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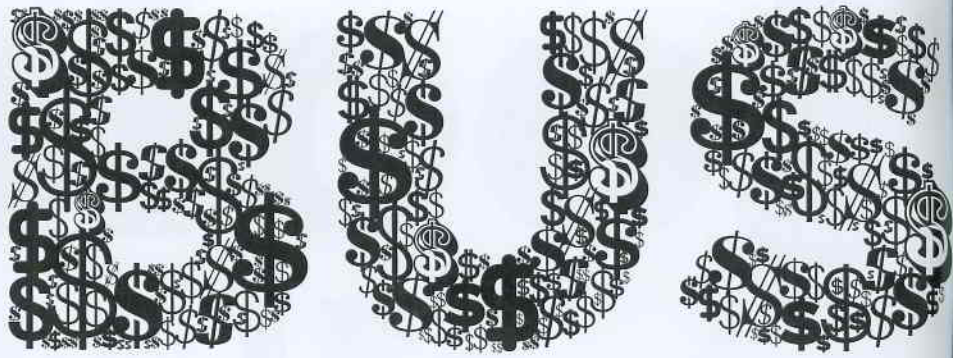
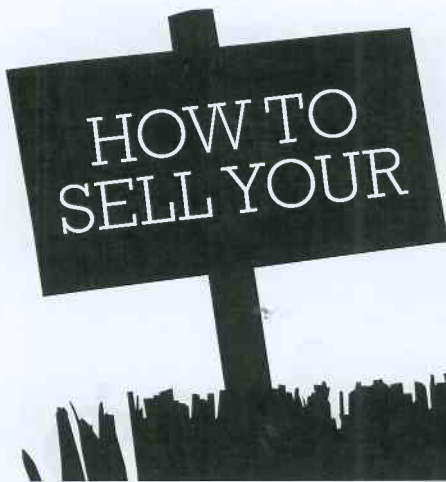


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WE'RE TALKING SUITS AND GREEN SHOOTS
AND WHAT IT MEANS TO BE A LEADER IN TODAY'S ECONOMY

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TRADE ME IS A FATAL EXAMPLE IF YOU ARE TRYING TO PRICE YOUR VENTURES FOR SALE. BY MATT PHILP

HE'S A baker as well as a businessman, so it's no surprise that Roland Dallas reaches for a baking metaphor to describe how it felt to sell the venture he'd poured his heart into for several years. It was time to take a break, he'd found a buyer, yet the business — Nelson's gluten-free breadmaker Dovedale — still had so much potential for growth.

"It wasn't the finished recipe," he says.

What business ever is? But inevitably every owner arrives at the same point that Dallas reached: time to sell. Also invariably, every seller faces the same question: how do I put a value on this thing that I've built, my baby? It's a poser that a great many boomers are going to be asking themselves when they look to cash up.

For Dallas, an earlier experience selling a business too cheaply sharpened his thinking. In that instance, personal circumstances had dictated a quick sale. When it came to selling Dovedale, however, he was in no rush, and timing couldn't have been better, with the property market boiling and business confidence high.

However, when he consulted a business broker, the guy was so negative that Dallas decided to sell it himself. "It's hardly worth selling if all you are going to do is pay off your debts then find yourself out on the street without a job."

Valuing Dovedale's physical assets was the simplest task. The "big question mark", he says, was over what value to place on its intangible assets, or goodwill. "How do you value the brand name and consumer recognition? Or the good relationships with suppliers?"

And what about potential? Dallas could point to sales growth of 30% to 40% over

the previous three years, and sharpening consumer demand for gluten-free.

"But it is easy to inflate value. It's a bit like selling a house: you always think your place is special because you live there. Value has to have some direct relevance to your figures."

In the event, Dallas found himself happily in between two buyers trying to outbid each other. He got 50% more than the broker predicted — more, he concedes, than the business was worth. "It's like house prices; it's subject to emotional factors and timing is everything."

Brokers Paul Devcich and David Newport of Auckland's Switch Business could have told him that valuing a business is never a precise science.

"The key test is always what the market will pay for it," says Devcich.

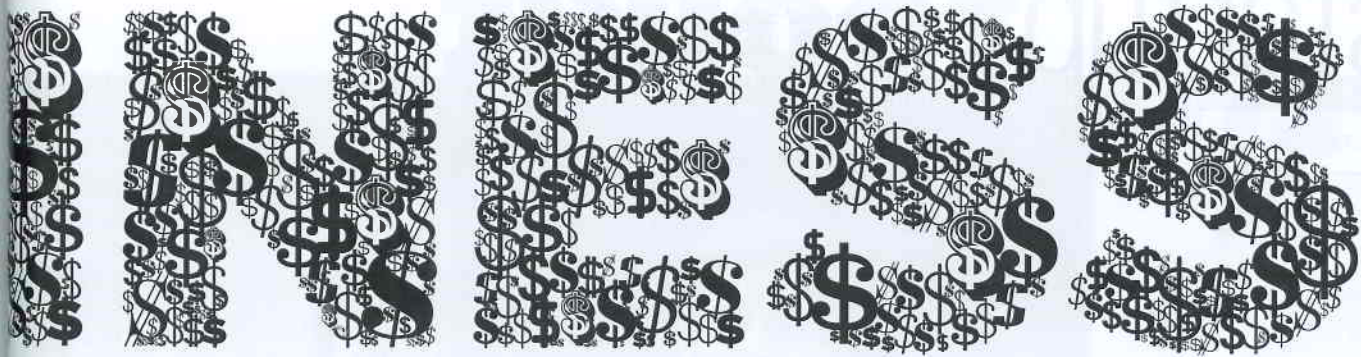
Newport and Devcich were senior players at Tabak before they went out on their own with Switch in February. They've launched in interesting times.

"A lot of owners are of the opinion that now isn't a good time to sell," says Devcich. "But now's a very good time, because when you look at the boomer statistics it's conceivable that in five years' time there could be 10,000 businesses hitting the market."

Whether selling now or later, few owners will have an accurate handle on the value of what they've built.

"The classic example that gets quoted to us all the time is Trade Me," says Newport, whose favourite catchphrase is 'tell him he's dreaming' from Australian movie *The Castle*. "They'll say, 'Trade Me sold for 17 times its income so my business must be worth ten'."

Gary Ivory, a partner at KPMG Corporate



Finance, says that attitude can be fatal. "If you go into the market with an unrealistic proposition then you will fail and people won't tell you the reason why. It is very hard to go back a second time within a reasonable time frame, so getting it right the first time is the number-one rule."

Sellers are also unrealistic about the asking price for potential. Devcich often has to explain to clients that even if they're right about their business being poised to take over the world, they're not the ones who will be putting in all the blood, sweat and tears.

"We will not put great credence on potential. It will make a business easier to sell, but to realise some of that potential in the purchase price is very hard to do."

The ultimate nothing-but-potential business is a startup. Selling those is never easy: who, other perhaps than a competitor, is going to want to buy the big dream when the founding dreamer is eyeing the exit? But investors can take a stab at valuing early-stage companies based on the size of their likely market, the barriers to competition and the talent.

"From our perspective, we place a high value on serial entrepreneurs," says Pioneer Capital's Randal Barrett.

Startups aside, where is value located in modern businesses? The advent of just-in-time manufacturing and the expanded role of technology means there's far less tied up in physical assets.

"Most value is now in the intangibles, in contracts, intellectual property and relationships," says Newport. "We sold a business last month for \$1 million, a consultancy business where the only tangible asset was a laptop worth \$2000."

YOU WANT HOW MUCH?

Seven out of 10 business owners in New Zealand will rely on selling up to retire, according to a recent survey by accounting firm Grant Thornton. But not everyone will get a deal like Trade Me.

Five tips for a successful sale:

- Be realistic on the value of your business
- Get the value right from the start of the process
- Get your accounts in order
- Make sure you have details like contracts, and supplier and customer agreements in order
- Know when to fold 'em — timing is everything

Valuing intangibles sounds like trying to pin smoke. But ultimately, says Newport, the purchaser is looking for something pretty simple: sustainability of profits. "If I buy this business will it carry on making this money?"

How can you reassure a potential buyer on that point? And how do you maximise your sale price?

Elaine Ford, managing director of Auckland business brokers Link, says her goal is more about maximising a sales outcome.

"For many sellers it is a huge event and the quality of the buyer will be very important to them. Then there are the contractual conditions, deal structure ... There are so many factors involved to make it a win-win."

Prepping your business for sale? Ford says conventional wisdom that you should start three years out is unrealistic. "The most common reason for selling is a change in life circumstances, and you can't always prepare for those."

One piece of advice Ford would offer is to get the accounts in order. Taking cash out of the business and over-egging your expenses can hurt sale price.

Adds Switch's Devcich: "Tidy up all aspects of the business — your staffing, contracts, supplier and customer agreements."

Newport says New Zealand business owners are notorious for being poor at succession planning. Instead of casting around for potential new owners well before they're ready to quit, they either die 'in office' or lose interest and let the business go to seed. The key to getting in fighting shape, he says, is to make yourself utterly dispensable. "You need to have a business that can operate when you're not there."

That said, the fortunes of a business are often intimately tied to its owner's long-nurtured relationships with suppliers and customers. "We will put more value on a business if the owner is willing to stay on."

The Switch guys believe in the Kenny Rogers' take on timing: you got to know when to fold 'em. But Randal Barrett of Pioneer, which specialises in expansion-stage investment, reckons in some instances you should give thought to hanging on for a few more years to position your company for a big sale rather than settle for a modest exit now.

For all the talk of unfinished recipes, however, hanging on was never an attractive option for Roland Dallas. "I wanted another challenge: 'Jim, my time here is done'."

The irony is that the baker is now back at Dovedale, called in by the new owner after sales started to go south. How could he ever have said no? "You always want to see this thing that you created survive."