more than money

nab

YOUR NEXT STEP

A practical guide to help SMEs exit, or transition from, their business

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Executive summary

Transitioning or exiting from a business is a natural part of ownership. Yet according to research commissioned by NAB*, almost one in four owners who plan to exit their business say they've put off planning because they're worried it will be too hard.

Our NAB Next Step workbook aims to demystify the process and put the power to exit successfully in your hands. It does so whether your plan is to:

- Re-enter the workforce
- Invest in or focus on another business
- Retire or focus on a lifestyle goal

Throughout the workbook you'll find insights and practical guidance, advice from experts and owners who have undergone their own journey, and practical workbook pages for you to assess your own circumstances, either on your own or with the help of advisers.

By the end of this workbook, we believe you should have the confidence and know-how to embrace whatever step is next in your business journey.

Workbook section

*Quantum Market Research, NAB Transition Business Customer Lifecycle Report, September 2018.

THE FUTURE STARTS HERE

Exiting or transitioning from your business can be daunting to say the least, and it's easy to put it off. While the challenges are real, careful preparation can ensure you make the next step in your business journey a success.

Why preparation is key

The youngest of Australia's baby boomers will be 55 by 2020, which means more business owners are considering, planning or currently exiting their business than ever before.

Not all those exiting are in the retirement group, however – some plan on transitioning to employed work while others have their sights set on a new business.

Nonetheless, it's a crowded market in terms of businesses for sale. Which makes it more important than ever to understand what you're doing so you can ensure the best outcome – for you and those who'll come after you.

"More business owners are considering, planning or currently exiting their business than ever before."

3 in 4

SMEs who exited their business found their transition didn't go according to plan*

We're here to help

As a business owner, you may well have the necessary knowledge and skills to deal with a raft of different business situations. But these may not translate into meeting the challenges involved in transitioning. NAB research discovered that things didn't go according to plan for almost three in four, while one in four SMEs who exited their business found the process stressful.

That's all the more reason to put a rock-solid plan in place – one that can give you confidence your transition will be a step in the right direction.

It's our hope that the NAB Next Step workbook will play an important part in your journey.

*Quantum Market Research, NAB Transition Business Customer Lifecycle Report, September 2018.

TRANSITIONING BUSINESSES IN AUSTRALIA: THE BIG PICTURE

NAB studies reveal key insights into business exits

NAB research took a closer look at those people who were exiting – or had exited – their business. Here are some key insights and trends.

ABOUT

1 in 5 SME OWNERS

in Australia today are planning to exit their business – or are already doing so

of SME owners looking to exit their business have no transition experience

WHEN THEY STARTED

1 in 4 **planned to exit** their business from day one

WHY

Almost

1 in 3

want more time with family

believe their business is important to help set up their family for the future

WHAT WAS IT LIKE?

25%
saw it as stressful

Almost
1 in 4
put off exiting their business because they were worried it would be too hard

3 in 4
who had already exited their business said it didn't go to plan

WHO THEY SOLD TO

25% planned to sell their business on the open market

23% planned to transfer to a family member

17% planned to sell to managers and/or employees

WHAT THE CHALLENGES WERE

61%

- couldn't get a good price
- or find the right buyer
- or find someone to take over the business

WHAT WOULD HAVE HELPED

24% thought advance planning would have made it easier

17% thought financial advice would have made it easier

*Quantum Market Research, NAB Transition Business Customer Lifecycle Report, September 2018.

REASONS FOR EXITING OR TRANSFERRING YOUR BUSINESS

About one in five owners of Australian SMEs are planning to exit their business – or are already doing so – either by selling their business or passing it on to the next generation of managers or owners, according to NAB research.

Why?

There are many reasons. Depending on personal circumstances, exiting your business can mean different things to different people. It may be that they're about to retire, or that they've had enough of running their own business and are hoping to return to employed work. Or it could be that they have a new business proposition in their sights. For some, declining business performance or deteriorating health may be the motivation.

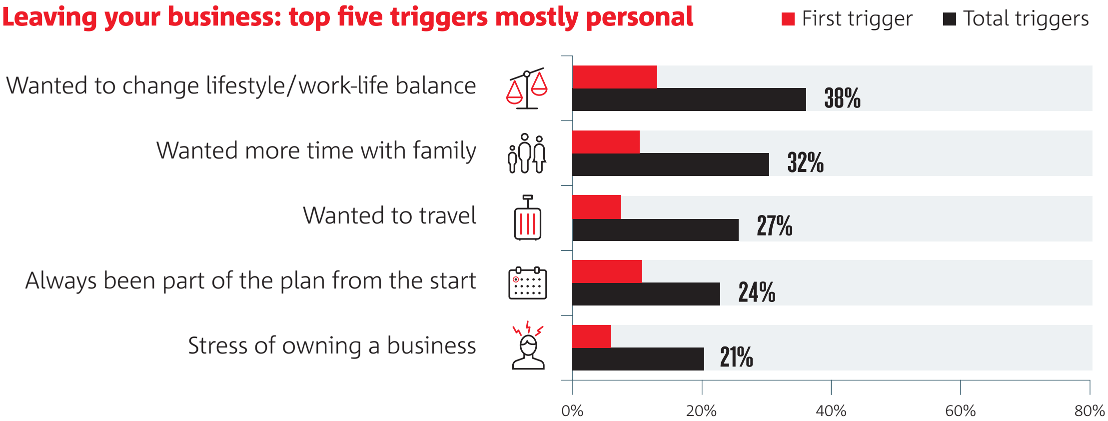
If running your own business has been all-consuming, it may be daunting to consider a life beyond. Let's face it, all that effort, passion and time that has gone into creating a business can make it difficult to walk away and start afresh. Until now, your relationships and personal identity could well have been entwined in your business. How do you give that up?

A step towards the future

Exiting a business – whether that's selling up or transferring all or part of it – is a highly personal journey, and often an emotional one. Particularly if you have little choice in the matter. But for all the concerns around exiting your business, it can also be an exciting time. It may be a way of regaining control over your life – of finding that precious work-life balance. Or, if you're moving on to a new venture, you may have the thrill of embracing a fresh challenge.

Understanding why you want to exit and focusing on where you want to go next can help you make the big move. And our Next Step workbook can help you do it in the best possible manner, whenever you decide the time is right.

Leaving your business: top five triggers mostly personal



*Quantum Market Research, NAB Transition Business Customer Lifecycle Report, September 2018.

WHY ARE YOU EXITING?

It's with good reason that many business owners baulk when it comes time to exit. The decision is tied up in a great deal of emotion. By choosing your top three reasons for leaving your business behind, you can ensure you're moving on for the right reasons – with a clear understanding of what you hope to achieve.

Why are you exiting your business?

- [ ] Improve your lifestyle
- [ ] Illness or injury
- [ ] Less stress
- [ ] Financial challenges
- [ ] Pursue personal goals
- [ ] New business opportunity
- [ ] Other

What are your goals post-business?

Your immediate goals

- [ ] Retire
- [ ] Buy a new business
- [ ] Focus on another business
- [ ] Take up employed work
- [ ] Spend more time with family

Your financial goals

- [ ] Pay down personal debt
- [ ] Fund a new business
- [ ] Lend/give money to family
- [ ] Contribute to personal savings
- [ ] Donate to charity
- [ ] Invest
- [ ] Buy things you want
- [ ] Spend on experiences

24%

of SMEs thought advance planning would have made exiting easier

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WHEN'S THE BEST TIME TO SELL A BUSINESS?

The optimal time to sell or transfer your business will depend on your individual situation and goals. A strong economy can help increase the price, but if you're intent on keeping your business in the family, you may want to focus on when the owner-in-waiting is ready.

A sizeable 61 per cent of those who intend to exit their business are either unable to get a good price, find a suitable buyer or decide on the right person to take over the business. That's why it's important to plan and prepare well ahead of time.

THE NUMBER OF PEOPLE EXITING WHO

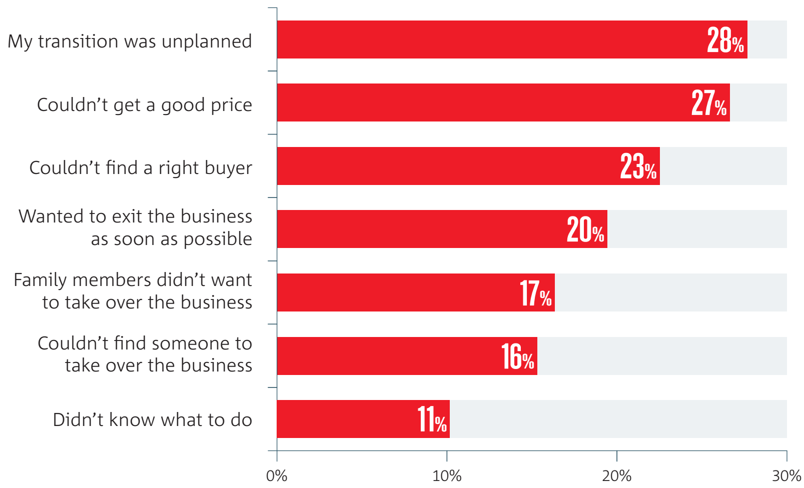
- couldn't get a good price
- or find the right buyer
- or find someone to take over the business

Selling on the up

One in four owners will look to sell their business on the open market in order to get the best price, while 17 per cent aim to sell to other managers in the business or to employees, according to NAB research.

If you are looking to sell, it makes sense financially to do so when the economy is strong and your business is on an upward trajectory, or at least fairly stable. Conversely, that's the time when many business owners would prefer not to sell – they're much more likely to be tempted when business conditions are in decline.

Pain points in business transitions



At the same time, you don't want to face competition from too many other vendors. But you'll need to weigh all this up against any opportunity costs. Do you have a new proposition that you're considering and, if so, what will any delay cost you?

Family matters

NAB research found a similar proportion of owners will transfer ownership to a family member (23 per cent) as will sell on the open market (25 per cent).

Whether selling or gifting, the best time can depend on many factors – for example, when you are confident you have chosen the right successor and given them ample opportunity to build up their skills and knowledge in the business. Again, it comes down to careful succession planning, preparing the way for your business's future beyond you.

*Quantum Market Research, NAB Transition Business Customer Lifecycle Report, September 2018.

WORKING OUT WHEN YOU SHOULD SELL

Deciding when to sell can be tricky. While you naturally want to get the best price, other issues may influence your timing. For instance, buying a new business may be more important than getting a high price for the old one. Illness in the family may also lower your expectations.

Essentially, you need to weigh potential opportunities against lost opportunities. Here's your chance to consider the next five years and what may affect your choice to sell or not.

What's your timeframe?

0-6 months

What's driving your timings?
What are the potential barriers?

- [ ] Personal
- [ ] Practical
- [ ] Financial
- [ ] Is this the best time to sell?
- [ ] Can you wait?

1-3 years

What's driving your timings?

- [ ] Personal
- [ ] Practical
- [ ] Financial
- [ ] Is this the best time to sell?
- [ ] Can you wait?

6-12 months

What's driving your timings?

- [ ] Personal
- [ ] Practical
- [ ] Financial
- [ ] Is this the best time to sell?
- [ ] Can you wait?

3-5 years

What's driving your timings?

- [ ] Personal
- [ ] Practical
- [ ] Financial
- [ ] Is this the best time to sell?
- [ ] Can you wait?

AN ACCOUNTANT'S TOP TIPS: NUMBERS COUNT

Preparation is the key to achieving the optimum price for your business, according to Sam Rotberg, director of Melbourne accounting firm AlexanderSpencer. He shares his tips for getting things in order.

1 Start planning a few years ahead

Selling shouldn't be a snap decision. Allowing yourself a long timeframe gives you the opportunity to improve your bottom line and the value of your business.

2 Improve the health of your financials

Cast an eagle eye over your operations and eliminate unnecessary expenditure. Even if you run a tight ship, there are likely still areas where you can save.

3 Assemble a pack of essential documents

Having documents ready will attest to your credibility and make your business a more attractive proposition. You'll probably need to show:

- Your last two to three years of Business Activity Statements
- The lease on your premises
- Up-to-date signed financials
- A list of your top 10 to 20 customers

4 Consider your exit plan

Some buyers may want you to remain part of the business for up to two years. We generally advise clients not to stay longer than 12 months.

5 Talk to a professional

Spending money on professional advice at the outset will help you realise the maximum return on the investment you've made in your enterprise. For example, an accountant can suggest the best timing from a tax planning perspective, or whether it's better to sell the business or shares in the company. Treat this as an investment, not a cost.

6 And in the event of no plan...

If you need to make an unplanned exit, keeping things running smoothly while you find a buyer can make a big difference to the price you're able to realise for your business. If you're no longer able to remain at the helm, consider appointing a temporary CEO or asking your accountant to oversee operations. Otherwise your sudden sale could become a fire sale.

> "SELLING SHOULDN'T BE A SNAP DECISION."

THE RIGHT TIME, THE PERFECT RESULT

A stock market listing has proved the ideal exit plan for the founder of Perth-based MCS Security.

It took a conversation with a friend in 2014 for one-time British policeman turned entrepreneur Paul Simmons to realise that he, like all business owners, needed an exit strategy.

Then aged 55, the MCS Security founder and CEO says he'd reached a stage where he wanted to be debt free, financially secure and in the position to enjoy quality time with family.

Simmons' company had risen from a shoestring affair in 2005 to a business generating $15 million turnover by 2015. "The first year, I was doing everything: the payroll, the rosters – even putting the uniform on and working shifts," he says.

That growth attracted offers from several potential buyers but, for various reasons, none had appealed.

Then came that fateful conversation, which saw his friend suggest carrying out a backdoor stock exchange listing through a shell company. "He pointed out it would allow me to release money from the business and remain a major shareholder," Simmons says. "I liked the idea of that."

The 2015 listing left Simmons with an 18 per cent stake in MCS and delivered him a seven-figure sum. It offered the best of all worlds, he says. Not only did it provide financial security for his family and allow him to remain at the helm of MCS, it also generated funding to enable the company to expand interstate.

The businessman is in a position to retire, and that day will come – but not just yet.

"I enjoy doing what I'm doing so I've stayed on as CEO," Simmons says.

"Nothing has really changed other than the reporting structure and the fact that I've cashed in on the equity and have no debts outside the business and a comfortable lifestyle. The staff are still happy, it's still a good place to work and, when I'm ready to step aside, it will be easier for someone else to take over."

And his advice for others?

"Ordinary people can fulfil their dreams by hard, honest and ethical work practices. My advice? Go for it. Remember it doesn't come easy but, if you want it badly enough, it will happen."

> "My advice? Go for it. Remember it doesn't come easy but, if you want it badly enough, it will happen."

MAKING A PLAN TO SELL YOUR BUSINESS

Putting a plan in place to exit your business can start the moment you buy it. It's called succession planning and it's a critical factor in ensuring that, when the time comes, you're ready to sell or transfer your business.

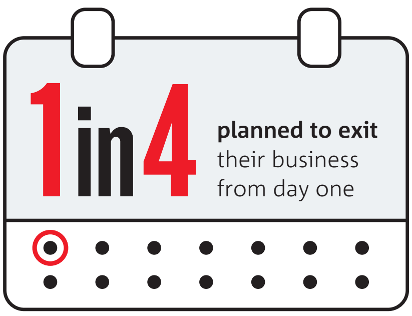
Consider the fact that 24 per cent of SME owners plan to exit their business from day one, according to NAB research. It makes a lot of sense. Setting up your business based on the premise that you won't be part of it forever means you're likely to put in place the people, systems and processes that will help to maximise its value while ensuring it meets your future needs.

What's in a good plan?

First, you need to decide how you want to exit your business – whether to sell it or pass it on to someone – and when. Your answer here will be influenced by what you hope to achieve after exiting. Would you like to start another business? Or get a job, travel the world or retire with your feet up?

Pre-sale preparations

Once you've nailed the fundamentals, it's time to start seriously preparing for your exit. The preparatory measures will differ depending on whether you're selling the business or passing it on.



To-do list: Selling your business

1. Improvements

Few potential buyers want to buy a 'fixer-upper'. If your business is crying out for some improvements, it's best to get them done now.

2. Valuation

It can be surprisingly difficult for a business owner to come up with a realistic business valuation. To avoid setting the price too high or too low, read the *"How to value a business"* section and consider engaging an independent valuer.

3. Communications

Work out what information you want to share with stakeholders such as staff, customers and suppliers, and when to share it. As a general rule, taking a need-to-know approach will minimise workplace disruption and industry gossip.

4. Tax

With the help of your accountant or financial planner, understand any tax liabilities from the sale of your business and the soundest way to plan for these.

5. Legal

Talk to an experienced business sales legal practitioner to ensure any legal implications around the sale of your business are taken care of.

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To-do list: Passing on your business

1. Structural

Consider whether the legal structure of the business will need to change. For example, it may make sense for you to operate as a sole trader but, if you're handing the business on to two or more family members, they may need to run it as a partnership, company or, possibly, trust or co-operative.

2. Practical

Take care of the practicalities. Is there a family member willing and able to assume operational control of the business? Do they already have the skills they need, or do you need to train them?

3. Legal

Think about the legalities. What will happen with the business's ABN/ACN, domain name, leases, licences and insurance policies? You should also consider the legal implications if either you or your beneficiaries become ill.

4. Familial

It's important to consider family dynamics. If a family member is taking over the running of the family business, are they also taking complete ownership of it? If not, what will be the rights and responsibilities of other family members who may have an equity stake but no day-to-day involvement? For scenarios like this, putting in place a dispute-resolution mechanism to resolve future disagreements about the direction of the business can be a powerful way of protecting both.

A LAWYER'S TOP TIPS: AVOIDING THE PITFALLS

There are many legal issues to work through when you're selling a business… and more than a few pitfalls. Beswick Lynch partner Tim Lynch flags five of the most important.

1 Selling your business successfully starts with working out just what it is you're selling

Will it be the company itself, or the assets it owns and the goodwill you've amassed? Your decision here will affect the contents of your contract and the extent of due diligence a potential buyer is likely to demand.

2 Honesty really is the best policy

If you're hoping to achieve a healthy price, it may be tempting to talk things up, but doing so is a mistake if you're unable to substantiate all the claims you make. There can be repercussions for providing buyers with information that's misleading or deceptive, and care should be taken when packaging and presenting your business for sale.

> "HAVING YOUR PAPERWORK IN ORDER CAN HELP PURCHASERS FEEL CONFIDENT."

3 How much constraint can you handle?

If goodwill and reputation account for much of the value in your enterprise, it's likely any buyer will want to impose some restraints, to prevent you establishing yourself in competition or poaching clients, after you've cashed their cheque. If you're preparing to retire, that may not be an issue, but younger owners with many working years ahead may find it difficult to deal with such constraint. Considering your position before the issue is raised can be helpful.

4 The sale of your business doesn't necessarily spell the end of your obligations to clients

Individuals who own businesses that offer professional services may need to purchase 'tail-out' or 'run-off' insurance, or make other arrangements to ensure they're covered against possible claims that may arise years down the track.

5 Involve your lawyer early in the process

Having your paperwork in order can help potential buyers feel confident your business is worth the asking price. Your lawyer should be one of the first people you contact as soon as you decide to sell. Apart from helping you organise the business paperwork, they can help you establish suitable brokerage terms and your key terms of sale before you start talking to brokers and buyers.

HOW TO FIND A BUYER

Just how do you go about finding a buyer? From understanding the psychology of buyers to creating a selling memo and getting the word out, we walk you through the options.

You may be surprised at how difficult it is to find a suitable buyer for your business, particularly someone who will carry on your legacy.

NAB research found that almost three in 10 people exiting couldn't get a good price for their business, while almost four in 10 couldn't find the right buyer or someone to take over the business.

Finding a buyer, the right buyer, isn't impossible though. By arming yourself with the necessary knowledge and advice, you can navigate some of the bigger challenges and hopefully find the person who suits you, at a price that meets your needs.

What makes the perfect buyer?

If finding the right person for your business is your top priority, you need to think about the various buyer types and what drives them. They can be divided into three categories.

> "FINDING A BUYER, THE RIGHT BUYER, ISN'T IMPOSSIBLE."

3 BUYER TYPES

The strategic buyer
They want to buy your business to expand their own operations

The financial buyer
They are a professional investor aiming to make money

The proprietor buyer
They want a business that's ready to run

Which appeals to you will depend on your future plans. While an owner-operator may share the same values as you, there's a good chance they won't be very experienced. Do you want to leave your legacy to a relative beginner? An investor, meanwhile, could have new visions for your business. But, then again, they might be willing to let you stay on after you sell – a potentially nice way to wind down to retirement for some sellers.

Working out what type of buyer you want is important because you can then fine-tune your sales pitch.

“NOT ALL BUSINESS BROKERS ARE CREATED EQUAL.”

Relying on the professionals

You don’t have to do this on your own. You can always turn to the services of a business broker, someone who specialises in buying and selling businesses. Apart from being a great source of knowledge, they can save you considerable time and effort.

There are many brokers to choose from. To find the right one for you, it’s a good idea to ask around, either through your local network, an online directory or your legal or financial adviser. You want someone who really knows your market and provides great customer service. You also want someone who is able to demonstrate what your business is worth. Ask them to provide contact information for satisfied sellers of similar businesses.

WHAT YOU WANT IN A BROKER

- **Knows** your market
- **Provides** good customer service
- **Can demonstrate** what your business is worth
- Has **references**

Going it alone

Alternatively, you could try a private sale. Avoiding broker commissions will save you a considerable sum of money – anywhere up to 12 per cent. But be warned: it will take up lots of your time and you may not have sufficient expertise to pull off the best deal. Here are a few things to consider.

Creating a selling memo

If you choose to go it alone, or even if you go to a broker, you’ll first need to create a selling memorandum, something that gives an overview of your business and explains why it’s a good purchase prospect. If you’re a small business, this can be a simple one-pager. The bigger you are, the more complex it necessarily becomes. Things you can include are:

- ✓ The products or services you provide
- ✓ A description of your competitive position
- ✓ Your marketing plan
- ✓ Your key employees and their credentials
- ✓ Accurate financial information
- ✓ Your asking price

Getting the word out

You’ll need to think about advertising your business for sale, either online or in a newspaper or trade publication – or simply by word of mouth if you don’t think this will harm your business. Alternatively, you can rely on your existing networks of family, friends and employees.

WHAT KIND OF BUYER ARE YOU LOOKING FOR? YOUR KEY CRITERIA

It may be you're looking for the buyer who will offer the highest price. But it's often not that simple. If you've built up your business from scratch, you may well be concerned about who will take it over and what they intend to do with it.

There are other issues to consider. How quickly do you need to sell? Do you want to continue in the business in the run up to retirement? Are you determined to keep it in the family? It's a good idea to think through your key criteria before you home in on a suitable buyer. Choose your top five below.

What's important to you?

- ☐ Price
- ☐ Speed/timing of sale
- ☐ Certainty of sale
- ☐ Conditions of sale, such as:
  - Type of payment
  - Earn-out period (future payments based on financial achievements of business)
  - Flexibility of ongoing work arrangements for yourself
  - Other
- ☐ Maintaining your original vision for the business
- ☐ Trust/confidence in the buyer's intentions
- ☐ Cultural alignment of the buyer
- ☐ Ongoing opportunities for your team
- ☐ Impact on your community
- ☐ Other

Based on the above, consider which of the following buyers may suit you best:

- ☐ Owner-operator
- ☐ Financial owner*
- ☐ Strategic owner**
- ☐ Family member
- ☐ Management (through a management buy-out)
- ☐ Employees (through an employee buy-out)

*Someone who treats your business as an investment opportunity

**Someone who wants to use your business to grow their own business

AN EXPERT MIGHT MAKE ALL THE DIFFERENCE

Hiring a consultant to prepare their business for sale was money well spent for the owners of award-winning systems integrator Mexia.

"THE FEE LOOKS HIGH, BUT IT PAYS FOR ITSELF IN THE VALUATION YOU GET."

Dean Robertson is a software specialist, not a mergers and acquisitions expert – which is why he and his fellow shareholders didn't resent the outlay on someone who was, to help realise the value of their IT consulting business, Mexia.

Founded in 2009 and specialising in Microsoft cloud technology, Mexia grew from zero staff into a national operation with a team of 60 and a stellar roster of clients. The business joined a global management consultancy in September 2018, for an undisclosed sum, and Robertson accepted a partnership role with the new owner.

Advice from the very start

A year before putting Mexia on the market, he and his business partner engaged an adviser, to dress the business and broker a sale.

"He helped us understand how to see our value in the eyes of another, bigger business," Robertson says.

The adviser also carried out due diligence, Robertson adds, to "flush out" potential issues. Expenses were pruned, projects without strategic value were jettisoned and key performance indicators – gross margin, number of customers and customer retention rate – were measured quarterly.

"After a year, there were tangible improvements in all areas so, when it came time to run a marketing campaign, we had a really good story to tell," Robertson says.

Robertson believes professional advice is an excellent investment.

Good packaging proves its worth

"The fee looks high, but it pays for itself in the competitive valuation you get. If you have a good business that can be packaged well, by someone who knows how to manage the toughness of the negotiation, you'll get far more for it than you would doing it yourself."

Building a saleable business was always the plan, but growing Mexia to a size where it was attractive to top-tier suitors took longer than expected.

"We were a bit naive," Robertson says. "I had the idea that at 15 or 20 staff we'd be an attractive proposition. As it turns out, large businesses rarely acquire small ones because of the effort and cost involved in due diligence.

"They'll only do it for a company that will have a material impact on their own growth and bottom line. For a consulting business, you're looking at around 50 employees across Australia and $10 million in revenue. If you have a smaller team, it helps if they're all in the same location and bring a strategically important capability."

Joining a global firm has created opportunities for Mexia's team and given Robertson a new challenge.

Relishing new opportunities

"It's been an amazing process for me – coming off the high of exiting our business and having the humbling experience of beginning a new journey with a steep learning curve," he says. "I no longer have the financial risk I had, but I still have the enormous emotional satisfaction of being able to pursue a career."

HOW TO VALUE A BUSINESS

Business asset valuation method or industry rules of thumb? We talk you through a number of ways to value a business.

Putting a price on your business can be hard. There's every chance what you think it's worth and what your potential buyer thinks it's worth are very different. However, there are some standard methods of valuing a business.

Business asset valuation method

For a simple business asset valuation, you can add up the assets of your business and subtract the liabilities. For example:

A simple business asset valuation example

$500,000 in assets
(machinery and equipment)

- $50,000 in outstanding invoices

= $450,00 in value

Note, if your buyer decides to buy the assets only, rather than take over the business as a going concern, you'll be left with any outstanding debts or tax payments. An asset valuation will benefit you if you own a stable, asset-rich business.

Other simple methods

There are many other ways you can value your business. Some of the more standard methods include calculations based on capitalised future earnings, comparable sales and earnings multiples. Go to *page 22* of our workbook for a how-to guide for each of these methods as well as a rundown of the business asset method.

Industry rules of thumb

In some industry sectors where buying and selling businesses is common, there are 'rules of thumb' that rely on factors other than profit. For example:

- Turnover for an IT business
- Customer numbers for a smartphone provider
- Number of outlets for a real estate agency

Here, buyers will work out what your business is worth to them. For example, if you're a computer maintenance business with 10,000 contracts but no profits, your business may be worth comparatively little to one buyer. However, a larger competitor may pay $100 per contract to buy your business because it wants to merge the two businesses.

Where to from here?

It's a good idea to talk to your accountant about possible valuations of your business. You could also get advice from the Chamber of Commerce, an industry association or a business adviser.

WHAT'S YOUR BUSINESS WORTH?

Your current state of play

What does the business own (your assets)?

Make a list and put a value beside each item. Add up the value.

What does the business owe (your liabilities)?

Make a list and put a value beside each item. Add up the value.

What do you own (your assets)?

Make a list and put a value beside each item. Add up the value.

What do you owe (your liabilities)?

Make a list and put a value beside each item. Add up the value.

What are your last three years' net revenue figures?

Year 1: ______________ Year 2: ______________

Year 3: ______________

Do you have any one-off factors that will affect your revenue or costs?

____

____

What are your last three years' costs?

Year 1: ______________ Year 2: ______________

Year 3: ______________

What are your most recent earnings before interest and tax?

Year 1: ______________ Year 2: ______________

Year 3: ______________

Now let's value your business

There are several methods – here are some options to get you started. You may need to work with an adviser or broker to get this right.

Business asset valuation method

Add up the value of your assets ______________

Add up the value of your liabilities ______________

Subtract your liabilities from your assets ______________

Your business valuation is ______________

Capitalised future earnings method

What's your average net profit over three years ______________

Calculate your ROI ______________

Divide your average profit by your costs and turn it into a percentage

Your business valuation is ______________

Divide your average net profit by your ROI and multiply by 100

Earnings multiple method

Write down your earnings before interest and tax ______________

What's your business earnings multiple?* ______________

**Your broker, accountant or adviser can help with this.*

Your business valuation is ______________

Multiply your EBIT by your business earnings multiple

Comparable sales method

What's the average price of business sales in your area? ______________

What's the average price of businesses in your industry? ______________

How could you add more value?

The below is a good starting point for a discussion with your adviser about what you should do and when. Think through the timings that work for you.

Push your business right until the end

Time before sale:

- [ ] 0-6 months
- [ ] 6-12 months
- [ ] 1-3 years
- [ ] 3-5 years

Split up your business into smaller parts

Time before sale:

- [ ] 0-6 months
- [ ] 6-12 months
- [ ] 1-3 years
- [ ] 3-5 years

Review employees' contracts and check terms

Time before sale:

- [ ] 0-6 months
- [ ] 6-12 months
- [ ] 1-3 years
- [ ] 3-5 years

Invest more capital into growing your business

Time before sale:

- [ ] 0-6 months
- [ ] 6-12 months
- [ ] 1-3 years
- [ ] 3-5 years

Rein in spending/limit liabilities

Time before sale:

- [ ] 0-6 months
- [ ] 6-12 months
- [ ] 1-3 years
- [ ] 3-5 years

Bring forward invoices etc

Time before sale:

- [ ] 0-6 months
- [ ] 6-12 months
- [ ] 1-3 years
- [ ] 3-5 years

Other

Time before sale:

- [ ] 0-6 months
- [ ] 6-12 months
- [ ] 1-3 years
- [ ] 3-5 years

Your notes

35%

believe their business is important to help set up their family for the future

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WHEN MEETING POTENTIAL BUYERS, IT PAYS TO BE PREPARED

Carbon Group's co-founders have acquired a score of businesses and they have some informed advice for those looking to achieve a successful sale.

Carbon Group co-founders Jamie Davison and Nathan Hood are yet to sell a business, but they've had plenty of experience buying them. Since 2014, their Perth-based accounting firm has completed more than 20 mergers and acquisitions, giving it a presence in four states and a team of over 110.

Their advice to business owners looking to sell? When you meet prospective purchasers, be clear and open about why you're exiting.

The hardest thing for us is to figure out what someone wants when they don't know themselves," Davison says. "We want to know their motivations and to feel comfortable they make sense."

> "Numbers are the only reliable indicator of how a business is being run."

Being familiar with your key numbers – think turnover, operating expenses and gross and net profit percentages – is also critical.

"Numbers can be boring but, for an outsider, they are the only reliable indicator of how a business is being run," Davison says. "It really says a lot about a business owner if they know their numbers – and it really says a lot if they don't. For us, somebody who cares about their business and has been on a journey to improve it would have to be across their figures. It's a red flag if they're not."

Making your business as flexible as possible may make it more attractive to buyers, Hood adds. Being locked in to long leases can be a turn-off, as can a balance sheet that reveals excessive leave entitlements.

"The last thing we want to do is acquire a business and all the staff head off on seven weeks' holiday, three weeks in," Hood says.

HOW TO GET YOUR BUSINESS FIT FOR SALE

Ensuring your business is ready for sale is about developing its strengths and reducing its exposure to risks.

Is your business structured in the best possible way for a sale? For example, if your premises are part and parcel of the business, could this make its purchase too expensive for a potential buyer?

If this is the case, you may want to think about restructuring into two independent businesses: one to own the building, the other to own the trading part. You may then decide to sell the trading part only, using the building for rental income to help fund your next steps.

If your business owns expensive plant and equipment, you may follow a similar tactic and split these into two businesses where one owns the plant and equipment. You can then lease these to the trading business.

A good tip is to prepare your business as if you intend to franchise it. What systems would a new owner need to run the business? Speak to your accountant first to find out what other ideas could suit your business before you sell.

Ensure your business looks its best

To be fit for sale, your business needs to have its finances in order. You also want to demonstrate a strong financial record with evidence of a stable history and sustainable future.

Aim to have:

- Stable financial cash flows
- No outstanding major purchases
- Realistic depreciation figures
- Realistic provisions for bad debt and old stock
- Efficient stock management
- Tighter credit control

“A good tip is to prepare your business as if you intend to franchise it. What systems would a new owner need to run the business?”

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> "You need to show buyers you have the business under control and that it's not dependent on you."

Offer excellent systems

Buyers want accurate information quickly. You need to show them that you have the business under control and it's not dependent on you for survival.

If at all possible, make sure you have:

- Accurate accounting systems
- A stable customer base
- Good customer management systems
- Clear, documented procedures followed by staff
- Inventory and supplier management systems, preferably digital

Reduce the buyer's risk

Buyers won't be keen to take on any unnecessary risk. Remember, they can always start their own business from scratch instead.

Therefore, to reassure them, aim for:

- Formal contracts with suppliers and customers
- Incentive schemes to encourage key employees to stay
- Multiple sources of revenue and supply
- No loose ends (e.g. ensure your tenancy agreement isn't about to expire)
- Trademarks
- Patents
- Regulatory approvals (e.g. import licences, product certifications, service licences/certificates)

YOUR TO-DO LIST FOR GETTING YOUR BUSINESS FIT FOR SALE

There are so many things you can do to get your business looking its best.
Below are a number of suggestions to consider.

Clean up your finances

The aim is to show a stable history and a sustainable future

- [ ] Delay or bring forward any major purchases
- [ ] Review your depreciation figures
- [ ] Review your income
- [ ] Review your provisions for bad debt
- [ ] Review old stock
- [ ] Sell any underused equipment and assets
- [ ] Review your stock management process to ensure optimal efficiency
- [ ] Tighten your credit control

Fine-tune your systems

The aim is to make sure they're clear, accurate and up to date

- [ ] Review your accounting systems
- [ ] Regularly monitor key performance indicators (and act on them)
- [ ] Review your customer management systems
- [ ] Review your employee operating manuals

Reassure your buyer

The aim is to de-risk the purchasing process wherever possible

- [ ] Turn any informal deals with suppliers into formal contracts
- [ ] Turn any informal deals with customers into formal contracts
- [ ] Ensure that suppliers won't cut off any established lines of credit if you sell your business
- [ ] Implement incentive schemes to encourage key employees to remain with the business
- [ ] Widen your revenue and supply sources to reduce your dependence on a few large customers or a single source of supply
- [ ] Tie up any loose ends (e.g. if your tenancy agreement is due to expire soon, make sure the landlord will agree in writing to a new one)

Your notes

A BROKER'S TOP TIPS: ENSURING A SMOOTH HANDOVER

Being prepared to put time and effort into the handover process can be good for you and the person or entity taking over your business, says David McCleery, director of MCP Financial Services.

David McCleery has helped scores of clients buy and sell small and medium-sized businesses.

He says the importance of a smooth handover can't be overestimated and advises would-be buyers to be wary of vendors who aren't prepared to stick around for a spell to help them settle in.

"Good vendors want to see their business continue to be successful under new management – they want the new owners to make a go of it," McCleery says. "If it's evident your goal is to step away quickly and you're not willing to provide ongoing support and connection, that's a red flag."

Offering to be present during the period following the sale, to introduce the new owner to key customers and help them get established, demonstrates genuine intent and goodwill.

"Depending on the rapport between you and the buyer, you might remain connected for a period of time, or there might be a specific role for you in the business, on an ongoing basis," McCleery says.

IN A NUTSHELL...

1. Be prepared to stick around
2. Offer to introduce the new owner to key customers
3. Provide ongoing support to the new owner

"It's not uncommon for vendors to receive their cheque and then find they have nothing to do; meanwhile, the intellectual capital and experience you've amassed can make you a great asset to the person who's taken over.

"You might have a specific expertise or a task you enjoy and, once you're free of the burden of administration and staff management, coming back and doing the bit that you love can be a win-win."

> "YOU CAN BE A GREAT ASSET TO THE PERSON WHO'S TAKEN OVER."

THE MECHANICS OF EXITING

You've found someone to take over your business, but how do you actually complete the deal?

There are a number of stages to selling or transferring your business. All parties have to be happy they're getting the deal they signed up to.

Selling up

Once your prospective buyer has made their offer on your business, further due diligence and a detailed sales agreement will be required (think: selling a house). The buyer's accountants will want to look at every aspect of your business's finances and their lawyers will want to check that the business has full legal ownership of all key assets. They'll also want to look at the legal relationships with customers, suppliers and employees.

Many legal issues may be covered by warranties and indemnities that you, as a vendor, will almost certainly be asked to sign. Read these carefully and get your own professional advice before you do sign. You may have ongoing responsibilities that tie you up for a year or longer. You may even have to remain involved in the business. If so, remember you'll no longer be in control.

How you seek payment may also have ongoing implications – both tax and financial. Whether you choose cash up front, vendor finance or deferred payment, it's worth seeking advice from your accountant first.

Transferring your business

If you choose to transfer your business to a family member or employee by way of sale, you'll need to consider your ongoing ties. Spell out your new role in the business, if any, and decide whether you're comfortable with how the business will be run in the future.

You also need to think of your employees, suppliers and customers. When and how will you tell them the news? Will you introduce the new owner before or after the sale?

BASIC TO-DO LIST

Here are some things you're expected to do if you're changing ownership, either by sale or transfer.[1]

- Cancel your ABN
- Either transfer or cancel your business name
- Cancel other tax registrations, such as Goods and Services Tax (GST)
- Lodge any final tax returns
- Pay any outstanding activity statements and instalment notices
- Make GST adjustments on your final activity statements
- Pay any outstanding bills
- Transfer any other assets, such as domain names or web registration, to the new owner
- Transfer any business, customer and employee records to the new owner

1. https://www.business.gov.au/Change-and-growth/Restructuring/Change-of-ownership

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A BUSINESS COACH'S TOP TIPS: WHAT COMES NEXT?

Selling a business is a major life change. Readying for what's next should be part of the process, says Ian Heininger, psychologist and founder of Bridgebuild Consultancy Group. He shares his tips for doing so.

1 Take time out to reflect, once the dust has settled

It can be tempting to rush into the next thing, but giving yourself some breathing space is no bad thing, especially if you're leaving behind something you built from the ground up. At least a couple of months off is good; some people may choose to take longer, if they're able to.

2 Be really clear about what's next

When one door closes, another opens, as the old saying has it. When you're no longer tied to your business, it's possible several doors may open at once. Whether it's time off, retirement, consulting or launching a fresh business, thinking carefully about how you want to spend the next stage will allow you to move ahead intentionally when you're ready to do so.

> "BE REALLY CLEAR ABOUT WHAT'S NEXT."

3 Seek advice from people you trust

Whether you've decided to down tools or dive into another venture, support from those whose opinions you value will help you maximise whatever opportunity you've decided to pursue.

4 Get comfortable with yourself

For many business owners, their identity is tied up in their business and stepping away after many years can leave them feeling a little unmoored. Reflecting on your strengths and the qualities you exhibited that helped make your business a success, with trusted sources or a mentor, can be helpful.

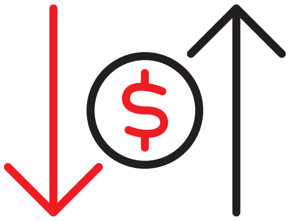
5 Find a way to give back

You may be accustomed to thinking of your business as your legacy – but it doesn't have to be your only one. Seeking opportunities to contribute, by supporting other business owners, volunteering or mentoring someone, can be a fulfilling way to celebrate your success.

TAX AND FINANCIAL IMPLICATIONS

When it comes to exiting or transferring your business, it pays to be tax savvy. It may save you some money, and stop you getting yourself into hot water.

LESS OR MORE TAX?



- **Does Capital Gains Tax (CGT) apply to the sale of your business?** Don't worry, there are a number of small business concessions that might help you.
- **Are you registered for the Goods and Services Tax (GST)?** You may have to include it in the price of your business assets.

You may also owe or be owed GST, depending on your sale expenses.

WHAT'S WORTH MORE:

your goodwill or your assets?

- **Selling your business's goodwill?** It isn't taxable.
- **Selling your assets?** The buyer may get a tax deduction.

Therefore, it's in your interest to put a high price on your goodwill, not your assets.

HOW DO YOU WANT TO BE PAID?

- **Upfront cash** may not be tax-efficient

But

- **Vendor finance** (where you leave money in the business) is less certain, relying on the buyer's reputation.

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A WEALTH ADVISER'S TOP TIPS: MANAGING YOUR MONEY

The sale of your business may see you and your family come into a significant sum. Jacinda Dixon, Executive Director, Major Family Groups, at JBWere shares some advice for arranging your affairs, pre- and post-sale.

1 Start the planning process early

Don't wait until the sale is completed to take advice. Very often, private wealth advisers can add value by helping you structure the way in which your funds should flow, and some arrangements may need to be made in advance.

2 Have a plan for day one

Responsible stewardship of your funds begins upon receipt. Have a plan for how the sale proceeds will be dispersed once they hit your account. Every day they sit in a spot that's not chosen deliberately, you're potentially losing money and/or assuming unnecessary risk.

3 Appreciate you're starting a new business – family wealth stewardship

It's natural for owners to focus on the exit out of their business, but you're also making another change – into the role of managing your personal wealth. You may need access to new skills as you make the shift and it's important to assemble a team of trusted advisers who can collaborate for the betterment of your family.

4 Proceed with purpose

Stewarding wealth over the long term calls for more than just clever investment decisions. While such decisions will help grow and preserve your assets, they may not get you where you want to go. Thinking about what's most important to you and your family, now and in terms of your legacy, will help you determine how to manage your wealth sustainably.

5 Choose the level of involvement that's right for you

Hands on... or hands off? Managing your personal wealth takes time and you'll need to decide how much you want to devote to the process. Some families enjoy 'getting down in the trenches' and filtering through investment opportunities; others prefer to leave the legwork to others. Either way, you'll have access to an array of interesting investment options and will need to source tools and expertise to help you assess them.

> "IT'S IMPORTANT TO ASSEMBLE A TEAM OF TRUSTED ADVISERS."

WHERE TO GO FOR HELP

While it's a good idea to contact your financial adviser, accountant or lawyer before you get too entrenched in exiting your business, it's also worth doing your own research. Below are some useful websites to get you started.

Government resources

Government bodies have a whole host of information on selling and transferring your business. They also can support you if you're looking to move into a job or retire. Try the websites below.

www.business.gov.au
(or the state site **www.business.qld.gov.au**)

www.moneysmart.gov.au

www.ato.gov.au

www.humanservices.gov.au

www.dss.gov.au

www.myfuture.edu.au

www.jobsearch.gov.au

Industry resources

You'll find some insightful articles on a whole range of industry websites. Here are some good starting points.

The CPA Australia website lists chartered accountants nationally:

www.cpaaustralia.com.au

For a free succession-plan template:

www.business.gov.au

If you want to get your business exit started and are keen to find a broker or go it alone, you might try these websites:

www.businessforsale.com.au

www.seekbusiness.com.au

If you need to value your business, check out the Australian Chamber of Commerce and Industry for advice:

www.australianchamber.com.au

Or you can look into enhancing the value of your intangible business assets:

www.ipaustralia.com.au

NAB resources

You can talk to one of our business bank specialists. In the meantime, you'll find lots of further information and tools on our website:

www.nab.com.au/business/moments

HOW CAN WE HELP YOU?

To learn more about how NAB can help you with your business transition, contact us on **13 10 12** or go to **nab.com.au/business**

For Business View enquiries, please email **business.view@nab.com.au**

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