Grant Thornton

# Ten-point guide to selling your business

## Part 2: Preparing for Sale

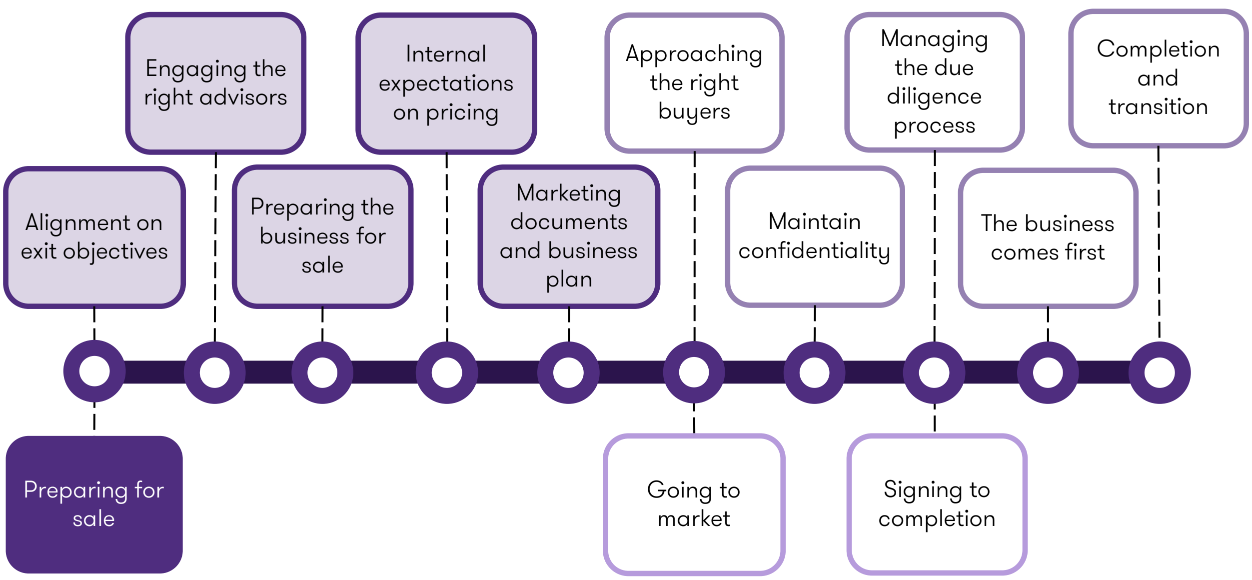
M&A and Transactions Advisory

# Introduction

Following on from Part 1 of our [‘Ten-Point Guide to Selling your Business’ publication], which covered an overview of the key steps that shareholders and/or management teams need to consider to achieve a favourable outcome in the exit process, we are pleased to introduce Part 2 of the series, where we will focus on the **Preparing for Sale** stage.

We have set out three key stages in this series, encompassing ten steps in all, that will help ensure your value is protected, you connect with the right buyers, and make informed decisions throughout the process.

**The Three Stages to Selling A Business**




The three stages to selling a business encompass ten steps in all, that will help ensure the value of your business is protected, you connect with the right buyers, and make informed decisions throughout the process.

To achieve the optimal deal value, business owners need to focus on negotiating favourable terms, running an efficient and confidential process, and keeping business disturbance to a minimum. Additionally, having the right advisor who provides you with competent advice, guides you through understanding a realistic valuation for your business and who can find the right buyer for your company will ensure a successful sale process.

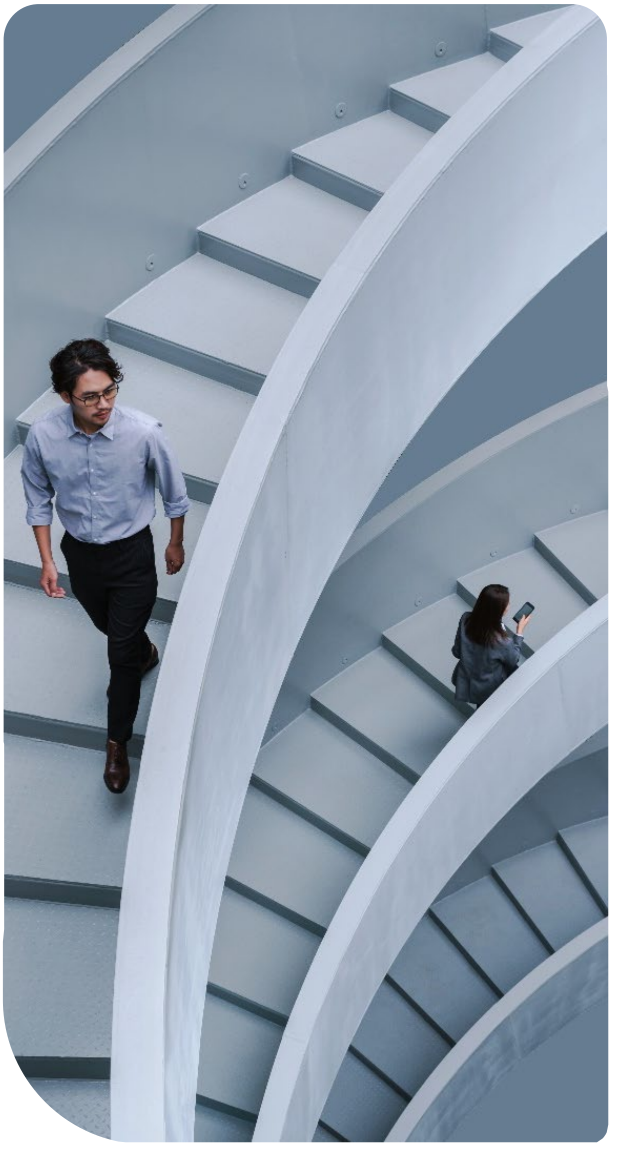
# Stage 1: Preparing for Sale

## Alignment on exit objectives

If you have made the decision to sell your business, before committing any further time to a sale process, a major undertaking required is alignment of all shareholders. It is important to discuss the end goal of the sale, your pricing expectations, and the potential buyer you're looking to onboard.

Here are just a few of the initial, but critical discussion points that shareholders must iron out early on in a process:

- Would you be willing to stay involved in the business in an executive capacity and if so, for how long?
- What are the company's exit goals and succession plan without you?
- What are your pricing expectations?
- Who is the ideal buyer for the company?
- Is it the right time to sell the business in the current market?
- What is the desired timeline for the sale?
- Who from the management team will be part of the 'inner circle' that is made aware of the pending transaction and when will they be informed of the process?



Once aligned, it is important to have a single, unified message that is communicated throughout the sales process. A sales process can be underestimated in some cases, as it is a tough and lengthy procedure that will require you to deploy significant time and effort for a successful completion. By taking the time to share one direction and one message, shareholders can increase their chances of achieving a successful sale.

## Engaging the right advisors

Owners and management teams who haven't been through a sales process before often grossly underestimate the  complexity of what 's involved in successfully selling a business. Finding the right financial and legal advisors who have the requisite level of local and international experience will ease the burden for you and orchestrate the start of the sale. The right advisors will fight your corner and help to maximise value and strive for favourable terms throughout the whole sale process.

The advisors should have a deep understanding of the UAE market and the laws governing M&A here which have evolved rapidly in recent years. They should also be experienced in negotiating complex transactions, in addition to the levers and tools to help you maximise the sale price, whilst also mitigating risks and navigate potential pitfalls throughout the deal. Where advisors can really add value is their live knowledge of the market. It is difficult to obtain data and insights in the public domain in the UAE, therefore the majority of insights are gained from discussions with people that are 'in the market' and working on a sufficient volume of transactions. This market intelligence is crucial in advising sellers on potential interested buyers and how they may look at pricing the business.

One of the most important roles of the advisors is to manage the timeline of the sale, this is especially important in the UAE, where the business climate can be seasonal (e.g., impact of Ramadan, summer travelling, etc.).

It is important to be honest with the advisors about the good, bad, and ugly aspects of your business. This will help them to negotiate the best possible price and terms. By working closely with your advisors, you can increase your chances of selling your business successfully. At each stage in the process your advisors will help you assess the options available (e.g., deal structuring, negotiations tactics, warranty and indemnity insurance, etc.).

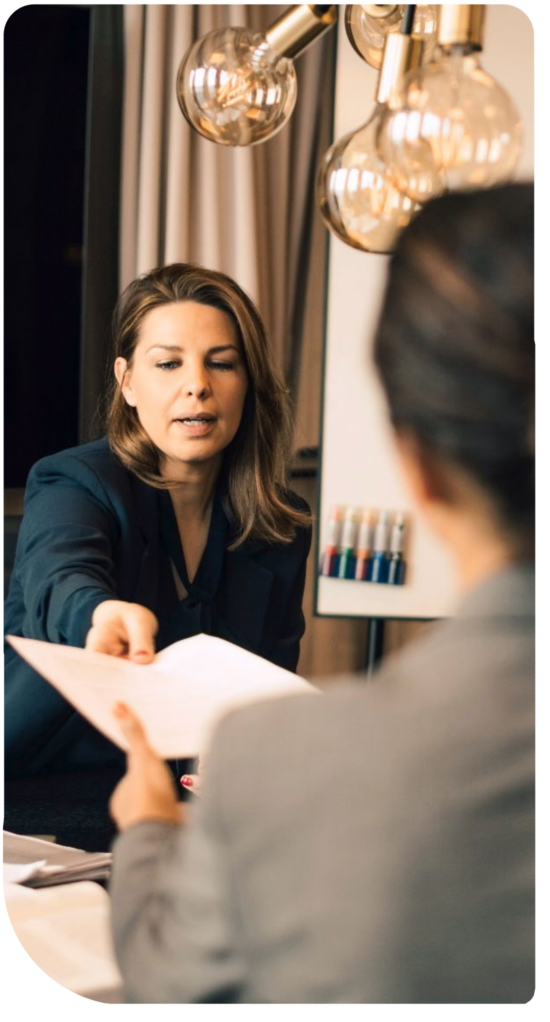
## Preparing the business for sale

Whilst it is important to be aligned as shareholders, have the necessary marketing documents and a view on value, this may all be redundant if the business itself is not in a position for sale. Too often this stage commences too late and there is often no turning back or second chances if the business is not ready to go to market.

Starting the preparation stage as early as possible will provide you with increased visibility on the overall transaction timeline and provide you with confidence when going to market as you will have ironed out any issues that arise prior to reaching out to potential investors.

Getting advisors involved early in the process can help to identify and mitigate risks that potential investors may subsequently uncover. An advisor should help you develop a definitive 'to-do' list in relation to operational and administrative aspects such as:

- Ensuring there are recent audited financial statements from a reputable auditor
- Year to date trading data is tidy and available
- Prepare necessary reconciliations between audited financials and management accounts
- Clear any outstanding contingent liabilities or litigation issues the business might be facing
- Ensuring the legal group structure is transparent, tidy and sets a clear 'transaction perimeter i.e., it is clear to a buyer what is in scope
- Key members of management have been identified for succession planning and appropriately incentivised.



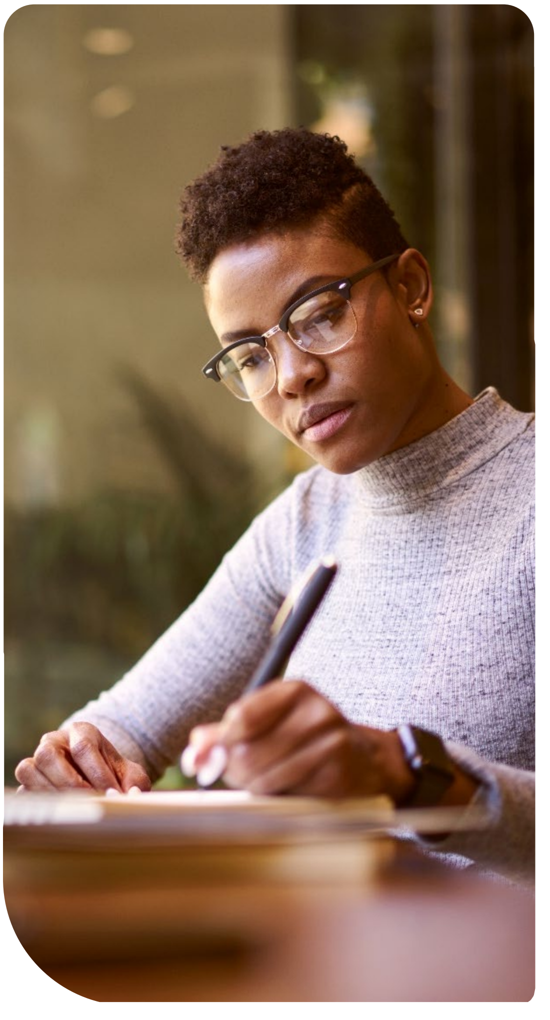
The list can be long and time consuming to rectify. Once the transaction process has been started, things will move quickly and if issues are not rectified in advance, this will inevitably have timing, value and even completion implications.

Sellers can also obtain a "Vendor Due Diligence" (“**VDD**”) at this stage from legal or financial advisors to ensure that there are no surprises later on in the process. This is an option that has become increasingly popular in the UAE as the market has continued to mature.

The additional benefit of VDD is that this can reduce and limit the necessary amount of buyer due diligence performed later on, therefore reducing the overall transaction timeline should things go to plan, whilst also shaping the narrative on issues that have been identified as part of the diligence.

## Internal expectations on pricing

Knowing a realistic and achievable valuation for your business is essential before deciding to embark on the process to sell. When entering a sales process, it is critical to understand the current market dynamics affecting the potential valuation range for the business. This will help you avoid misalignment in pricing expectations with potential acquirers. Your advisors can help you get an independent valuation of your business and should be well aware of the market trends and whether the sector is hot with M&A activity. The valuation work should be kept confidential, with potential buyers doing their own homework based on the information you're willing to provide them at this stage.



The valuation process takes into account a variety of factors, such as your business's financial performance, growth prospects, and competitive landscape. Remember, a valuation is not an exact science, it is based on objective facts and subjective beliefs and assumptions about the future of the business.

When preparing the valuation different methodologies should be considered, buyers will typically look to utilise both a discounted cash flow (DCF) and market multiple based valuation. Usually, the discounted cash flow method is the primary valuation methodology in the region given the limited availability of operationally comparable listed companies in the region and lack of data available on private company transactions. The DCF is also considered a more transparent methodology for factoring in future risks and opportunities for the business going forward, making it more robust for internal approval requirements.

When performing your internal valuation you should consider multiple scenarios i.e. a base case, worst case and an optimistic case, this is a useful exercise to help assess how potential buyers may look at the business and have early conversations about what your 'walk away' number is.

The optimistic case will factor in growth expected over the next 4/5 years but it is important to be aware that just because the growth is expected by management, doesn't mean a potential buyer is willing to pay for it up front.

Once you have a good understanding of your business's valuation, you can start the sales process. However, it is important to remember that the valuation is just a starting point, the final price will ultimately be determined by the level of competitive tension and negotiations between you and the acquirer later on in the sales process.

## Marketing documents and business plan

You have made it to the final step in 'Preparing for sale'. One of the most important steps to selling your business is to finalise your 5-year business plan and the creation o the supporting marketing documents, with two critical documents coming in the form of a 'no names' teaser and an information memorandum. These documents need to illustrate why a potential buyer should be interested in progressing with the deal as upon receipt of these documents, potential buyers should be sufficiently armed to be able to prepare a non-binding offer for the company.

### Equity story

Prior to developing the marketing documents, a necessary first step is to establish the equity story that will help sell the business to potential investors. There must be a clear growth story ahead for the business, supported by rational underlying assumptions that explain the expected revenue, margin and ultimately cashflow profile for the next 5 years. This is not a quick step, and your advisors can act as a critical friend during this process, playing devils advocate to ensure the growth story is defendable and well supported.

### Financial model

Subsequently, it is typically expected by investors that you will provide them with a fully linked financial model that summarises the next 5 years from a P&L, Balance Sheet and Cashflow Statement perspective. The financial model should quantify the equity story you're selling, whether that be in relation to market or company specific growth factors. Everything included within the financial model will be open to scrutiny by investors who are likely to sensitise key assumptions, so it is important that the model is well built and a clear trail and support for assumptions is well archived for the relevant point in the process.

### Teaser

To reach out to potential investors, you will need to provide them with a teaser, also known as a blind teaser, which is an anonymous document that provides enough information to capture the interest of the buyer. This document should entice the prospective buyer to want to know more. Typically, the teaser would include a short business description along with a fact sheet expressing the success of the business, whilst also presenting a high-level financial performance of the business historically.

### Next step

Once you have sparked a potentials buyer's interest from the teaser and prior to giving your company secrets away, it is typical to execute a 'Non-disclosure agreement' (**"NDA"**). This document will ensure the buyer keeps the company's information and even the deal confidential, with only themselves and their advisors being made aware of the potential deal.

### Information memorandum

If the NDA is signed, you will then provide the potential buyer with a significant amount of information, usually in the form of an Information Memorandum (**"IM"**). The information memorandum includes key aspects of the business, such as its history, products or services, financial performance, growth prospects and the size and growth of its market, amongst other items. This IM is used as a marketing tool for the sale of the business. This is the key opportunity to communicate the company's 'equity story', however, the company must be presented accurately, even highlighting any potential challenges that it faces and how it intends to overcome them.

# Conclusion

As highlighted in this publication, readiness and starting the process in advance are critical for achieving a successful sale. Each transaction is unique and having the right guidance from your advisors will alleviate a significant portion of the challenges and time investment associated with this process.

Regardless of what stage in the sales process you are at, Grant Thornton can help you in understanding the intricacies of the exit journey and guiding you towards the achievement of your strategic objectives.

In the next phase of this journey of developing an understanding behind the stages involved in 'Selling a Business', we will dive deeper into the expectations behind '**Going to market**'.

# M&A and Transactions Advisory Team

Our M&A and Transactions Advisory team actively originates and executes transactions across a range of sectors. Some of the current as well as recently completed transactions include businesses in logistics, technology, real estate, food & beverage, healthcare, education, financial services and oil & gas.

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