



# Demystifying the disposal process

## A step by step guide to selling your business

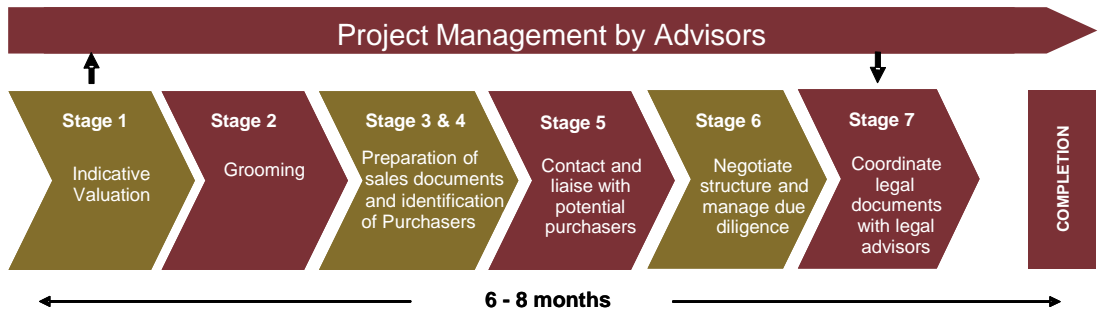


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**When it comes to an ‘Exit Strategy’ many shareholders of privately owned businesses will consider selling as a way to achieve capital value and enable them to retire, move overseas or simply concentrate on other business interests.**

Given that most owners will only sell a business once in their lifetime the process can often seem alien and stressful. For that reason, to achieve a successful exit many shareholders will seek guidance from Corporate Finance specialists to help them through the maze of a sometimes daunting process and baffling jargon.

The sale of most privately owned companies will follow a fairly typical timeline, so to help you understand what can be involved we have put together this brief guide to each of the stages;



### Stage 1: Understanding the likely value

You may already have an idea as to the value of your business, it is worth noting however that the final value you achieve will depend on the acquirer: a direct competitor may place a lower value on the business than a company in an allied sector which should gain synergistic sales from the customer base as well as economies of scale.

Valuations are often expressed as a multiple of profit which are adjusted for non-trading and non-recurring costs. As the company will provide different benefits and cost savings to each buyer there is no ‘strict science’ in estimating value, however it is possible to identify the multiple ‘range’ that is likely to apply based on profitability, sector and comparable transactions.

### Stage 2: Preparing for sale

It is good practice to ensure the business has been prepared for sale, a process which is referred to as ‘Grooming’. This includes;

- Producing financial forecasts to demonstrate sustainability of the income and profit streams.
- Tax planning to ensure that discussions are driven down an avenue that will provide the best deal structure and financial outcome for the vendors.
- Reviewing the corporate structure of the business to identify any beneficial structural changes.



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### Stage 3: Preparation of the sales documentation

CV Capital can prepare the documentation to be used in the sale process. This usually will comprise three main elements;

The **'Taster'** is an anonymous document containing brief outline information about the business which is used to generate interest and act as a 'hook', incentivising buyers to sign a Non-Disclosure Agreement.

The **'Non-Disclosure Agreement' ("NDA")** is a legal document used to protect the business' goodwill and is sent with the Taster to gauge the purchasers' interest.

The **'Information Memorandum' ("IM")** is the detailed sale document, released after receipt of a signed NDA. The purpose of this is to give buyers enough information to assess suitability of the opportunity and arrange a meeting.

### Stage 4: Identifying a purchaser

There are four main categories of purchaser that could be considered;

**Management:** is the existing team motivated and capable of effecting a management buyout?

**Trade disposal:** what related sectors could gain synergies and economies of scale from your business?

**Supply chain:** what benefits would there be for your customers or suppliers bringing your services in house?

**Venture capitalist:** could investment in the business result in exponential growth in the next three to five years?

### Stage 5: Meeting & liaising with purchasers

The IM is intended to provide enough information to encourage a potential purchaser to arrange a meeting to discuss the business. Successful meetings will usually follow through

to a second more in-depth discussion about the operations, staff, client base, pipeline and the vendor's aspirations.

CV Capital can manage the process of liaising with potential purchasers; controlling the release of information as well as arranging, hosting and chairing meetings.

### Stage 6: Negotiation of offers

Following the meetings **'Offers'** will be received, beginning a period of negotiation. Some elements to consider in the negotiations are; value, deal structure, conditions precedent and tax treatment. CV Capital can help you identify the elements of the deal which are most important and beneficial in your specific circumstances.

Once the price and headline terms have been agreed the Heads of Terms (**"HoT"**) agreement will be signed. The HoT agreement acts as a 'moral compass' for the deal through the legal stages, providing a plain English version of the conditions agreed between the parties and will act as the basis of the Share Purchase Agreement (**"SPA"**).

### Stage 7: Managing through to completion

Following signing of the HoT both parties will engage specialist solicitors to handle the legal elements and the **'Due Diligence' ("DD")** process, where the purchaser reviews the business operationally and financially, will also commence.

The final stage is for the SPA to be signed and for **'Completion'** to take place. This is the point that the funds due on completion are transferred to the vendor and the business changes ownership.

***If you require further details or wish to discuss the sale of your business, please contact Debbie Clarke, Simone Williams, or any member of the CV Capital team.***

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