



CHEAT SHEET

# SELLING YOUR BUSINESS MADE SIMPLE



Whatever reason you have for selling your business – retirement, ill health, finances, family, fatigue, creditor pressures, economic climate pressures – you'll want to assemble the right group of professionals to assist you through the sale process, know which essential documents to have on hand, and understand how to value your business assets to ensure a successful sale.

## SELLING YOUR BUSINESS

# MAJOR DOCUMENTS TO HAVE ON-HAND

Sooner or later in the business sale process you'll need the following materials. Use this checklist to assemble everything as soon as possible to smooth the road ahead.

- HMRC tax returns for the past three years (corporate tax returns)
- Income statements for YTD and the past three years
- Balance sheets for the past three years  
Statement of seller's discretionary earnings for most recently completed year.
- Financial ratios and trends
- Accounts receivable aging list (Debtors)
- Accounts payable list (Creditors)
- Stock/Inventory list including value
- Current building lease agreement
- Fixtures, furnishings, and equipment list including fair market values
- Asset depreciation schedule from most recent tax return
- Current copies of equipment and facility maintenance agreements
- Current employee, customer, vendor, and distributor contracts or agreements
- Current business licenses, certifications, and registrations
- Copies of patents and trademark registrations
- Copies of outstanding loan agreements
- List of existing liens
- Product or service price list
- Employee records showing staff, hire dates, salaries, pension records, employee benefit plan outline
- Organization chart
- Business formation documents
- Current client list
- Current list of major suppliers and distributors
- Business plan
- Marketing plan
- Employment policy manual
- Business procedures manual
- Photos of business building, work areas, and equipment



# KNOWING WHO'S WHO ON THE BUSINESS SALE TEAM

Making the decision about who to bring onto your business sale team isn't clear-cut. One thing is certain, though: Selling your business isn't a time for flying solo. You need to bring aboard some professionals to assist you — from accountants to lawyers to business sale brokers. The following list shows which professional resources are available:

## ACCOUNTANT

This is probably the first business sale team member you'll recruit. The financial condition of your business, and the way your financial story is presented, is fundamental to sale success.

Your accountant will have all the information at hand to help you prepare the numbers you need to plan your sale offering and present your business to buyers. If you've worked with an accountant over the years, be sure that person has experience in business sale transactions and the resulting tax implications. Your accountant will likely participate on your sale team at his or her regular hourly rate.

## APPRAISER OR VALUATION EXPERT

If you need a formal appraisal — because of the size or complexity of your business because you need to prove the validity of business value to the buyer or to HMRC or because you doubt the accuracy of the value established by your broker or by your sale advisors — you can hire a professional appraiser.

Appraiser fees can range from several thousand pounds to tens of thousands of pounds, depending on the complexity of your business and whether you want an oral appraisal or a formal, written document. Numbers between £2,500 and £5,000 seem to be most common for small business written appraisals, but most appraisers charge by the hour, and the final fee depends on how much time goes into the effort.

Before obtaining an appraisal, talk with your broker if you're using one. Also talk with your accountant. It may well be that between these two resources, you can get a valuation confirmed.

## CORPORATE LAWYER

If you already work with a lawyer to advise you on issues regarding your business structure, employees, contracts, and other legal matters, you probably want to involve that person on your sale team, maybe from the onset but certainly as you reach the negotiation stage and closing point.

Your lawyer can help you with preparation of legal documents such as confidentiality agreements, seller disclosure statements, and, of course, the purchase and sale agreement that will finalise the sale. It's especially important to bring a lawyer with business sale-transaction experience on board if you're trying to handle the sale on your own without a broker. You'll pay either hourly rates or a flat fee.

## BUSINESS BROKER

Some business owners handle their sales with only the help of an accountant and an lawyer. Others use a sale intermediary, most often a business broker, but sometimes a mergers and acquisitions (M&A) specialist if the business is large and the deal is complex. The decision of whether to hire a broker weighs heavily on most sellers' minds, and no one answer prevails. Some sellers will tell you their sales went through just fine without a broker, and others will say the broker was essential to their sale success.

In a nutshell, a broker can help maintain confidentiality about your sale, find and deal with prospective buyers, and free you from the demands of selling your business while also trying to run it. A broker can also provide advice on how to value your business. In return, you'll pay a fee, which is usually in the region of 1% -5% of your sale price.



No one, no matter how small the deal, should sell a business without obtaining financial and tax advice. At the very least, you want an accountant to help you assemble and present your business financial records and to help structure your sale with the intent of managing taxes and facilitating buyer decisions. You may also want to involve an lawyer, particularly if your business has established a relationship with a lawyer whom you trust to deliver good business and legal advice, or if you plan to sell your business on your own without a broker's help.

# WHAT ARE TANGIBLE AND INTANGIBLE ASSETS?

Getting ready to sell your business? You'll need to separate your tangible and intangible assets because at sale time (or in the sale contract), HMRC requires you to break down the price into asset categories, which are taxed at varying rates.

To value your business assets, you create an inventory of all the assets of your business and assign a value to each based on what it would cost to create or replace that asset in similar condition.

## TANGIBLE ASSETS

### TANGIBLE ASSETS INCLUDE:

- Business furnishings
- Fixtures
- Equipment
- Leasehold improvements
- Inventory
- Property
- Automobiles
- Other major physical assets

Tangible assets are probably the easiest part of your business to value, because by their very definition, tangible assets are ones you can see and touch. You can often even find comparable items on the market (through eBay and other online shopping sites, through equipment distributors, and through other used-equipment outlets) to help you determine current market values. When valuing your tangible assets, also talk with your accountant, who can help you figure the depreciated value of items you've held for multiple years.

## INTANGIBLE ASSETS

In businesses with well-known names, products, and reputations, up to half the business sale price often covers the purchase of intangible assets — things buyers can't hold in their hands.

Intangible assets fall into two general categories:

### INTELLECTUAL PROPERTY RIGHTS ASSETS, INCLUDING:

- Trademarks
- Patents
- Licensing agreements
- Trade secrets

### OTHER INTANGIBLE ASSETS, INCLUDING:

- Business name and Reputation
  - Processes
  - Strategies
  - General know-how
- which together contribute to business value over and above the value of tangible assets. These intangible assets compose what's called the **goodwill** of your business.

### Goodwill assets include

- Your business name and brand identity
- A trained workforce
- Loyal clientele
- Strong and durable supplier and distribution networks
- Phone numbers and websites
- Proprietary technology, systems, and processes
- Brand equity, which is the value of the competitive advantage of your name and reputation in the minds of consumers and business and industry partners.

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