IB NETWORKS
BUSINESS BROKER SPECIALISTS

Is your Business Exit Ready

A practical guide for Australian business owners

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Foreword from Kagan Skipper: Insights on Business Exit Preparedness

I have sold two of my own businesses.

The first was a small automotive business. The second was much larger, an NDIS business with a bigger team, a bigger price tag and a great deal more riding on the outcome. Different scale, same feeling underneath.

Both taught me something what no spreadsheet covers. The value of a business is decided long before it goes to market. It is decided in the years beforehand, in the systems you did or did not build, the records you did or did not keep, and whether the business can function on a day you are not there.

Owners often come to us six weeks out from wanting to sell. We can still take that business to market. What we cannot do in six weeks is undo three years of records built to minimise tax, or write down twenty years of knowledge that only exists in one person's head.

The owners who achieve the strongest results start two or three years out. They treat the exit as a project rather than an event. This guide is what we tell those owners.
Work through it at whatever pace suits you. Tick off what you have already done. Put a date against what you have not. If you want a second opinion on where your business sits, that conversation costs nothing.

Kagan Skipper
Managing Director, IB Networks

Chapter 1: Start Earlier Than You Think - Preparing Your Business for Sale

Preparing a business for sale cannot be done overnight.

Most owners underestimate the runway by years. A buyer will typically want three years of financial history. If you change how you run the business today, the numbers a buyer sees will only fully reflect that change three years from now.

Starting early gives you three things.

Time to fix what is broken.
Owner dependency, undocumented processes and messy records are all fixable, and none of them are fixable quickly.

Time to show a trend.
One good year is an outlier. Three years of consistent, improving performance is a story a buyer will pay for.

Time to choose your moment.
Owners who prepare early can go to market when conditions suit them. Owners who leave it late go to market when circumstances force them, and buyers can tell the difference.
There is no downside to preparing early. Every change in this guide makes the business better to own, whether you sell in twelve months or keep it for another decade.

Chapter 2: Understanding Owner Dependency and Management Structures

The single largest factor in what a buyer will pay is how much the business depends on you.

A business that runs under management, meaning the owner sits outside daily operations, is a different asset to one where the owner is the operation. The first is an investment. The second is a job that comes with debt.

Buyers are direct about this. They are asking one question throughout: what happens to this business the day the current owner leaves?

What owner dependency looks like

- Key customers deal with you personally and have no relationship with anyone else
- Pricing, quoting and negotiation all run through you
- Staff escalate anything unusual to you
- Suppliers know you and no one else
- You hold the technical knowledge the business trades on
- The business struggles when you take two weeks off

Moving towards under management

- Appoint someone to run daily operations and give them the authority to do it.
- A manager who has to check with you is not a manager.
- Introduce your key customers and suppliers to other people in the business, and let those relationships develop.
- Move your technical knowledge into documented procedures and train people on them.

Then test it. Take four weeks off and stay out of it. Whatever breaks is your work list.

A note on the trade off

Employing a manager reduces your profit, which reduces the earnings a buyer applies a multiple to. In most cases the increase in what buyers will pay outweighs that reduction, because you have removed the risk that concerned them most. Talk this through with your broker before you make the change, because the maths differs by business size and industry.

Owner dependency Checklist

- [ ] The business operates for four weeks without me
- [ ] A manager runs daily operations with real authority
- [ ] Key customer relationships sit with the business, not with me
- [ ] Supplier relationships are held by more than one person
- [ ] My technical knowledge is documented and others are trained on it

Chapter 3: Get It Out Of Your Head – Documenting Knowledge for Business Value

Every business runs on knowledge. The question is where that knowledge lives. When it lives in the owner's head, the buyer is not purchasing a business. They are purchasing a set of assets and hoping the owner remembers to tell them everything during the handover.

When it lives in documented systems, the buyer is purchasing something that keeps running.

What documentation actually means

- Standard operating procedures for the tasks that keep the business trading, written clearly enough that a competent new person could follow them
- An operations manual covering the full cycle of how work comes in, gets done, gets invoiced and gets followed up
- Position descriptions so everyone knows what they own
- Supplier and customer records held in a system rather than a phone
- Pricing methodology written down, including how you handle the exceptions
- Compliance and safety records kept current and accessible

Start with what would hurt most

Ask yourself which task would cause the most damage if you were unavailable for a month. Document that first. Work down the list from there.

This is rarely a satisfying project. It is consistently one of the highest returning things an owner can do, because it converts personal knowledge into transferable value.

Systems and documentation Checklist

- [ ] Standard operating procedures exist for core tasks
- [ ] An operations manual covers the full work cycle
- [ ] Position descriptions are current for every role
- [ ] Customer and supplier records live in a system
- [ ] Pricing methodology is written down
- [ ] Compliance and safety records are current

Chapter 4: Understanding the Unique Value of Each Industry

The principles are constant. What buyers examine varies considerably by industry.

Trades and construction. Licences and their transferability, work in progress, contract terms, warranty exposure, subcontractor arrangements, plant condition, safety compliance history.

Hospitality and retail. Lease terms and remaining option periods, staff rosters and award compliance, supplier arrangements, foot traffic patterns, equipment condition and age, stock levels and turnover.

Professional services. Client concentration, recurring versus project revenue, key person relationships, professional indemnity cover, staff qualifications and retention, work in progress and debtors.

Healthcare, disability and aged care. Registration and accreditation status, compliance history with the regulator, participant or patient numbers and stability, staff qualifications and screening currency, incident records, funding arrangements.

Manufacturing and wholesale. Equipment age and maintenance, supplier concentration, inventory accuracy and obsolescence, order book, quality and compliance certification.

E-commerce and online. Platform ownership and transferability, traffic sources and their concentration, supplier and fulfilment arrangements, customer acquisition costs, domain and account transferability.

The common thread

Whatever your industry, the buyer is looking for evidence rather than assurance. Anything you can only tell them is worth considerably less than anything you can show them.

Industry Checklist

Find your industry below and work through the items that apply. The principles behind them are the same everywhere. What changes is the evidence a buyer will ask you to produce.

Trades and construction
[ ] All licences current, listed, and confirmed as transferable to a new owner
[ ] Written confirmation obtained on what happens to each licence at settlement
[ ] Work in progress schedule prepared, showing stage of completion and value
[ ] Contract terms reviewed for assignment clauses and change of control provisions
[ ] Warranty and defect liability exposure quantified in writing
[ ] Subcontractor arrangements documented, including rates and insurances
[ ] Subcontractor insurance certificates current and on file
[ ] Plant and equipment register accurate, with age, condition and service history
[ ] Major plant serviced and presentable
[ ] Safety compliance history documented, including incidents and their resolution
[ ] Safe work method statements and site procedures current
[ ] Retentions held and owed identified and reconciled

Hospitality and retail

[ ] Lease reviewed, with remaining term and option periods confirmed in writing
[ ] Landlord consent requirements for assignment understood
[ ] Options exercised or negotiated ahead of going to market
[ ] Staff rosters documented and wage costs reconciled to the books
[ ] Award compliance reviewed, including penalty rates and classifications
[ ] Employment contracts current for all staff
[ ] Supplier arrangements documented, with pricing and terms
[ ] Trading pattern records available, covering daily and seasonal variation
[ ] Point of sale reporting able to evidence revenue by day, hour and category
[ ] Equipment list prepared with age, condition and remaining life
[ ] Equipment serviced and any known faults addressed
[ ] Stock levels normalised and stocktake procedure documented
[ ] Stock turnover reported by category
[ ] Premises presenting well, with repairs and cosmetic work completed

Professional services

[ ] Client concentration measured, showing revenue by client as a percentage
[ ] Revenue split documented between recurring and project work
[ ] Client agreements in writing, with terms and notice periods
[ ] Key client relationships introduced to other people in the practice
[ ] Professional indemnity cover current and adequate for the work performed
[ ] Run off cover requirements understood for the sale
[ ] Staff qualifications, registrations and CPD records current
[ ] Staff retention history documented
[ ] Work in progress schedule prepared and valued
[ ] Debtors aged, reconciled and actively collected
[ ] Write off history explained
[ ] File and matter management system documented and transferable

Healthcare, disability and aged care

[ ] Registration and accreditation current, with expiry dates listed
[ ] Registration categories or service types documented
[ ] Compliance history with the regulator collated, including any actions and outcomes
[ ] Audit reports available with corrective actions closed out
[ ] Participant or patient numbers reported over time, showing stability
[ ] Referral sources identified and documented
[ ] Staff qualifications, registrations and screening checks current
[ ] Screening and clearance renewal dates tracked in a system
[ ] Incident records complete, with outcomes and follow up documented
[ ] Complaints register maintained and closed out
[ ] Funding arrangements documented, including rates and claim processes
[ ] Clinical governance framework and policies current
[ ] Privacy and records handling compliant and documented
[ ] Transfer requirements for registration understood and confirmed

Manufacturing and wholesale

[ ] Equipment register complete, with age, condition and maintenance history
[ ] Preventative maintenance schedule current and being followed
[ ] Remaining useful life estimated for major plant
[ ] Supplier concentration measured and documented
[ ] Supply agreements in writing, with pricing and terms
[ ] Alternative suppliers identified for critical inputs
[ ] Inventory counted, valued and reconciled to the books
[ ] Obsolete and slow moving stock identified and written down
[ ] Order book documented, showing forward work and lead times
[ ] Customer purchase orders and agreements on file
[ ] Quality certifications current and transferable
[ ] Compliance and product certification documented
[ ] Production processes documented as standard procedures

E-commerce and online

[ ] Platform ownership confirmed, with accounts held in the business name
[ ] Transferability of the platform, theme and apps checked and confirmed
[ ] Domain names owned by the business and transferable
[ ] All third party accounts listed, with ownership and transfer requirements
[ ] Traffic sources reported, showing the split between organic, paid, social and direct
[ ] Traffic concentration risk understood, particularly reliance on one channel
[ ] Analytics access available and history retained
[ ] Customer acquisition cost calculated and evidenced
[ ] Lifetime value and repeat purchase rate reported
[ ] Supplier and fulfilment agreements documented and assignable
[ ] Dropship or third party logistics arrangements confirmed as transferable
[ ] Customer database owned by the business and lawfully transferable
[ ] Reviews, ratings and social accounts transferable
[ ] Intellectual property, including brand and trade marks, registered and assignable

The common thread

Whatever your industry, the buyer is looking for evidence rather than assurance. Anything you can only tell them is worth considerably less than anything you can show them.

[ ] Every claim I make about this business can be evidenced with a document
[ ] Those documents are organised and can be produced within twenty four hours
[ ] My broker and my accountant have reviewed them before a buyer does

Chapter 5: Financials That Show The Business for Sale

Most owners run their financials to minimise tax. That is rational while you own the business. It works directly against you when you sell.

A buyer, and more importantly a buyer's bank, values the business on demonstrated profitability. Every dollar of profit you have legitimately structured away is a dollar the business does not appear to earn, multiplied by whatever multiple applies in your industry.

Change the objective early
Two to three years out, shift the goal from minimising tax to demonstrating profit. It costs you more tax in those years. It typically returns several times that at settlement, because the earnings figure a buyer works from is higher and better supported.

Run everything through the books
Any income that does not appear in your accounts does not exist as far as a buyer is concerned. Cash income that has not been recorded and declared cannot be verified, cannot be substantiated in due diligence, and cannot be lent against by a bank. Buyers will not pay a multiple on revenue you cannot evidence, and they should not be asked to.

If any part of your trading has been handled outside the books, correct it and give the business at least two full years of clean, complete and properly declared trading before you go to market. Speak with your accountant about the right way to do this. The value of properly recorded income compounds through the multiple, and it is almost always worth more than what was saved.

Understand add backs

Some expenses are legitimately added back to profit because a new owner would not incur them. Owner wages above market rate, personal vehicle costs, private travel, one off legal or accounting costs for the sale, donations and entertainment that are discretionary.

Add backs must be genuine, documented and explainable. A buyer's accountant will test every one of them. Add backs that cannot be evidenced damage your credibility across the entire deal.

Get your records in order

- Three years of profit and loss statements and balance sheets
- Three years of tax returns
- Current management accounts
- A detailed asset register
- Aged debtors and creditors
- Stock valuation

Have your accountant review the lot before a buyer does.

Financials Checklist

[ ] Three years of profit and loss statements and balance sheets
[ ] Three years of tax returns
[ ] Current management accounts
[ ] All income is recorded and declared through the books
[ ] Financials are structured to show profit rather than minimise tax
[ ] Add backs are identified, documented and defensible
[ ] Asset register is accurate and current
[ ] Aged debtors and creditors are clean
[ ] Stock is counted and valued
[ ] My accountant has reviewed everything

Chapter 6: Strategies to Minimise Buyer Perceived Risks

Price reflects risk. Every risk you remove before going to market is a discount a buyer cannot argue for.

Customer concentration. A business where one client is forty percent of revenue carries obvious risk. Broaden the base. Where concentration is unavoidable, secure contracts and demonstrate the relationship sits with the business rather than with you.

Supplier concentration. Single supplier dependency, particularly without a written agreement, is a known deal risk. Establish alternatives or formalise terms.

Staff. Ensure key roles are filled by capable people who intend to stay. Have current employment contracts. Understand your accrued leave liability, because it will be negotiated.

Premises. Lease term and options matter enormously. A lease with twelve months remaining and no option makes a buyer nervous and a lender more so. Negotiate options well before you go to market.

Contracts and compliance. Current, signed and accessible. Licences and permits in order and transferable. Any dispute resolved or clearly documented.

Assets. An accurate register. Maintenance current. Anything not included in the sale identified early.

Risk Checklist

[ ] No single customer represents an outsized share of revenue
[ ] Supplier arrangements are documented with alternatives available
[ ] Key staff are on current contracts and intend to stay
[ ] Leave liabilities are understood and quantified
[ ] Lease has adequate term or options remaining
[ ] All contracts are current, signed and accessible
[ ] Licences and permits are current and transferable
[ ] No unresolved legal disputes

Chapter 7: Understanding What Buyers Are Truly Seeking in Your Business

Buyers are purchasing future earnings. Everything in a sale process is an attempt to work out how reliable those earnings will be.

They will pay more for

- Consistent, growing profit supported by clean records
- Low owner dependency and a capable management team
- Documented systems that transfer
- A diversified customer base with repeat or contracted revenue
- Secure premises, current contracts and clean compliance
- A visible path to growth they can execute

They will discount for

- Owner dependency
- Records that need reconstructing
- Concentration in customers or suppliers
- Short lease terms
- Compliance issues
- Declining performance, or performance that cannot be explained

Show the growth, and leave some behind
Buyers pay for potential they can see and act on. New markets you have identified, capacity you have not yet used, service lines that are working and could be expanded. Document the opportunity and be honest that it remains available. A business with obvious headroom is more attractive than one operating at its ceiling.

Growth and presentation Checklist

[ ] Growth opportunities are identified and documented
[ ] The business has visible unused capacity
[ ] Premises and equipment present well
[ ] Marketing and brand assets are organised and transferable

Chapter 8: Common Pitfalls in Selling a Business

Buyers are purchasing future earnings. Everything in a sale process is an attempt to work out how reliable those earnings will be.

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Chapter 9: Identifying the Ideal Time to Sell Your Business

Determining the right time to sell your business involves evaluating both internal and external factors. Key indicators include consistent profitability, reliable cash flow, and documented systems. Additionally, assessing market conditions can provide valuable insights into buyer interest and lending conditions.

Signals that your business is ready to sell range from consistent year-on-year growth to secure premises with favorable lease terms. Equally important, market conditions, such as active buyer interest in your industry, can significantly influence the timing of your sale. Personal readiness matters as well; factors like retirement plans or health considerations should not be overlooked, as they can impact your decision to transition ownership.

Chapter 10: Next Steps in Selling Your Business

Get a Business Valuation

Get a free business valuation instantly.

Free Business Valuation Calculator

Get an instant, indicative estimate of what your business could be worth. Our online calculator takes just a few minutes to complete.

www.ibnetworks.com.au/p-instant-valuation-26.aspx

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