

Selling a Family Business

The topic of selling a family business may strike most people at first glance as being a fairly niche concern but there are two reasons why that's a misapprehension. The first and slightly more flippant of these is the towering media profile of the TV programme *Succession*, the hugely hyped and much-discussed climax of which centred upon the fraught selling of a family business. The second and more serious reason for the discussion is the pivotal role which family businesses play in the wider UK economy, a role which is based, more than anything else, on the sheer ubiquity of the family business set-up. Given this ubiquity it's no surprise to learn that there is plenty of literature dealing with the day to day challenges of running a family business, and succession planning in general, but not quite so much looking at the question of how to go about selling a family business. In this article we'll set out the process of selling a family business, dealing with issues such as valuation, taxation and transferring assets.

The first thing to consider is what exactly we mean when we talk about a family business. According to the Institute for Family Business (IFB), the following criteria can be used to define a family business:

- The majority of votes are owned by the person or persons who established the firm, or those who have acquired the share capital of the firm or who are in the possession of their spouses, parents, child or child's direct heirs.
- At least one representative of the family or kin is involved in the management or administration of the firm.
- Listed companies meet the definition of a family enterprise if the person who established or acquired the firm (share capital) or their families or descendants possess 25% of the right to vote as mandated by their share capital.

The importance of family businesses to the UK economy is reflected in a number of statistics, many of which were published in the Oxford Economics report ['The State of the Nation – The UK Family Business Sector 2021-22'](#). According to this report there were 4.8 million family businesses in the UK in 2020, a figure which represented 85.9% of all private sector businesses at the time. Between them, these family businesses employed 13.9 million workers, a figure which made up 51.5% of all private sector employment, and contributed £575 billion to the UK economy. These figures were actually slightly down on those gathered for 2019 (when 14.2 million people were employed by family businesses which contributed £637 billion to the economy), reflecting the tough time faced by many family businesses during the COVID-19 pandemic. The value delivered to the UK as a whole by family businesses isn't limited to their economic input, vital though that may be. A 2020 report on [Family Business and Community Engagement](#), written by academics from the Universities of York and Birmingham found that family engage with local communities around topics such as volunteering, establishing foundations, environmental action, philanthropy and supporting business organisations such as Local Enterprise Partnerships. Another key statistic, this one published in the [PwC 10th Global Family Business Survey 2021](#), is that 82% of the family businesses surveyed said that protecting the business as the most important family asset was a key aim, while 65% reported that they wanted businesses to remain in the family, and 64% wanted to ensure a legacy was created.

Bearing all of this in mind it's crystal clear that choosing to sell any family business is a huge decision, and the practicalities of the process are likely to be matched if not overshadowed by the emotional stress involved. If that is likely to be the case it makes even more sense to ensure that the process of selling a family business is handled in a calm and rational manner with every step before, during and after the actual sale understood in detail to avoid the risk of sellers remorse after the event. Planning in advance for the sale of a family business will also avoid the potential disaster of having to sell in a hurry due to external circumstances, something which is almost bound to lead to a less than satisfactory result.

The first stage of selling any family business involves being completely certain about exactly why you want to make the sale. The reasons for making a sale of this kind will clearly vary depending upon the specific circumstances of the family business in question, ranging from the desire to fund retirement to the lack of an obvious successor, but in most circumstances the final decision will be based on a complex interaction of factors. Amongst the issues which are likely to persuade the owners of a family business to sell are things such as:

- Growth within the company has hit a plateau, with no sign of things getting better in the immediate future
- There are no viable strategies being put forward across the business for strategies which are likely to increase profits
- The passion which you, as the person who founded the business, felt has faded over the years and you feel ready to step back
- There is nobody within the family who you feel is ready to 'step up' and take control via a seamless hand-over
- The market place has altered in a manner which you don't feel equipped to cope with, via factors such as the rise of a better-equipped new competitor or changes in customer demand. In recent years this scenario will have happened time and again when a specific sector finds itself disrupted by new digital platforms and ways of working.
- The profits being generated are insufficient to finance growth or necessary investment
- Subsequent generations lack the enthusiasm needed to keep the business running as a family concern
- An offer has been made for the business which is too good to turn down
- Running the business is causing friction within the family which could be resolved by a sale
- Shareholders in the business may need to raise cash – to fund retirement plans, for example – and a sale is often the quickest means of doing so

Even if none of these conditions apply at any given time it can still make sense to engage in longer term contingency planning for the time when a sale might be appropriate. When the right circumstances for a sale do arise it can take time to carry out the practical preparations

needed and to persuade other family members that giving up ownership of the business is the right step to take. It also makes sense to have longer term planning in place in order to facilitate a sale of the family business before it becomes absolutely imperative to do so. Prospective buyers will generally get a sense of a sale being forced upon a business by circumstances and will adjust the price they offer accordingly.

Once a decision has been made in principle the family members involved in the business need to be engaged in in-depth discussions on the implications of selling and the reasons for doing so. In most cases discussions of this kind will be held at board level with input from family shareholders, and should focus on the valuation being looked at as well as the pros and cons of selling at all. If the decision to sell is endorsed then the question of exactly how to make the sale will arise, and in simple terms there are a number of options which can be pursued, which include the following:

- A trade sale to another business
- A sale to an institution or investor such as a private equity firm
- An initial public offering featuring a stock market listing
- A buyout by the management or employees of the business
- A voluntary liquidation of the company

Each of these options offers specific challenges and advantages, and expert, professional advice should be sought when deciding which is right for your particular family business. Having experts such as accountants and lawyers specialising in business law on hand throughout the process of selling your family business could make all the difference when negotiating what is a hugely complex process. Professionals could help you to structure the sale and to break the process down into more easily manageable individual steps. In fact, whether or not you engage professional help, breaking the process down into individual steps is the best way of turning it into something which can be managed and proceeds smoothly. These steps would include highly technical processes such as preparing the company for sale, planning for the tax implications of a sale, valuing the business, marketing the business, negotiating on the price and other terms of the sale such as vendor warranties and indemnities, performing due diligence and bringing the transaction to a satisfactory conclusion. Sometimes the owner of a family business may opt to 'test the waters' by selling a smaller share of the business at first, holding the rest in reserve to sell at a later date if the first sale proves successful. Many owners of family businesses also feel an obligation to the employees of the business and to any family members who may continue in post after the sale has gone through, and negotiating agreements on employee status and working conditions could be part of the wider sales process.

Preparing for a sale

As stated, the best time to prepare for the sale of a family business is actually well before any such sale needs to take place, in order to ensure that the process won't be rushed if it suddenly becomes a necessity or urgent requirement. Amongst the steps which should be taken to ensure that a family business is in the best possible condition when embarking on the sales process are the following:

- Ensure that the balance sheet for the business is clear and easily understood and represents a true reflection of the value of the business
- Bring all of your accounts as up-to-date as possible
- Go over existing contracts with business partners and suppliers to ensure that they are in order, renegotiating or renewing where needed and settling any disputes which may have arisen
- If the business is reliant on a physical location or premises to operate make sure that a long-term lease is in place
- Draw up formal contractual agreements with employees who have expressed a willingness to stay in place after the sale goes through
- Make sure that the corporate structure of your business is set and as strong as possible. The way the business functions may have developed organically over the years, with people understanding and growing into their jobs over time, but the roles played by each member need to be formalised when presented to a potential buyer.

Working through fairly complex and time-consuming processes such as these will help to ensure that your business is in the best possible shape when presented to prospective buyers, with as many potential loose ends and variables as possible having been dealt with and tidied up.

If you still have responsibilities for the day to day running of the business you should gradually pass them over to the management team to avoid an abrupt and possible chaotic handover when the sale goes through

Looking into tax

Looking over the tax implications of the sale of your business with a tax expert will put you in the position of being able to estimate exactly how much tax you'll be paying once the sale goes through. The figure you arrive at could have a direct bearing on issues such as how you structure the sale, how much you want the asking price to be and even whether you still want the sale to go ahead. In simple terms, if you make a profit when selling your family business then you'll have to pay capital gains tax (CGT) on any amount above the statutory tax free allowance. CGT is charged on any gains made in relation to the value of assets which you have held for more than 12 months, but there are tax reliefs which can be applied to lower the final CGT bill, and an understanding those reliefs and allowances is what a tax expert will bring to the process of selling your family business.

The current CGT rates are 10% on assets for people who pay the basic income tax rate and 20% for higher or additional tax rate payers. At the time of writing the personal allowance for CGT was set at £12,300, which means that you can make a profit of £12,300 on the sale of your assets before the CGT rate which applies to you is charged. If the ownership of a taxable asset is held jointly – which may often be the case with a family business – then the allowance doubles to £24,600. Calculating precisely how much CGT you'll be liable to pay if your family business sells for a range of possible prices can be tricky, but the good news is that the Government has published relatively simple explanations of how the calculation is made [online](#), as well as details of the kind of reliefs which are available. Working with a

financial adviser or tax expert is strongly advised, however, as they will have the expertise required to point out any overlapping between CGT and other taxes such as stamp duty, VAT and income tax, and help you to fill in your tax return to make all of the necessary declarations. They will also be able to point you in the direction of reliefs such as Business Asset Disposal Relief (BADR). BADR was known as Entrepreneurs Relief (ER) prior to the Finance Act of 2020, and is a legitimate means via which you can reduce the amount of CGT charged upon the sale of a family business. You may be able to claim BADR on assets such as:

A sole trader or business partnership that you partially or fully own

Shares or securities held in a company

An asset which is in use within a business when that business is wound up, such as intellectual property (IP) or a physical property

Only the first of these is likely to apply when a family business is being sold as a going concern, and the rules governing BADR state that the business in question has to be structured as one of the following:

- A sole trader operation
- A partnership
- A joint venture
- A personal limited company
- A trust holding business assets

You also need to have owned the business, or shares in the business for at least two years before the asset is disposed of. If BADR is applicable it can lead to relatively significant savings on any CGT to be paid. If BADR is applied to the sale of a family business then the CGT charged will only be charged at 10% of any profit over £12,300 no matter what your normal income tax rate is. For those who normally pay at the higher or additional tax rate, and would expect to pay 20% CGT, this represents a significant saving. There is a lifetime limit to the amount on which an individual can claim BADR, which is currently set at £1 million, and the process of claiming the relief can be done via either your Self-Assessment tax return or by filling in Section A of the [BADR help sheet](#).

Timing

By planning for the sale of your family business well in advance you'll be able to time the sale itself so that the relevant date is as advantageous as possible. By working on your business prior to selling it you'll be able to put together the strongest possible team and expand your customer base as far as you can in order to make the business as attractive as possible. This is another good reason for not waiting to have your hand forced by something like a shrinking customer base, since selling from a position of strength will also enable you to pick and choose a time during which the wider economic conditions are more suited to fetching the best possible price.

Valuation

You may well go into this process with a pretty clear idea in your mind of exactly how much you think your business is worth, but it will still pay to get an expert such as a business surveyor involved as they will deliver a valuation based not just on an in-depth analysis of your family business but also a deep understanding of the wider market. Clearly, arriving at the right valuation is crucial – if it's too high you'll put off prospective buyers, but if it's too low you'll be selling your family and the business you've worked hard to build short. Remember, as well, that the valuation you arrive at – and the asking price based on this valuation – marks just the start of the process of negotiating the final price to be paid for the business. The negotiations you can expect to have to go through are just one more reason why any valuation needs to be backed up with numbers, documentation and other concrete evidence.

Valuing something as complex as a family business is an inherently nebulous task, with factors such as the physical assets of the business and projected future performance having to be weighed against the reputation of your brand, the competitors working in your sector, the reasons for the sale taking place and the wider economic climate. The mixture of tangible and intangible factors, as well as those over which you have some control and those which are wholly external, means that it helps to have a firm framework in place to guide you toward coming up with a credible figure.

Net assets

This aspect of the calculation is based on tangible physical assets such as premises, land, stock and machinery, and the value of your assets represents the value of things like these minus any liabilities being carried. Factors like inflation and depreciation will also need to be taken into account when calculating the value of tangible assets. The value of your net assets will provide a good starting point for calculating the wider value of your business, but nothing more, since the figure won't include intangible assets such as your brand, the goodwill you carry and any intellectual property, trademarks or patents that are owned by the business.

Discounted cash flow

Discounted cash flow is a valuation method which calculates what the future cash flow of your family business would be worth today using a relatively complex formula. In summary, the calculation works by adding the dividends forecast for your business for approximately the next 15 years, with a residual value added on, with a discount then applied to calculate what the same amount would be worth here and now. The discount applied is generally in the 15% to 25% range.

Rule of thumb

In some industries there is an accepted standard method of calculating the value of a business. Retail or hospitality companies, for example, generally calculate value using the number of individual outlets, while IT businesses are generally valued on the basis of turnover. It will pay to find out what the rule of thumb for valuations in your particular sector is as it's likely that any prospective buyer will have questions based on it.

Price-to-earnings

This method of valuation is also known as ‘multiples of profit’ and works by comparing the price of shares in a company with the earnings being generated. Many public companies calculate their price to earnings ratio by dividing the price of stock by the money earned per share. If you’re a private company you can research the price to earnings ratio of a public company which is comparable to your business, and then apply the ratio they use to your earnings. The tricky part of this is that the ratio used by the public company is likely to be something between two and 25, and it may pay to take advice from a business adviser with experience of publicly listed companies before deciding which price to earnings ratio to use. If you opt for a ratio of 7, for example, and have net annual profits of £250,000, then the valuation you’ll arrive at will be £1.75 million.

Intangibles

No matter what method you opt for – or whether you decide on an amalgamation of different valuation methods – you need to make sure that you include the aspects of the business which can’t be measured in numbers alone. These might include things such as your relationships with customers and suppliers, the location of your business, any innovative patents your business holds and the recognition and reputation of your brand.

Brochure

Once you’ve decided on the basis and timing of your sale and reached a valuation you should put together a sales brochure for the business. Every brochure will be unique, just as every business is unique, but it will be probable that the brochure will start with a single page summary listing factors of the business such as the goods and/or services you provide, any USPs, the location of the business, the current turnover and the potential for the business to grow in the future. The rest of the brochure will cover more detailed information such as the premises of the business, any leases which apply, details of the way in which the business operates, equipment owned by the business and any other assets. It should also detail the workforce with reference to the skills and experience any new owner can call upon and more detail on those in executive or management positions. Speaking of employees it is vital that you keep clear and accessible lines of communication open between yourself, management and employees throughout the process of preparing for sale, in order to ensure that employees feel included in the process and aren’t taken by surprise by a sudden change in ownership. The more communication there is, the more your employees will buy into the process, something which will help to ensure a smooth hand-over when the sale finally takes place.

Due diligence

If a prospective buyer is genuinely interested in purchasing your family business then they will want to carry out in-depth due diligence to ensure that they know exactly what they will be investing in. You need to be fully prepared for this, and could use a legal professional or accountant to help manage bringing together the range of material the other party is likely to want to see. Amongst the aspects of the business likely to be covered by due diligence are the following:

- Liabilities – these should be dealt with before putting the business up for sale, or listed in a clear and transparent manner

- Financial documents – you should gather together detailed documents on the finances of the family business including tax returns which date back at least three years
- Registers – make sure that statutory registers such as Companies House are completely up to date
- Assets – make sure you compile a clear and comprehensive list of the assets and properties which are included in the sale, and if the property is on a lease include documents with the details
- Shareholders – create a document listing clearly the position of any shareholders in the family business
- Intellectual property – make sure that any copyrights or trademarks are full protected and listed, as well as details such as your company name and any domain name
- Contracts – review contracts pertaining to employees, clients and suppliers to make sure that they are up to date and clear in terms of what they state
- Insurance – make sure that any business insurance you rely upon is firmly in place until such time as the sale has gone through

Finding a buyer

There are many ways to find a buyer for your business, from advertising on specialist websites to using local business publications or social media. In some cases you may opt to approach a supplier, customer or competitor who you think would be interested in purchasing your business. As an alternative to all of these, and to tap into expertise in the matter of selling a business, you could work with a broker. A broker will act as a bulwark between you and any potential buyers, helping to find those buyers initially and then working to secure the best deal. In return for this they will usually charge a commission of between 1% and 10% of the value of the business, but having to pay the commission could well be more than outweighed by the increased purchase price a broker will be able to negotiate.

Negotiate

Whether you use a broker or not you will need to be prepared to negotiate with a prospective buyer keen to secure a lower price or better terms. While the valuation you arrived at is based on a range of factors it should be set with the negotiation in mind, i.e. with room to be knocked down on the price slightly, although not below a pre-determined minimum level. You should research the respective buyer to get a handle on what their priorities are likely to be and which of the USPs of your business will appeal to them in a way which might lift the price higher. Don't feel afraid to ask for documentary evidence that a prospective buyer has the necessary support to finance the purchase in place, as any hitch in finances could delay or even derail the sale. If negotiations take place face to face or over the phone you should take the time to have everything which was agreed confirmed via email after the event, as this will give you a written record to fall back on if any conflicts arise at a later date.

Sale goes through

When the sale goes through you will normally work with a solicitor to review the agreements which have been drawn up and agree on a date for the sale to go through. The agreements to be reviewed will include the following:

- Agreements which cover the terms of the sale – i.e. exactly what is being sold, under what terms and for how much
- Lender documents – if the buyer is borrowing money to buy your family business any lender documents will need to be included in the sale process
- Lease – if any of the premises or equipment for your business is leased, the lease agreements will need to be assigned to the buyer
- Bill of sale – the bill of sale is the document which transfers the business and its assets over to the buyer
- Non-compete agreements – in some cases, you might be asked to sign agreements promising not to start a business in competition with the existing business for a specified period of time