



BUSINESS & PERSONAL TAX SUPPORT

Business Exit Challenges in a Post COVID Economy 2022-23



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Hopefully, COVID-19 seems to be under control, and we may have seen the back of the disruption experienced during 2020 and 2021.

In this fact sheet we have laid out how to maximise your business value even if in a forced sale situation.

Maximising value if forced to sell

When you sell your business, it is easy to see that you should get something for business assets, whether they be property, plant, vehicles, or other equipment.

Buyers will want to pay the lowest price and you will want to sell at the best possible price. Inevitably, a deal may be struck somewhere in between.

However, realizing value for your business equipment and property can just be the tip of the iceberg. Your most valuable asset is likely to be goodwill, and this is rarely quantified in your accounts.

One way to define goodwill is the price a buyer would be willing to pay for the relationship with your customer base. This could be the value of existing contracts or hard-won, repeating sales to regular customers. You have done the hard work and invested in the conversion costs to win these relationships, and many buyers will be prepared to pay you something for this goodwill.

The problem is how much would they be prepared to pay?

If forced to sell, try and slow down the sale. You will need to take advice and have your business goodwill valued as if it was a going concern.

Although you may have run out of capital to take your business forward there may be competitors with sufficient funds to make you a sensible offer.

Offer buyers ongoing participation

Buyers will be wary of paying a reasonable price for a business if the present owner is not prepared to stay on for a period of time to ease existing customers into a lasting relationship with the new owners.

The speed and amount you receive as payment for your business may depend on this.

If you are not in a close-down or forced sale situation, there are a variety of exit strategies you could consider.

Exit strategies

- Sale to a third party
- Handing business to family members
- Selling business to your employees – staff buyout
- Gradual wind-down

The first three options are fairly self-explanatory. Each will require an arms-length valuation and a negotiated settlement: how quickly will you be paid and in what form will you be paid e.g., will you be paid in cash or shares on signing a contract to sell or as a deposit and instalments?

If your business is a company, has cash reserves, no other assets and cannot be sold, there are a variety of tax planning options you could consider. These may include withdrawing funds as dividends over a number of years to supplement pensions. This is a gradual wind-down option.

What drivers will increase the value of your business?

If you are not in a forced sale situation, what drivers, indicators do you need to focus on to achieve a successful exit? The following list describes some of the key factors you could consider:

- Having a strategic plan in place to grow your business.
- Positive financial performance.
- A history of adequate working capital and cash-flow management.
- How does your business compare with competitors?
- What are your unique selling points?
- Has your business developed intellectual property?
- Is the value of recurring or contracted work significant?
- Is there reliance on key customers, suppliers, or staff?
- How easy will it be to reduce reliance on founder or shareholders?

Working on these areas over time will help you to maximise the value of your business.

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We can help

Without a doubt, planning is absolutely vital if you want to maximise the value you can extract from your business when it's time for you to exit.

Hopefully, you will have considered and worked on the issues that will boost business value, perhaps for many years.

Unfortunately, the current pandemic may have put these planning matters on hold, but they should be reactivated as the economy starts to open up.

The main difficulty you will face if forced to sell is that these planning options may be denied. For example, your bankers may call in their security if you can no longer service debt repayments.

A successful business exit rarely happens without giving due consideration to the factors that will increase business value.

If you would like to consider your business exit planning options in more detail, please call.

If you are forced to sell and don't know how to proceed, again, please call. We can help.

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