

THE LITTLE BOOK OF M&A

**TIPS, TECHNIQUES, ANALYSIS AND
ADVICE FOR BUSINESS OWNERS**



PLANNING FOR SALE: FIVE THINGS YOU COULD DO TODAY

You may not be thinking of selling your company for another few years – but it is never too early to start thinking and planning for when the time is right. Here's what you can do today to make your business more attractive in the longer term.

REDUCE RELIANCE ON YOU: if you are an owner-manager, try to delegate operational day-to-day responsibilities in your business. Ideally your role should be strategic oversight, not 24/7 micromanagement!

DO YOUR FILING: make sure all your key business documentation is readily accessible and up-to-date – this includes employment contracts, property deeds, shareholding certificates, accreditations, supplier agreements and customers' contracts.

KEEP FOCUSED ON GROWTH: a growing business is more attractive than a static one, so don't take your foot off the gas when it comes to new strategic directions or opportunities. Run the business as if you weren't leaving!

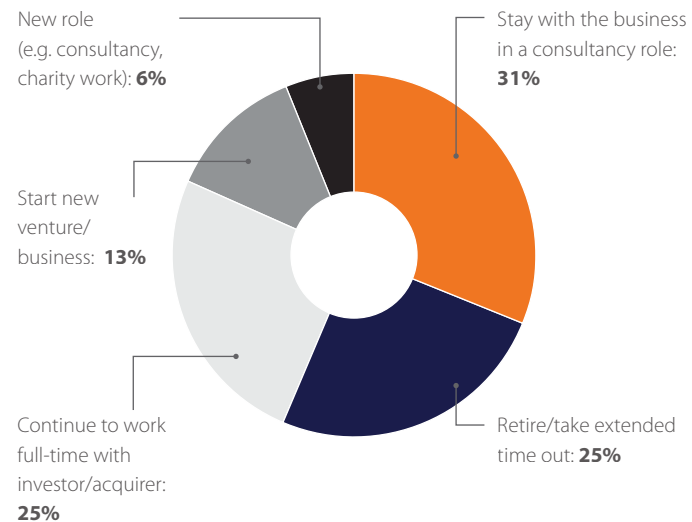
IDENTIFY POTENTIAL SUCCESSORS: a strong second-tier management team, who you trust, and who are committed to the long-term future of the business can be a major selling point. Some acquirers even 'buy' management teams.

FINANCIAL MOT: you know your business back to front, but try to look on your accounts with an 'acquirer's eye'. Any potential buyer or investor will want to see strong working capital, limited liabilities, a healthy balance sheet and no nasty surprises...

TOP 5 REASONS SELLERS SELL

- Change of lifestyle
- Retirement
- Keen to realise investment
- Keen to pursue other business interests
- Red tape of running a business

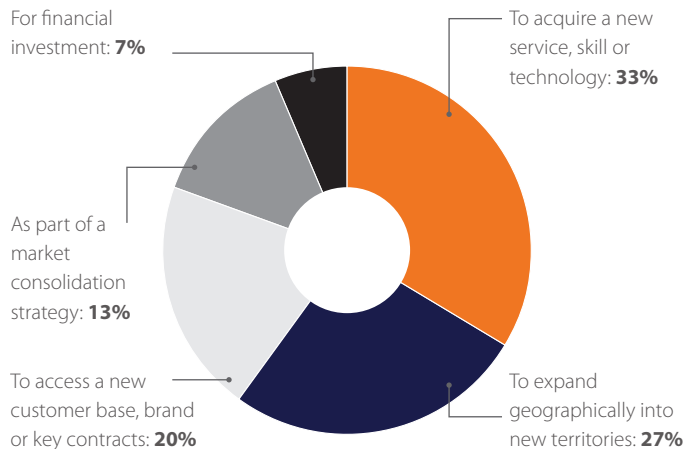
AFTER THE DEAL: TOP 5 THINGS SELLERS DO NEXT



WHAT BUYERS LOOK FOR IN A BUSINESS

In the SME marketplace, there are multiple motives for acquisition. They include acquiring new technology or products, accessing new customers, perhaps in new regions, or countries. Often acquiring organisations are seeking to diversify, and see smaller, niche sector specialists as an ideal way to get a foothold in a new sector.

Different buyer types will have different motivations, but they all share the same underlying, core reason: growth. They are buying a business based on its future potential, not its past performance.



SELECTED BCMS COMPLETIONS: OFFERS AND MOTIVATIONS

By researching and meeting with parties, BCMS clients have a choice of acquirer types.

Company type	Lowest offer received	Highest offer received	Motive of acquirer
Retail consultancy company	£0.7m	£3.1m	Looking to expand into the UK
Polymer processing company	£1.2m	£2.5m	Access to new technology and IP
Kitchen appliance distributor	£6.15m	£13m	Access to premium product range
Waste services	£4m	£8.4m	Growth acquisition strategy
Online portal	£0.2m	£2.0m	Consolidation in its core market

“In throwing wide the net, targeting companies both in the UK and abroad, your approach gave us the best chance for maximum choice of acquirer...”

Regency Mowbray Company Ltd

FREQUENTLY ASKED QUESTIONS

IS MY BUSINESS ACTUALLY WORTH BUYING?

We speak to many business owners each week, and surprisingly many of them are unaware of the inherent value of their business. Some are too close to their business to appreciate its commercial appeal. Others are looking to wind the business down because – with no clear succession plan in place – they feel it is their only option.

Unless you are the only person working in it, your business does not start and end with you. Your customers, your IP, your contracts, your staff expertise, your brand, your portfolio, your relationships, your reputation – all these things have a potential value to an acquirer.

WHAT WILL HAPPEN TO MY STAFF WHEN I SELL?

A key driver for many SME business owners is securing not only the best future for their company, but also for their staff. Major shareholders may count staff as friends, not just colleagues. In a family business, the relationships can be even closer.

BCMS understands this – and seeks to work with you to find the right option for your company. We never force you to take, or reject any offer. We advise you on a communication strategy, how to

TOP 5 REASONS NOW IS A GOOD TIME TO SELL

- Large corporations are holding record levels of cash on their balance sheets
- Interest rates are likely to remain low for the foreseeable future
- Acquisition and investment are the best routes to growth for many different types of organisation
- There is a clear demand for strong businesses across all sectors – making this a seller's market
- Economic stability and optimism make the UK an attractive destination for overseas buyers

explain the sale process to the staff, at the right time. Open, honest communication is key, and the right sale can rejuvenate a business, delivering exciting new opportunities for your team.

Furthermore, it is usually not in the acquiring organisation's interest to buy your business and instantly shed experienced staff. These are the very people who have helped to make the company successful in the first place, and could play an important role in future growth.

WHO IS THE MOST LIKELY ACQUIRER FOR MY BUSINESS?

This of course is dependent on your sector, and your area of business operations.

The most obvious organisations to approach would typically be key regional competitors, or larger businesses who offer similar services. But we regularly identify the best buyers to be complementary acquirers – not direct competitors – either in your home country or internationally. Around 30% of all BCMS clients sell to an overseas acquirer. A likely acquirer might have slightly different specialisations or business operations, or feature at a different point in your supply chain.

SYNERGY BUYS: SELECTED BCMS CASE STUDIES

By researching and meeting with interested parties, BCMS clients have a choice of acquirer types.

Here are five examples of successful deals where buyer and seller demonstrated complementary – rather than competing – specialisations. In these cases, the strategic reasons for acquisition are clear:

- A company who designs and manufactures high-quality, hand-finished wooden bedroom and dining furniture was acquired by a supplier of high end wall décor and soft furnishings
- A UK client who specialised in production of a wide range of equipment for the chocolate and confectionery industry was acquired by a supplier of roasting machines and plant for the global coffee industry
- A business that designs, builds and supplies controls and control panels for the HVAC industry was acquired by a business who designs, builds and supplies controls and control panels for the lift industry
- A Swedish supplier of ergonomic furniture was acquired by a Norwegian Group with a subsidiary specialising in office storage
- ...and a company who manufactures paint brushes was acquired by a hairbrush manufacturer!

“We were particularly impressed by BCMS’ research capabilities and ability to identify many companies from not only the UK but also overseas who we had not thought of contacting...”

CBISS Ltd

HOW DO YOU VALUE MY BUSINESS?

There are many different methods of business valuation. A traditional ‘desktop’ valuation involves the use of a mathematical formula. In essence, this takes your company’s annual operating profit and multiplies it by a figure, usually between 3 and 7. This figure is dependent on historical trading, and past financial performance. It is typically calculated on a number of variables including past deals in that sector.

This multiple-based mathematical calculation is not necessarily reflective of the real-life, true value of your business. BCMS’ track record of 500+ successful transactions in the last decade alone proves that acquiring a company is principally about strategic motive, and on many occasions the final price paid exceeds any standard industry valuation. In addition, a company’s true value lies in its future potential, not its past historical performance.

BCMS never takes a company to market with a value attached for the very reason that it encourages ‘bartering’, price-chipping and bargain

hunting. Only an acquirer with a strategic motive and a sense of the future potential for your business can decide its true worth, and it is our job to ensure that the market understands the scope and true value of each and every business we represent.

“BCMS’ deep experience in selling companies was something that was evident first time we met, and it turned out to be something we depended upon increasingly as the project progressed. It gave us the confidence to face up to some very large organisations and demonstrate our abilities...”

SevenThree Ltd

I HAVE ALREADY BEEN APPROACHED BY AN ACQUIRER. WHAT DO I DO NOW?

The first thing you need is specialist advice, as selling a business is complex and time-consuming. Professional representation is essential, even if you really want to sell to this acquirer and you feel it is the best ‘home’ for your business.

The other thing to bear in mind is that your potential acquirer clearly has a strong motive to acquire – and that might mean your business is desirable to other companies too. What are you missing by not approaching other organisations? And will you get the best price, and

best outcome for your customers and staff if you only negotiate with one party?

BCMS operates a tailored service where you can begin negotiations with your interested party, while exploring other sale options too. It might surprise you to know many business owners who talk to us after such an approach actually sell their businesses to another acquirer altogether.

HOW LONG WILL IT TAKE TO SELL MY BUSINESS?

Selling a business is a labour intensive process. Today's acquirers and investors are risk-averse, and understandably will undertake extensive due diligence and checks to ensure they are getting value for their investment. There are many variables beyond your control that could delay a potential deal, such as changes to an acquirer's access to funding, or changes in the marketplace. It is however important that any company looking to sell has its records and business administration up to date to avoid unnecessary delays.

This is why we recommend you allow 12 months for the entire sale process, from the time you engage a specialist advisor to exchange of contracts and completion. Although BCMS has completed deals in a matter of months, this is rare. We allow three months for preparation before we even begin to approach potential acquirers.

WHAT TYPES OF DEAL ARE AVAILABLE TO ME?

In today's marketplace, there are multiple options open to you – and this is the beauty of approaching a wide range of acquirer types. While sales to motivated trade acquirers remain the most common type of sale for BCMS clients, we are increasingly seeing successful deals involving Management Buy-Ins and Management Buy-Outs, as well as sales to high net worth individual (HNWI) investors. For certain fast-growing companies, securing capital investment from Private Equity investors is an option too. We try to find the right opportunities for clients: for some, a complete exit is the goal, others wish to stay and help the business grow. We recently completed an investment deal where all 11 shareholders are staying with the business!

THE SELLERS' PERSPECTIVE

What's the one piece of advice BCMS clients would give you?

Here, some successful sellers share the benefit of their experiences...

Focus on financials

"Get your budget plan sorted is the first piece of advice we'd share. Get a clear understanding of your business, its strengths and weaknesses."

Carol & Gary Brown, Rainbow Dust Colours, who sold to a plc

Get ahead on your admin!

"I would say to anyone thinking of selling now – get your paperwork in order! A lot of things you have to prepare for lawyers are things that you don't necessarily handle day to day..."

Martin Phillips, Recommended Hotels, who sold to a German media acquirer

Be objective, be honest

"When the sale process came to an end and there was a successful conclusion, we said that even if the business hadn't sold, we'd learnt an awful lot. We would never have taken time-out to stand back and ask some of the questions that BCMS asked us. It did make us realise strategically where the business was strong and where it was weak. It gave us clear focus and objectives for ourselves, and we recognised there were areas where we needed to get a handle on them."

Chris Conroy and Gordon Maclean, Prior Diesel, who sold to a supplier to the offshore oil and gas industry

Seek professional advice

"When you run a business on your own, you have your own way of working out how the business is doing! When we started with BCMS on the accounting side we had to be more factual, which was interesting because the format the BCMS business analysts put together for projections was better than what we had. So we took advantage of that. In fact, since the sale, some of the accounting practices we put together with BCMS are still being used. It didn't matter what issues arose during the sale, there was always someone in the BCMS team that could address it."

Stuart Anderson, Pitlivia Holdings

Choice is everything

"Our background is in accountancy, and we knew we wouldn't be good at selling ourselves as well as a professional could. And from our experience of buying a company in 2011, we learned enough to know that you do need help when you're buying or selling a business. Selling a business isn't pain free, but certainly BCMS made it as pain free as possible. We just kept saying 'thank goodness we've got BCMS, thank goodness we've got them in our corner'.

There are sector specialists, but the advantage of BCMS is that they are industry wide, and were able to go to companies that we wouldn't have dreamed of going to, to generate interest. The more buyers or bidders you have, it keeps pushing the price up."

Paul & Hilary Cole, Personal Homefinders, who sold to Countrywide plc

Discuss your business, its potential saleability and the options available to you at a tailored 1-2-1 consultation with a senior BCMS M&A advisor. You'll be able to discuss your position in complete confidence, and meetings can be arranged at a time and location convenient to you.

To book, visit www.bcms.co.uk/meet
or call **01635 296193**

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Tel: 01635 299616 | Email: info@bcms.co.uk | www.bcms.co.uk

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