



CapitalStreet.net

The Best Place to Buy or Sell a Business in the Middle East

Guide to Selling your Business

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Reasons to Sell a Business

Government Policy or Regulation

There may be rules and regulations, current or expected, in the markets in which the business operates that create a strategic rationale for selling the business.

One or more purchase offers have been submitted

A very common reason that many entrepreneurs and company-owners begin to consider selling their businesses is that they have already been contacted by an interested party. In order to ensure the best possible outcome of selling your business, it is a good idea to explore other possible bids.

Health or approaching retirement age of company leaders

Whether the company remains under the leadership of its original founder or is one or more generations removed from its entrepreneurial stage, the transition that arises as a result of the planned retirement or the advancing age of the company's operational leadership provides a good opportunity to consider a sale of the company as part of succession planning.

Market forces

- Competitive environment changing
- Changes in major customers or suppliers
- New technology has altered the market

Estate tax considerations

For expatriates of some countries, estate taxes can play a large role in planning for the continuation of operations beyond an owner's lifetime.

Other businesses in the portfolio merit greater attention

As the owner of more than one business, you may have other commitments that you find more rewarding. A mid-sized business is usually more valuable (as measured by a cash-flow multiple) than a small business in the same industry. There are several reasons for this, including the larger number of financial or international strategic buyers that are attracted to mid-sized businesses, less dependence on owner/ managers

in larger organizations, and the greater impact of transaction costs on small transactions.

Partner(s) or key employees would like to exit or have exited

Options for Selling

- Give or sell the business to one or more family members
- Sell the business to a competitor, financial buyer or other third party
- Liquidate the business and sell the assets
- Sell the business to members of the management team

It is important to consider the benefits of all options. Even if there is no immediate need or desire to sell your business, it is helpful to have considered the options and planned an appropriate exit strategy under different scenarios in order to be able to deal with unpredictable circumstances as they may arise.

Valuing a Business

The value of your business is based mainly on its financial condition and strategic position in the market.

Typical factors used to determine the value of a business are its cash flow, profit margins, earnings before interest and taxes (EBIT), earnings before interest, taxes and depreciation (EBITD), amount of debt, interest rate on that debt, costs of renting or leasing, and whether or not key employees will remain after the business is sold. Whether or not you will remain with the business may also be a factor.

Fortunately for sellers, most successful businesses also have an intangible asset known as goodwill. This is the reputation your business has built up over the years, your customer lists, your loyal and hard-working employees, your relationship with suppliers, and so on. Putting a dollar figure on all this is difficult, but it's certainly worth something over and above what the tangible assets alone are worth. And the more goodwill your business has, the more likely it will continue to be successful under a new owner.

Selling price is based on one or more of the following:

- Comparable transactions: What similar businesses, with similar assets, are currently selling for
- Total assets, including book value, intangible assets, and/or liquidation value
- Future earnings potential
- Historical earnings, including the capitalization of earnings or cash flow, gross income multipliers, debt-paying ability, and dividend-paying ability

Other variables impact the valuation of the Company

- Absolute size of company
- Strategic position of the Company within the market

Can your business be sold?

If there are assets and customers, almost any business can be sold. The question really is at what valuation? In spite of global market turmoil, there is still significant liquidity in the region; over the last four years, this liquidity has resulted in the emergence of large private equity funds focused on the GCC region. Likewise, many local entrepreneurs have the willingness and ability to purchase small companies.

Factors affecting whether a business can be sold include:

- Your company's financial health, especially profitability and balance sheet
- How well your company is positioned in the market
- Ease and risk of transition for a new owner
- Level of effort in daily operations required by new owner

The UAE in particular has developed a reputation as an excellent country in which to do business. It is also an excellent location for citizens of less stable countries to diversify their wealth. Buying a business offers a different, and we believe better proposition than purchasing real-estate in this market. It is important to communicate these benefits to many potential investors in the region.

For one, the returns offered by small business are superior to real-estate, public equities, or private investments in more developed markets. Many businesses in the UAE will enjoy virtually guaranteed growth as new residents move into the over 100,000 units of housing under construction and new businesses expand into the

When is a Good Time to Sell

It's almost impossible to predict the best time to sell your business. The rapidity of the recent financial crisis shows how quickly market perceptions can change. Given the time it takes to close a transaction, it is not advisable to try to sell at the absolute top of the market.

There are many different factors that go into the timing of selling a business. For example, external factors, especially unexpected ones, may affect the operation of your business and its future value. An earthquake, flood or fire may destroy the building you're in. Traffic patterns may change and if walk-in business is vital, sales may rise or fall. Equipment may require costly repairs, updating or replacement while your inventory may become dated or obsolete. Competition, suppliers, government regulations or the economy can adversely affect revenues, income and profitability.

Therefore, it may be wise to sell sooner rather than later, if you're thinking of selling at all. The longer you wait, the more likely conditions will change, perhaps adversely. Current economic events show the rapid reversals that often occur when events and market sentiment changes.

Planning

There is usually a significant period of time, 3 to 6 months or more, to market and close a deal. Selling a business is more complicated than selling real-estate and buyers will usually want to perform some "due diligence", inspecting the books, ensuring a seller's claims are accurate, and planning a transition. A new buyer will be willing to pay more if the owner assists him with the transition, introducing him to customers and explaining details of operations. If a seller wishes to depart the country immediately after a sale, it will lower the valuation and make the company more difficult to sell.

To the greatest extent possible, a sale should be planned in advance. However, when events make this impossible, there are a number of creative strategies to maintain the value of the business and market the proposition to a new owner. CapitalStreet.Net can assist in evaluating such a situation and recommend an option.

Before Selling

Selling a business is much more complex than selling a product, service, real estate property. The legal systems of GCC companies, the prevalence of expatriate buyers and sellers and the participation of international corporate buyers create potential issues that will need to be resolved. You will need to find answers to questions like these:

- What kind of experts should you call for advice and how will you find them?

- How will potential buyers determine a price to offer?
- How do you strategically position the business for the highest price?
- What is the best way to document the Company's business plan and financial projections?
- How do you find potential buyers in different international markets?
- What can a professional business broker do to help you sell your business?
- What are the tax implications, if any of the various options available?
- Should you consider seller financing, third-party financing, or a leveraged buyout?
- What are customary provisions in a letter of intent, sale agreement?
- If you have partners, shareholders, or officers, what must you do before you sell?
- How do you prepare for and then manage the due diligence process?
- What is the closing process and how are you protected?
- Should you still be involved, in some way, after the business is sold?

Buyers of Businesses

Understanding the different types of buyers is important to communicating the value of your business in a comprehensive marketing plan. Different buyers exhibit different motivations and require different approaches in the marketing plan. Three prevalent types of buyer are described below. However, even within these broad groups, different buyers will exhibit different characteristics. For example a foreign financial buyer may be interested in relocating and be willing to take more daily management responsibility than a local private equity firm.

1. Company insiders — current or former employees, family members or friends may know all they need to know about the business. However, they may lack enough money to buy it outright, and you may be asked to personally finance some of the transaction.

For larger transactions (greater than \$20mm), it may be possible for management to borrow money from a bank based on the cash-flow of the business and their personal guarantees. This is a management buy-out and is a very new development in the UAE. Capital Street Partners, the corporate advisory affiliate of CapitalStreet.Net would take the lead where a management buy-out is feasible

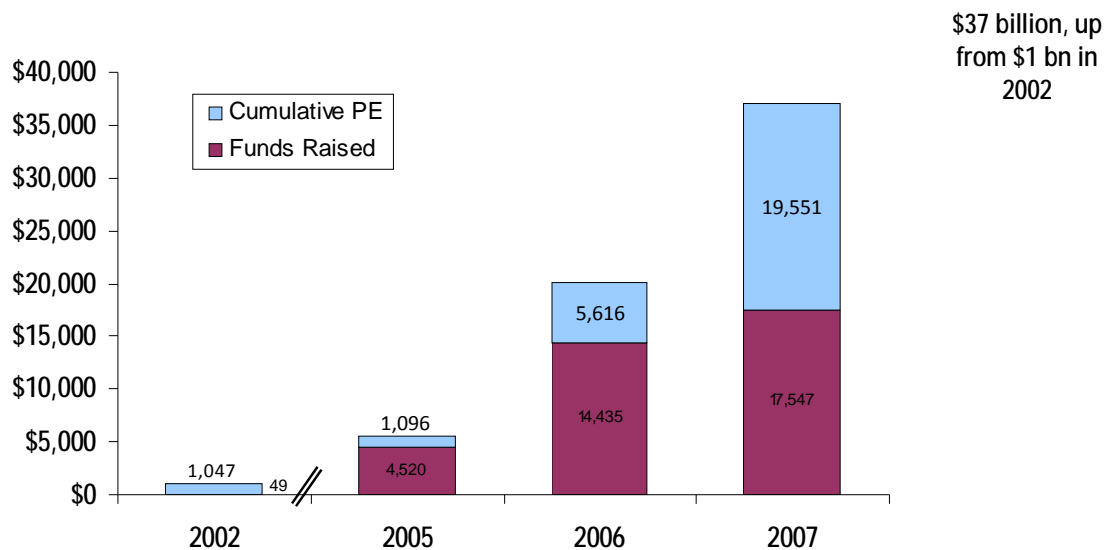
2. Strategic buyers — companies that are in the same or a related field. Perhaps they're a local competitor, a similar company elsewhere in the world, a supplier, or even a major customer of yours. They may be seeking to enter the UAE market, expand and reduce costs, or obtain additional distribution channels for their products or services.

Motivations of External (non-insider buyers)

	Local Buyers (UAE)	Global Buyers
All buyers	UAE GDP of 10% exceeds BRIC countries Business-friendly tax and regulatory environment Desirable location for regional headquarters and expatriate workers Strong leadership with strategic vision	
Financial buyers (private equity)	\$50 billion capital raised that needs to be deployed Development of capital markets will improve exit options	Portfolio diversification Low growth adjusted valuations relative to developed markets Maturation of UAE from “Frontier” to “Emerging” market status
Strategic buyers (companies)	Consolidation to achieve economies of scale Diversification of real estate wealth Skepticism of public equity markets	Rapid entry into large regional market Leverage established local relationships Growth and cost synergies with global operations 0% corporate tax rates

3. Financial buyers — individuals, family conglomerates, or private equity firms who wish to invest in a cash-generating business. The rapid growth in private equity firms shown in the chart below creates a variety of new options for mid-sized businesses. Financial buyers look for companies that are successful, expertly-managed, and reasonably trouble-free and can be run with little or no changes. Some buyers in this category will want to get personally involved in the daily operations, while others are content to leave the current management in place. The right financial partner can enhance the value of a business by providing advice and oversight along with easier access to capital necessary to grow more rapidly.

Total Funds Announced, Fund Raising, Investing and Rumored in MENA



Required Information

The information usually provided depends on the type, size and complexity of the business. A 2 page summary may be sufficient to sell a small business, but a larger business may require a 30 page Confidential Descriptive Memorandum.

In most cases, the starting point is an initial 1-2 page anonymous executive that contains a brief description of the business and summary financial information. This anonymous summary is usually distributed as widely as possible and can be posted on the CapitalStreet.Net website. Before sharing further information, most sellers will want an appropriate agreement requiring confidentiality, non-disclosure, and non-solicitation of employees by potential buyers. Such an agreement is available on the CapitalStreet.Net website.

Shown below is basic information along with additional information that is required for larger businesses.

Basic information requirements:

- Operational procedures
- Current and historical financial data, preferably reviewed by auditor
- Updated customer and vendor lists
- Inventory and equipment lists
- Sales and marketing methods
- Copies of current contracts and agreements
- Supplementary information Confidential Descriptive Memorandum:
- Financial model showing projected results for coming year and assumptions
- Written business plan explaining how projections will be achieved
- Market research documenting size of the market
- Competitive analysis
- Valuation showing public comparables, M&A transactions
- Organizational chart, HR policy and management biographies

Who Can Help?

A team of experts can help you sell your business faster and for more money. Selling a business is much more complex than selling a product, service, or a piece of property. No matter what its size or type, you must take into account the latest regulations, legal contracts, financial concerns, employee considerations and much more. Randomly estimating a selling price and running a for-sale advertisement in the newspaper rarely leads to a successful transaction.

Here are the experts you will need:

Accountant — Whether or not your current accountant is qualified and willing to help you sell your business, he or she will be called upon to: prepare audited and projected financial statements, collect and present data needed to place a proper value on your business and suggest ways for you to increase its actual or perceived value. Although accountants are critical resources in the sale process, they are not focused on marketing businesses and tend to perform marketing on an “ad-hoc basis”.

Attorney — He or she will be needed to create the required legal documents and to review any documents presented by potential buyers. If you have a business attorney, it is possible that he or she specializes in mergers and acquisitions. If not, it would be wise to hire an expert with adequate experience to ensure proper deal structure for your protection. In some cases, you will be expected to sign a retainer agreement and pay some fees up-front.

Tax expert (for buyers or sellers with worldwide tax issues)— An essential part of your team, a tax expert knows the latest IRS rules and regulations and can help structure the deal to minimize or (perhaps) even avoid taxes. To take maximum advantage of tax-saving strategies that may require several years to achieve, you may want to hire a tax expert first.

Business broker — A business broker is focused on marketing businesses. He is aware of buyers and sellers in the market and is actively identifying potential buyers and investors through a variety of channels. He is used to working with a wide variety of businesses, quickly and cogently communicating their inherent value, and targeting the best buyers. Who you choose can make or break your deal.

Picking the right broker can be a challenging task. A broker should be committed to expending time and energy to help you market your business. Some business brokers charge up-front listing and retainer fees for services provided, but most will receive the

bulk of their compensation once the sale is complete. A good broker will add value regardless of who the sale is by creating a competitive pricing environment. Because of this, brokers generally earn a commission regardless of whether they identify the ultimate buyer. However, they may discount the commission if an owner sells to a close competitor, relative, or other readily identifiable buyer.

Business Brokers

A business broker can help you:

- Value the company and determine a selling price
- Prepare a selling memorandum — a marketing piece promoting the company
- Find, select and screen potential buyers while maintaining confidentiality
- Structure the sale, terms, and financing
- Define future involvement of existing owner, if any
- Negotiate terms, type of financing, sale or transfer of assets, leasing, etc.
- Create, renew or transfer contracts and other agreements relevant to the business
- Prepare an employment or consulting contract if existing owner will be involved after the sale
- Prepare a non-compete agreement if existing owner will not be involved after the sale

If you would like to discuss the possibility of selling your business, contact CapitalStreet.net at +971-4-431-0960 or visit us online at www.CapitalStreet.net.

Be assured that all communications with CapitalStreet.net are and will remain confidential and there is no obligation to engage our services.