bcms

THE LITTLE BOOK OF BUSINESS SALE STORIES

REAL-LIFE INSIGHTS FOR THE BIGGEST BUSINESS DECISION YOU'LL EVER MAKE

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INTRODUCTION:
AN EMOTIONAL TRANSACTION

Selling a business is never simply a commercial transaction. There are a range of personal factors behind every sale. Sometimes they are relatively clearly defined – age, retirement, lifestyle change. Sometimes, there are added complications. Consider, for example, businesses with two or more shareholders with very different future goals, or a family business with no obvious candidate to take over. The point is that every business sale is different, and every sale transaction has to take these differences into account.

Equally, choosing the right buyer is often more about relationships and cultural fit than the cash on the table. Sellers often get a feeling on 'who's right' for their company, and respond positively to an acquirer's way of working. In some cases, the process of selling a business can radically influence an owner's plans, and sellers who had planned to leave their business, change their mind and choose to stay.

This book aims to explore some of these issues, through the words of business owners themselves. Each has a different reason for sale, and a different experience of selling. In today's market there are a wide variety of different sale options for business owners, and we examine those too, alongside insights from specialist Investment Management and Financial Planning firm Investec Wealth & Investment and corporate lawyers Harrison Clark Rickerbys, who offer their specialist professional perspective.

"EVEN IF YOU'VE DONE IT BEFORE, SELLING A BUSINESS IS AN INTENSE EXPERIENCE"

Andrew Sesemann, right, with his BCMS Deal Leader James Pugh

ANDREW SESEMANN

An entrepreneur and MBA from The London Business School, Andrew Sesemann worked for the London Stock Exchange and Danbury Mint before agreeing to join the family business in 1996.

He has sold two businesses with BCMS: Cox Agri Ltd to the Allflex Group in 2014, and Cox Orthopaedic Limited to Mobilis Healthcare Group in 2007.

I knew I wanted to sell to my buyer, and I thought we could just go ahead. But BCMS advised me otherwise. If you genuinely have no Plan B, then a buyer will sense that, and it's too much of a risk not to assess all your options. You've got to get someone else in the frame, not just the buyer who has made an offer. You've got to get competition, because you just don't know what else is out there.

The crucial factor – and this came up in my first company sale with BCMS – is that I was told there was a good chance I could sell to a company I had never heard of. In an industry like ours, I thought that was impossible. I thought that was marketing speak. And yet I did. In that first sale, I would never have approached the company that finally bought me. They wanted to get into London, and I was a specialist in the London area. There was a clear fit.

Every industry is different, of course. I have sold in two areas now: agricultural products and healthcare products. In both sales, getting a competitive environment was so important.

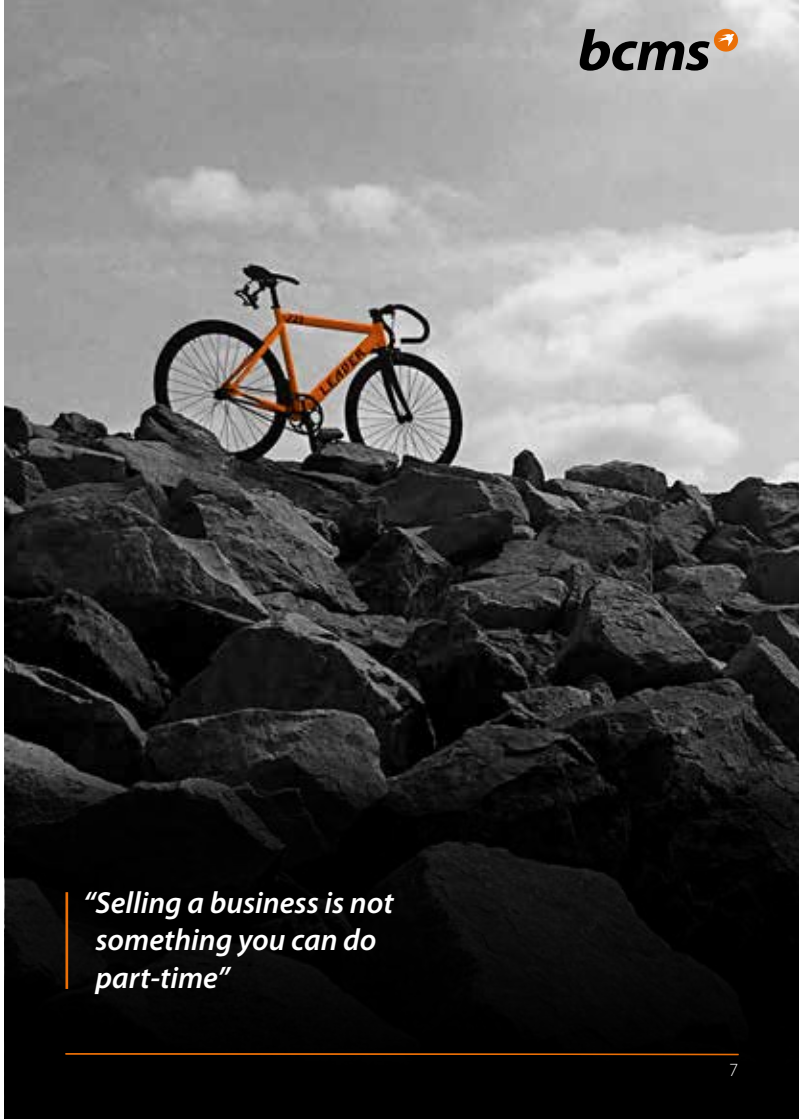
Selling is like scaling a vertical cliff. It's a huge, huge step. In many ways, speaking to someone else, rather than keeping the idea internalised – makes it real. I felt this particularly when I sold my first business. Once I'd talked about it with someone else – and the world hadn't collapsed around me! – that made it easier.

I'd read that as a business owner you should always bear in mind how to sell long before you actually need to or want to. I am the kind of person who likes getting their ducks in a row. Any advice, material, or information you can get can break down that vertical cliff into smaller steps. It makes that huge decision a little bit easier to make. A little bit of hand-holding goes a long way.

Like many business owners, I didn't tell anyone I was selling. During the sale process I literally had two lives. I created a separate email account, and had phone lines at home specifically to deal with calls related to the sale. You can't sell a business from an open plan office!

Selling a business is not something you can do part-time, to be honest. I think that the fact that I had sold before meant I knew I needed to be responsive, focused and reactive to any queries. I think that's what helped the deal get done so fast.

And doing that without an advisor in your corner? Forget it.



"Selling a business is not something you can do part-time"

"WHY DID I SELL? I FELT THE CLOCK WAS TICKING."

Martin Phillips

MARTIN PHILLIPS

Martin Phillips established online hotel booking service Recommended Hotels in 2003, initially as a lifestyle business. He sold to German acquirer Cultuzz Digital Media.

The first three months of starting the business I worked out of my back bedroom with one part-timer. We started with just seven hotels, and ended up with 250 clients, selling an average of 9,500 rooms a year, generating £26.5m worth of business for our clients on average.

My business grew in a way that I totally didn't expect. What I envisaged as a way to top up my pension pot and be able to work from home grew into something much more demanding. We became a 24/7 operation and it was intense. I was always the one to man the out-of-hours emergency number most nights.

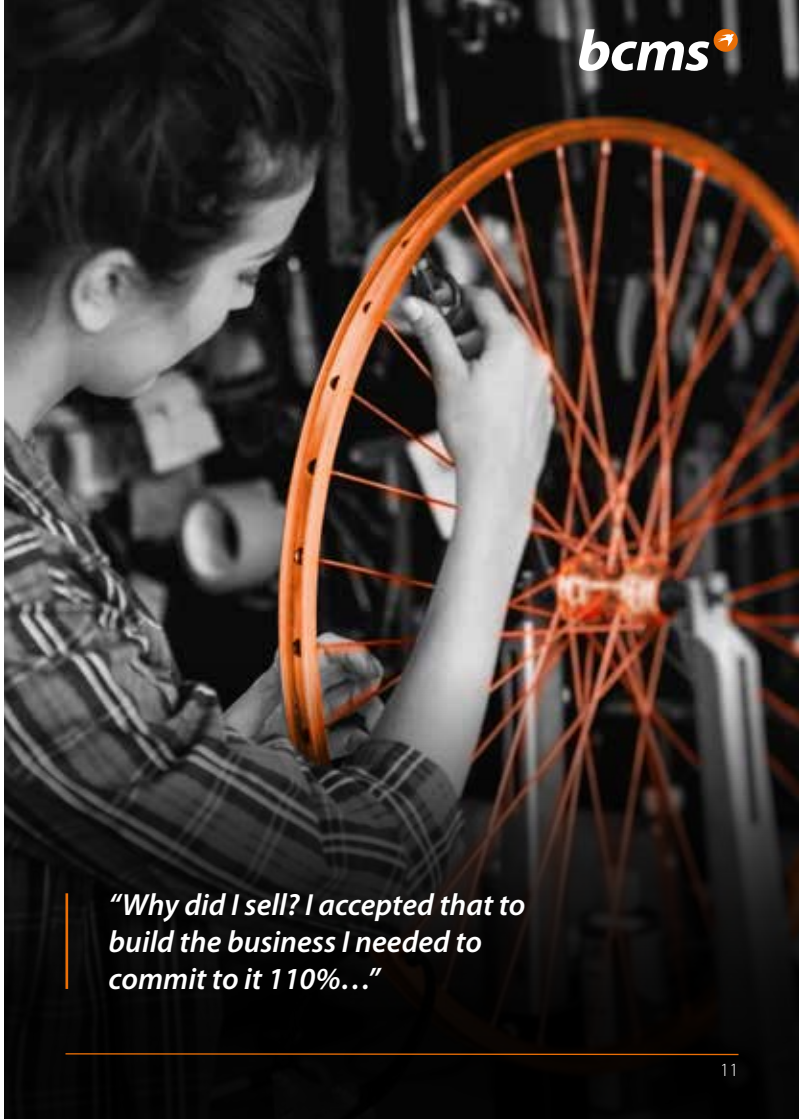
It's true that most entrepreneurs don't make good managers. I really enjoyed being out on the road meeting with clients and I'd say I had a natural flair for sales. That was a stark contrast to sitting in the office managing staff, keeping policies up to date, and sorting out air conditioning units!

Why did I sell? I felt the clock was ticking. I accepted that to build the business I needed to commit to it 110%. Running your own business is hard

work: with long 14-hour days, six to seven days a week. I wasn't desperate to sell, but it seemed a worthwhile exercise discovering if what I had built was genuinely saleable before considering other options. Having a unique business was a problem in my mind; even my accountants had difficulty in understanding exactly what we did. I knew that a traditional advisor might struggle to sell my business.

I found the final deal making complicated, but I liked very much the BCMS approach of taking the business to market without a price tag – it meant that the companies that offered had to be serious and couldn't easily chip at the price once they had tabled their offer. Due Diligence was the thing I disliked the most. In the end I had to prepare two lever arch files full of paperwork and documentation. I would say to anyone thinking of selling now – get your paperwork in order!

When the terms and conditions were presented, we were surprised that it had no involvement for me post-sale. I was not tied in at all and in that respect it worked out perfectly. Without being tied in I didn't feel obligated or pressured. I did exactly what BCMS taught me – I told the new owners if you need me I'd be happy to do so at a daily rate and they accepted that. I pop into the office now every ten days or so, and it's really just to give a few steering points. It's funny, a few times I've gone out to go shopping in the car and I've automatically driven to work.



"Why did I sell? I accepted that to build the business I needed to commit to it 110%…"

"WE NEVER BELIEVED WE'D BE ABLE TO BUILD SOMETHING THAT SOMEBODY ELSE WOULD WANT TO BUY"

Robert Spenceley

ROBERT SPENCELEY

Robert Spenceley sold his catering distribution business to Bidvest, one of the major players in the foodservice market.

My brother and I bought South Lincs Foodservice in 1991. We delivered frozen food to pubs, restaurants and hotels. We slowly grew the business until 1998, when we moved to a new purpose-built depot. It was once we got into the new depot that things really started to grow. We diversified away from frozen and into chilled goods, fine foods, cleaning material – everything that a caterer would require.

Then, as a family business, it got to a stage where major investment was needed to take it forward. So we decided to look at all the options. I didn't know whether I had taken the company as far as I could, we'd had 20 years of success. But working together had created a bit of niggle, and we'd fallen out of love with the business. To keep it, I would have had to go forward on my own.

It was exhilarating taking the decision to sell. But there's always the worry of: 'is it the right thing to do?' You have a commitment to staff

who have been with you a long time, but you also have to do what's right for you and your family.

There were five or six quite large companies interested. I think we still considered ourselves as small players in a big market. For this reason, it was vital to have a supporting team and sound advice. You can't go into serious business meetings with people who are professionally trained without any preparation.

My advice to business owners is this: if you're able to plan selling your business, don't rush at it. Make sure you can easily access any data that a buyer might want, putting your fingers on agreements or warranties or staff contracts. It really is a case of being able to present yourself as professionally as possible. You will get more for your business, the cleaner it is.

WHAT TYPES OF DEAL ARE OUT THERE?

A brief overview of some of the sale options available to business owners

	Overview
Trade Sale	The most common deal type for SME companies. This involves selling a business to a trading company with close synergies or a similar market/customer base.
Private Equity Investment	Typically involves the sale of shares, with the funds raised being invested back into the company. The Private Equity fund will usually look for an investment period of up to five years during which the company should grow significantly. Typically suited to growing businesses with a strong management team committed to growing the company.
Management Buy-in (MBI)	This involves the purchase of a company by one or more individuals who buy with the intention to run and manage the company themselves in the medium term.
Management Buyout (MBO)	When a company owner sells the company to the existing management team. In some cases, a combined MBO/MBI approach is the best solution, where the management team might require additional external expertise.
Sale To Private Investor	Similar to an MBI, this involves selling your business to a high-net worth individual or group of investors, often with an existing portfolio of companies, or experience in building and growing businesses.

UNDERSTANDING DEAL TYPES

Q&A with Steve Anstey, Executive Director, BCMS

Which category of buyer will normally pay more? A trade buyer will normally pay more for a business in the short term, because they have a strategic reason for acquiring the company and will see immediate sales opportunities and cost savings.

The financial benefit from a Private Equity investment may be greater in the long run because when the PE partner exits after several years, the value of remaining shares should have risen significantly.

Which type of buyer will be in for the long term? A trade buyer with a strategic reason for buying the company will seek to derive the best value over a long period. This may provide greater continuity for the company's employees. A Private Equity investor usually seeks to capitalise on the investment within 3-5 years.

Which is most likely to retain the ethos and culture of a company?

Those who have been involved in the company for some time are most likely to understand the existing ethos and culture - family succession, an MBO or a carefully chosen trade buyer.

Which type of buyer is most likely to require an extended handover from the founder? A private equity investor will seek to retain as many skills as possible. While a trade buyer will probably have some duplication of roles, a financial purchaser will not, and so may regard it as essential to keep the MD or CEO in place.

Which type of buyer is most likely to negotiate an earn-out?

A trade buyer will commonly seek an earn-out, meaning that some of the purchase price is dependent on the performance of the company in the years immediately following sale.

What does an earn-out really mean for a business owner?

Earn-outs are not something to fear and can significantly increase the overall enterprise value. However, I would caveat this by saying that like every other part of a transaction, the earn-out terms must be negotiated carefully and in detail. Then there is clarity about what is expected, how that will be measured and who will do the measuring. BCMS advises that earn-outs should never represent a significant proportion of the deal consideration. Performance targets must be realistic and, as a seller, you must be able to influence them.

Which buyer is most likely to require an on-going financial commitment? Management Buyouts and family succession are those exit strategies most likely to require on-going financial support from the vendor.

> ***"A trade buyer with a strategic reason for buying the company will seek to derive the best value over a long period…"***
> Steve Anstey, Executive Director, BCMS

"MY PARTNER THOUGHT OUR BUSINESS WAS WORTH MORE…"

This business owner worked with BCMS to sell his company, receiving over 50 expressions of interest and multiple competing offers for his business.

But the company did not sell because his fellow shareholder rejected the deals on offer, believing he could make the business more attractive, and more valuable…

One of the things we did early on – even though our shareholdings weren't equal – is agree we would have to be both in complete, unanimous agreement on any decision. I was quite flexible in terms of the conditions of any deal: part exit, earn-out, or staying with the company. But my partner wanted to dispose of the company, take the money, and did not want to stay around.

When you're looking for a strategic acquirer, you're looking for ways that the company can be made more valuable in the short term, to boost the value of offers. I think my partner got to the point where he believed we could make some of those changes ourselves. I think he forgot that a strategic acquirer might have been in a different position to leverage some of the advantages, and he thought that the company should be worth more.

I would have sold at the highest offer, but my partner, in cash terms, was going to walk away with quite a lot less. My partner was looking post-tax, and what it looked like to him personally. I think these days he would have snapped the buyer's hand off, but back then he just thought it wasn't quite enough.

In reality when the situation emerges, people's points of view on the subject change. I worked with my partner very well for many years, but he could be quite impulsive, he could change his mind quite a lot. I don't think he actually knew what he wanted.

The lesson for me I think was to have complete control of the company, or enough control to make the decision. I think what I would say to any business owner is this: have a really honest discussion before you start about what your bottom line sale price is. We had a discussion about what our bottom line was, and our bottom line changed.

> ***"People's points of view can change during the deal process"***

SHAREHOLDER SCENARIOS

Inside deal-structures: case studies from Harrison Clark Rickerbys.

Rebecca Leask, Partner & Notary Public at Harrison Clark Rickerbys Limited, shares some real-life examples of how their clients' personal circumstances have affected the business sale process.

When it comes to appointing your legal team to support you through the sales process, "word of mouth" recommendations are a good starting point. A lawyer with M&A experience should be appointed, and don't be afraid to ask them for client testimonials. It is also important that your lawyer understands the variables in any deal, and can provide a team of people to work on your transaction to ensure that it is properly resourced. Momentum helps to get transactions concluded, so it is key that this is maintained throughout the process.

SCENARIO A: THE PRAGMATIC SELLER

- This seller had grown and developed a specialist marketing company. However due to a family illness he was looking to exit the company swiftly, to free up time. In addition, he wanted to protect his colleagues, and ensure the staff's employment was not at any risk.
- The seller took a pragmatic view when negotiating the share purchase agreement, due to his eagerness to sell the shares quickly and free up time. He agreed to accept payment of less than 15% of the total price at completion, with the remaining 85% of the price received on an earn-out basis over a three year period following completion.
- The seller continued in a consultancy role following completion of the sale of the company allowing him to be flexible in terms of hours and commitment to the work and, where necessary, spend more time with his family.

SCENARIO B: MAJORITY RULES

- There were four shareholders of a large veterinary practice. Three of the shareholders were approaching retirement age and keen to exit from the business and obtain maximum value. The fourth shareholder was considerably younger than the other three, and would have preferred to acquire the business by way of an MBO.
- The majority of the shareholders agreed to sell the practice to a corporate acquirer. The value received far exceeded the value that would have been achieved through an MBO.
- Following completion of the sale the three shareholders looking to retire were very happy indeed. Although she went along with the process as she was in the minority, the fourth shareholder was disappointed that the sale had proceeded, and felt that her future career was now in jeopardy as she would be employed by the acquirer.

SCENARIO C: DIFFERENT OBJECTIVES, OPEN COMPROMISE

- The three shareholders of a large manufacturing company originally acquired the business by way of an MBO from a large corporate, five years prior to their sale. For these sellers, the primary goal was extracting value from the business.
- As a group of sellers, their 'drivers' for exit were differing. One shareholder had recently suffered a period of ill health and had found his ability to be involved in the business at the required level very difficult. The second shareholder lived a long distance from the business and commuted on a weekly basis travelling back home at weekends; he was keen to spend more time at home near his family pursuing other business interests. The third shareholder was younger than the other two, but excited about realising the value from the sale and investing in new opportunities.
- As a group of shareholders, they were happy with the sale price achieved and had clear plans for the future, although each have taken different paths following completion.

FINANCIAL PLANNING FOR SELLERS

Q&A with Anthony Flynn, Investec Wealth & Investment

It's important to consider the impact of a sale on your personal finances as early as possible. Here, Anthony Flynn, Financial Planning Director & Chartered Financial Planner at Investec Wealth & Investment, explores the emotional and financial issues affecting sellers during, and after, a business sale.

Post-sale, are many owners keen to stay for a transition period? Certainly more want to stay than go immediately, but there are still many who do just want to leave when the sale is complete. Typically, though, people have given so much of themselves to the business that they struggle to let go and create some separation.

Do they have major plans for the first year of freedom? Beyond the initial rewards of 'toys' or big holiday(s), the first year is not typically planned. Often the sale date moves, and so having an element of flexibility is important.

What proportion of owners plan to retire, but end up doing something else? The age of the business owner and the sale amount are key for this question, the simple answer is – a lot! While there are always the 'unexpected' business owners who are surprised the business has a trade value at all and so happily sell and leave it all behind, most are hard-wired as entrepreneurs. And that just doesn't go away.

Do many entrepreneurs sell a business with the intention of starting something new immediately? Quite often, yes. Restlessness is a common trait for successful business people, but so is a fear of not having something 'on the go'. This can stem from both positive and negative mental states and can drive people to work very hard to feel they are in total control of their destiny by having a series of business ideas at various stages of completion – best referred to as 'business polygamy'. There aren't many business monogamists!

Of those who do retire, what do they do with their new-found freedom and affluence? I am reminded of a phrase along the lines of 'being rich is having money – being wealthy is having time'. That sums it up nicely for business owners – we help them determine and articulate what being wealthy means to them.

Philanthropy is a growing trend as is a growth in business mentoring by people who have successfully built a business. These are both lovely outcomes that we are privileged to be involved with.

> ***"Restlessness is a common trait for successful business people – but so is a fear of not having something 'on the go'"***
> Anthony Flynn, Investec Wealth & Investment

CHECKLIST:
PLANNING YOUR NEXT STEPS

As the stories here show, business owners have multiple different motivations to sell, and 'the right deal' understandably differs for every individual. Whatever your situation, the following checklist might help you plan ahead:

- ☑ **Do your housekeeping:** selling a business is an intensive process, and acquirers require sight of a great deal of commercial information. Get a head start by doing an audit of your business documentation, financial reporting and administration
- ☑ **Be clear with your fellow shareholders:** tensions between shareholders can sometimes cause setbacks in the sale process, so is there clear communication and understanding with all stakeholders?
- ☑ **Seek advice from trusted partners and advisors:** what are the best deal options for your business? What have other business owners done in your situation?
- ☑ **Be flexible:** your acquirer could be a big name in your sector, or totally unknown to you. Having a fixed idea of who will buy you and why may be counter-productive when it comes to the deal-table
- ☑ **Think like an acquirer:** if you were buying a business in your sector, what would attract your attention, and what would deter you? It's important to know some of your strengths and weaknesses as a business
- ☑ **Think post-sale:** why are you really selling? What are your future plans, and what do you need to achieve them financially? Could you still contribute to the business in the longer-term?

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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 **01642 967390**

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