of a private company is the culmination of a lifetime's work. More often than not, this will be a once-in-a-lifetime transaction—with just one opportunity to get it right. Here, we answer some of the most frequently asked questions put to KPMG Enterprise professionals about selling a business.

1 When is a good time to sell my business?

Timing, of course, is vital. An objective overview should be taken of your business, your industry sector, and the overall economic picture, to assess if and when it is a good time to sell. Some circumstances make it easier to sell a business regardless of timing; for example, if you operate in a niche market with good contacts or have an excellent customer base. Almost without exception, a good quality business should sell.

2 How much is my business worth?

There is only one way to accurately value a business—sell it! All other methods hold a degree of subjectivity because they involve taking a view of the future, and, logically, not everyone shares the same view. However, to assess the value of your business, you should consider a number of factors: track record, future potential profit trends, competitors' actions, net assets, and property values. Additionally, the most recent deals in the same sector give a useful indication of the price that potential buyers might pay; this information will be provided by a dedicated valuations team.

3 How long does it take to sell a business?

Typically, the sales process takes 4 to 6 months. However, there is no given formula to predict how long it will take; some businesses sell in a matter of weeks and others take much longer. Once your personal objectives are clearly defined and the key business issues identified, you should be able to gain a frank assessment of the time scales involved. Whatever the time frame, you can benefit from an adviser who will stay involved throughout, enabling you to continue running your business right up to completion, and ensuring that you realize the full value of the business.

4 Do I need to do any preparation?

Owners are able to significantly impact the price achieved upon sale by careful planning. It is never too early for a business owner or owners to start to plan for the eventual route out of, or succession to, the business. All businesses should consider how best to position themselves to maximize the value or benefit to the shareholders. Apart from the obvious need to sell a business at the point in the economic cycle when company disposals are likely to be successful, owners should ensure the business is appropriately groomed for exit.



5 Can I sell the business discreetly and in confidence?

Yes, in all likelihood, but confidentiality is vital; a fine balance is needed between preventing knowledge of an impending sale leaking to customers and staff, and, at the same time, ensuring that they don't hear the news second hand. Both scenarios can be damaging to goodwill and loyalty.

6 How do I find a buyer if I don't advertise?

The answer is that you don't, but we do through a number of sources. We have an in-depth knowledge of acquisitive companies and are in regular contact with colleagues in KPMG offices across the country and world wide through our international network. Additionally, we employ dedicated research analysts to track deal activity. We know who is going to be interested in buying your business.

7 How does the sales process work?

The sales process typically goes through a number of stages:

- Planning and preparation—preparing the business for sale, drafting an information memorandum about the business, researching potential purchasers.
- Marketing and negotiations—distributing the information memorandum, evaluating interest levels, receiving offers, negotiating and reaching an agreement in principle.
- Contracts and completion—contract drafting by lawyers, final tax restructuring, overseeing purchaser's due diligence, completion of sale.

8 What do I need to tell a buyer?

Great care is required in preparing an information memorandum and controlling the release of information to prospective buyers. Too little or too much information or the wrong emphasis in the wrong place can have adverse consequences. During a sale, when KPMG Enterprise manages the transaction, purchasers are provided with sufficient commercial and financial information to enable them to determine the amount that they are prepared to bid for the business.

9 What about my tax position?

When you sell your incorporated business, you will have to decide between two general approaches. Either you can have the corporation sell the assets of the business, or you can sell shares of the corporation. If your shares are "qualified small business corporation shares," you may be able to claim a tax exemption for up to \$750,000 of your gain on the sale. No capital gains exemption is available to the corporation if it sells the assets. From your point of view, it may therefore be preferable to sell the shares. The buyer of your business, however, may prefer to purchase the assets. One reason is that this will normally allow the buyer to claim higher capital cost allowance on the cost of depreciable assets. Whichever option you choose, there may be steps you can take to help minimize your tax liability. Your KPMG Enterprise adviser can help you make the sale of your business as tax-effective as possible for you and your buyer.

How We Can Help

For many, the sale of a private company is the culmination of a lifetime's work. Often, this will be a once-in-lifetime transaction—with just one opportunity to get it right. KPMG Enterprise professionals' extensive industry sector knowledge and focus means better understanding and valuation of the transaction, and speeds identification of targets and purchasers. We can help you:

- Identify and prioritize potential buyers and determine a method of approach.
- Initiate confidential contact with prospective buyers to ascertain interest.
- Develop pricing analysis to help define expectations.
- Develop financial modelling to review the proposed transaction and the potential return.
- Draft required documents, including the offer, letter of intent, joint venture or strategic alliance proposal, and/or prepare the selling materials and the confidentiality agreement.
- Contact prospective purchasers, disseminate information, and coordinate the receipt and review of offers.
- Lead negotiations or provide negotiating assistance and support, including transaction structuring.
- Coordinate due diligence activities of clients, legal counsel, and other professionals.
- Supervise the transaction through to closing.

About KPMG Enterprise

KPMG Enterprise™ professionals are devoted exclusively to helping private companies in Canada. Period. It's all we do.



Why is this important for your business? Because KPMG Enterprise business advisers are dedicated to understanding what private company owners and entrepreneurs face every day. In short, we see things the way you do. And, because of that understanding, we can provide responsive and effective advice about your financial, business, and compliance challenges, which can help save you both money and time.

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