Top Ten Tips for Maximizing the Value of Your Business on Exit

For many SME business owners, selling their business is a once in a lifetime event. Naturally, ensuring maximum value is realized is of paramount importance and can materially affect the retirement and / or future plans of those concerned.

Whilst business owners will undoubtedly know their businesses inside out, it's not uncommon for certain key value drivers to have been missed when planning for a sale. Every area of the business must be considered to concoct the perfect recipe to maximize value on exit. Below are my top tips for how best to maximize value in 10 key business areas.

1 Profits
The stronger a business's profits, the greater the likely value of that business in the market. However, business valuations aren't quite as simple as that and whilst profits are a major factor in business valuation, the multiple applied to those profits is an equal, if not greater, value driver. Cash and debt also play a major role.

When it comes to profits, making sure a business is sold on the way up is critically important, whilst also ensuring there is a certain level of profit growth available to a new owner will also help increase business value. The remainder of the top tips will focus on ways of improving the multiple and driving value from the balance sheet.

2 People
A business is often only as good as the people that run it or work for it and a common concern for many buyers is that the value in the business walks out of the door the moment the shareholders sell up.

As a business owner, putting in place a good quality management team to effectively run the business autonomously will add significant value on exit and will help to give a buyer comfort that the business will continue to run successfully and trade profitably. It's a cliché, but as a business owner it is important to "make yourself redundant".

3 Customers and Suppliers
Having a well-diversified customer list and not being overly reliant on any one client will help to improve the multiple on a sale. It's a common concern for buyers and an area of focus during due diligence. Equally, partnering with high quality, blue-chip customers adds value by mitigating risk for an acquirer. Geographical customer diversification is also seen as a positive.

A similar principle applies to the supplier base; an over-reliance on any one supplier is risky and will bring down the multiple. Being able to source products from alternative suppliers reduces such risk.

4 Revenue Stability

Investors and acquirers like stability. The more stable a business's revenues, the more attractive that business becomes. Where businesses are based around chunky, one-off, non-recurring fees or invoices, it's highly advisable to try and get an alternative, more regular, repeat source of income in place to offset the risk. Of course, this isn't always practical, but even a small level of 'smooth' income reduces the risk profile for a buyer.

5 Revenue Visibility

The ability to accurately forecast future revenues enhances a business's value substantially. An obvious way to achieve this is through contracted revenue streams. Whilst this isn't applicable to all industries and sectors, where possible, it should be considered.

As an example, a business generating £10.0m of turnover and making £0.5m of profits but with very little visibility over future income is likely to be less valuable than a business generating £5.0m of turnover and making £0.4m of profits where the majority of that turnover comes from contracted revenues with, say, a six month break clause against it.

6 Focus through Due Diligence

An immediate way for shareholders to lose value when exiting a business is by them taking their eyes off the business at the crucial moment. Shareholders who remain heavily involved in the running of a business at the point of sale often focus more on the process of selling their business than they do on the running of it.

Missing financial targets whilst a due diligence investigation is underway is a sure fire way of losing significant value on a deal. Remember, if an offer is based on a multiple of say five times the profits, for every pound lost during due diligence, the equity value drops by five times that number!

7 Balance Sheet – Cash Free / Debt Free

The majority of profitable trading businesses are valued on an earnings multiple basis. However, as alluded to above, the balance sheet also plays a major part in business valuation.

Whilst a multiple is applied to a business's profits to arrive at what is known as 'enterprise value', free cash on the balance sheet further enhances value, whilst financial debt (bank loans and overdrafts, mortgages, hire purchase liabilities etc.) reduces value. Enterprise value plus free cash less financial debt gives what is known as equity value or the 'cash free / debt free' value of a business. Careful planning pre-sale in this regard can significantly enhance tax efficient capital gains.

8 Audited Financial Statements

Whilst for smaller businesses and transactions it may not be appropriate to do so, for deals involving target companies of scale but which might fall below the audit threshold, it might be advisable to have their financial statements audited in the years preceding a sale. This will add credibility to the results and enhance the valuation opinion.

Where a company's financial statements have been audited, a buyer may well reduce the scope of their due diligence work, which in turn might well lead to greater value being achieved at the end of a sales process.

9 Accreditations and Quality Control Procedures
It should not be underestimated how much value buyers place on businesses being highly accredited and operating with significant internal controls.

Accreditations such as ISO (International Organization for Standardization), which cover functions such as quality management, occupational health and environmental management, are seen as extremely important and valuable to buyers. The same can be said of Investors in People status.

My experience of international M&A suggests these things are of even greater importance to large, international corporate buyers.

10 Big Company Ideas
Often, but not always, M&A involves a larger business buying a smaller business. Sometimes the gulf in size between the two can be huge. Just because a business is small, doesn't mean it shouldn't have certain 'big company' attributes.

'Big company' ideas such as having non-executive directors and employing a finance director (even though you might be able to get by without one) will enhance value on an exit. Furthermore, assets such as a modern website, a smart and well maintained building and, where applicable, a clean and uniform fleet of vehicles must not be overlooked.

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With over 12 years' experience, Richard Higham, Director of Corporate Finance at UHY Hacker Young, has led numerous fund raises, business disposals, acquisitions and other corporate finance assignments. He specializes in advising on transactions with an international element, having sold companies to buyers from mainland Europe, North America, Asia and Australasia.