



The Key Steps Involved in Selling a Business

Selling a Business

If you are thinking about selling your business sometime in the near future, it can be helpful to understand the process and the steps you can begin to take in preparation.

Selling a business is one of the most significant financial and strategic decisions you'll ever make. Whether you're planning retirement, pursuing a new venture, or capitalising on market conditions, understanding the process is essential to achieving the best outcome. Here you will find a clear, practical guide to the main steps involved in selling a business.



Part 1 Preparation

01. Getting your Business Sale-Ready

You can begin by undertaking the following key actions:

- Organising your financial records. Your buyer will want to see at least the last 3 years of accounts.
- Ensure filings are up to date with Companies House
- Review your contracts with customers, suppliers, and employees. Are these up to date?
- Resolve any legal disputes or outstanding liabilities. Clearing up your book debts can help improve the financial stability of your business, making it more attractive (and worth more) to a buyer.
- Consider and review the management structure of your business. If you perform a central role in the successful running of your business but you do not plan to remain working in the business post sale, will this have a negative impact upon the value of your business? Can you train existing personnel, the business is less self-sufficient on you.

Buyers will scrutinise your business closely, so presenting it as stable, well-managed, and profitable is critical.

02. Business Valuation

Before going to market, you need a realistic valuation. In the UK there are a number of common valuation methods used including:

- EBITDA multiple
- Asset-based valuation
- Discounted cash flow (DCF)
- Comparable market transactions

You should take professional valuation advice to understand the value of your business and whether there is anything which can be done ahead of offering it for sale to improve its valuation. Your accountant may be able to assist with a valuation or recommend someone who specialises in this type of accountancy

03. Appoint Professional Advisers

Selling a business involves legal, financial, and tax complexities. Because of this, you should appoint the following advisory team:

- Corporate finance adviser or business broker
- Solicitor experienced in business sales
- Tax adviser
- Accountant

Tax planning is particularly important. For example, you may qualify for reliefs such as Business Asset Disposal Relief (formerly Entrepreneurs' Relief), which can significantly reduce Capital Gains Tax. Early tax planning to understand how best to structure the sale of your business can materially increase your net proceeds.

04. Marketing the Business and Identifying Buyers

Potential buyers typically fall into three categories:

- Trade buyers (competitors or companies in related sectors looking to diversify)
- Private equity firms
- Management buyout (MBO) teams
- High-net-worth individuals

If you have not been approached by an interested party or do not have an internal succession plan for your business, a business transfer agent can help you to find a buyer.

They will market your business for sale, similar to how an estate agent markets a house for sale. They will charge a commission for their assistance which is often based upon the sale price agreed.

A structured sale process can help to create competition and in an buoyant market this can drive up price.

Your agent will help you to promote your business and advise you about the initial information you will need to provide to prospective buyers. You will typically be expected to provide some basis information in a sales prospectus such as turnover and profit margins.

If you are in a highly competitive market confidentiality can be crucial at this stage. You can discuss with your agent whether it is appropriate to have prospective buyers sign a confidentiality agreement.

An agent can also help you to make targeted enquiries of your competitors who may be open to discussing an acquisition prospect, even if they are not already actively seeking a purchase.

Once you have found a buyer and agreed terms for the sale of your business you can then move into the legal stage of the process.

Part 2

The Sale Process



01. Heads of Terms (Offer Stage)

Once you have found a buyer for your business and you are agreed upon the valuation for your business, it is sensible for both parties to draw up and agree the Heads of Terms (HoTs) for the sale.

The HoTs will set out in brief the key terms of your agreement. Usually HoTs will cover the following:

- Purchase price
- Payment structure (cash, earn-out, deferred consideration)
- Deal type (share sale vs asset sale)
- Any exclusivity period granted to the buyer (so you are not also talking to other potential buyers)
- Any other key conditions
- Target completion date

Heads of Terms are not usually legally binding (except perhaps for confidentiality and exclusivity clauses), but they set out the framework for the deal and this ensures that both the buyer and the seller are 'on the same page' before they start to incur any other professional costs such as with solicitors drawing up contracts.

If you are using an agent to market your business for sale, the agent will usually help you to draw up and agree HoTs.



02. Due Diligence

Due diligence is one of the most intensive stages of the sale process.

This is where your buyer reviews all aspects of your business before committing to purchase your business.

The process usually begins by the solicitors acting for the buyer sending to you/your solicitor a Due Diligence Questionnaire with a series of questions for you to answer about your business. You will be asked to provide supporting documentation when answering the questionnaire.

Due Diligence (continued)

A questionnaire typically covers the following aspects of your business:

- Financial records
- Tax compliance (including HM Revenue & Customs obligations)
- Legal contracts with customers and suppliers
- Employee matters
- Intellectual property
- Commercial risks (insurance history and claims, disputes and litigation)
- Property enquiries (if the buyer is taking on your premises)

Be prepared for very detailed questions and document requests. It is important that you are transparent as possible in your answers. There should be nothing omitted from this process.

The more organised you are in providing the answers and documentation requested the quicker the process will be. It will also help to maintain your buyer's confidence in you and your business, and it can also help to avoid price re-negotiations if there is any information missing.

It is also usual for an online data room to be set up by your solicitor where the documentation you are disclosing will be shared with the buyer and their advisors.

If you are sharing sensitive and confidential information especially to a competitor within your industry you may wish to first enter into a confidentiality agreement before disclosing sensitive information.

Your solicitor will prepare a Disclosure Letter which sets out all of the documents you have disclosed to your buyer and provides any specific information and disclosures which you are advised to make to your buyer as part of the sale process.



03. Negotiating the Sale Agreement

Once the due diligence process has begun the solicitor acting for your buyer will prepare the first draft of the Sale and Purchase Agreement (SPA). This is the legally binding contract which sets out all the terms of the sale. It will incorporate everything which has been put into your HoTs and will also incorporate any issue or concern identified during the due diligence process.

The SPA will typically include:

- Payment terms: how much is being paid and when
- If there is to be a completion account, how this will be prepared, by whom and when
- The warranties you are giving to your buyer and any specific indemnities (to address any areas of concern identified in the due diligence process)
- Whether you will be bound by any restrictive covenants following completion of the sale, such as non-compete clauses
- Any post-sale obligations which the parties are to adhere to

The SPA is then negotiated between the solicitors acting for both parties until all of the terms of the SPA are agreed. There are usually other ancillary documents also, which are prepared and agreed such as board minutes and stock transfer forms.

04. Completion

Completion is the stage when ownership of the business is officially transferred to your buyer and when you receive payment.

Completion takes place once all of the due diligence enquiries have been raised and satisfied and once the SPA and other ancillary documents are in agree form.

A completion date is then agreed between the parties. This can coincide with a particular day or time of the month if that is more convenient for the business handover. Completions often occur on a Friday or at month end for this reason.

In a share sale, the shares are transferred to the buyer. In an asset sale, the specific assets which are being sold are transferred.

05. Post-Sale Considerations

Once the sale is completed, this may not always be the end of the process. There could be following happening:

- You may have agreed to remain in the business during a handover period to help with a smooth transition of the business to the new owners. This can be helpful if personal introductions to your customers is felt to be important.
- You may have agreed to continue to work for the business under an earn-out agreement, whereby part of your consideration for the business is linked to the sales/turnover generated for a period of time post-completion of the sale.
- You may have agreed staged payments (known as deferred consideration) whereby part of the agreed payment is paid at a future date or upon the occurrence of future events.

06. Timescales

The timescales involved for all of these stages really do depend upon a lot of factors such as the size and scale of your business and how much is being paid for your business. Typically, the more money which is being spent by a buyer to buy your business the more thorough the buyer will want to be in their enquiries before they commit to buying your business.

It can also depend upon how prepared you are to answer the buyer's Due Diligence Questionnaire and how organised your business documentation is.

For this reason, the timescales involved will vary. A target completion date of three months from when HoTs are agreed is common but larger transactions can take twice or three times as long to complete. Being prepared and organised when it comes to selling can really aid the process.

Meet the Team



Susan Lewis
Director
Head of Commercial



Peter Flemming
Solicitor



Shaquille Kilbourne
Associate Solicitor

Jordans Solicitors' specialist Company and Commercial team understand the challenges which businesses of all sizes face in today's economic and trading conditions, from new start-up businesses, partnerships to family SME's which have been around for a number of generations.

Our team have the experience and knowledge to tailor our advice to your business and the desired objectives. They can help you and your business in all aspects of commercial law from buying, selling, investing in or re-organising your business structure as well as your trading contracts and documentation.



Contact Us

To see how Jordans Solicitors can help your business please contact us on:

0330 300 1103

enquiries@jordanssolicitors.co.uk

www.jordanssolicitors.co.uk