

GUIDE TO SELLING A BUSINESS



M3 Corporate Finance

M3 Corporate Finance is an independent corporate finance house focused exclusively on mid-market transactions.

M3 offers specialist corporate finance advice to shareholders and managers / directors of companies and private equity houses concerning:



Exit strategy and company sales



Management buy outs



Management buy ins



Corporate acquisitions



Development & replacement capital



Corporate divestments and restructuring



Recapitalisation equity release ('cash out')



Vendor roll-over

Our services are always led by an owner partner guaranteeing our commitment to your deal.

M3 Corporate Finance – our Owner Partners



Matt Oliver
matt@m3cf.co.uk

Bristol Office:

130 Aztec, Aztec West
Almondsbury
Bristol
BS32 4UB



Gary Hyem
gary@m3cf.co.uk

Birmingham Office:

Cornwall Buildings
45-51 Newhall Street
Birmingham
B3 3QR

Tel: 0845 270 0345

Further information can be found at the back of this guide.

INTRODUCTION

This guide provides an overview of the key aspects of the sale process and approach to maximising value for the shareholders of a privately owned or venture capital backed business and for parent companies looking to divest subsidiaries. Every sale is different a suitable strategy needs to be tailored to the circumstances.

M3 has extensive experience of acting for both buyers and sellers, and therefore appreciates the issues from both sides of the fence.

There are many reasons why shareholders may decide to sell a business. It could be as a result of retirement, a succession issue, or a venture capitalist looking to exit, or simply reaching a point where the business requires the support of a larger group to provide further investment and opportunities for expansion. Or it may be that you have received an unsolicited approach from a potential purchaser. In the case of a subsidiary, the parent company may be focusing on core activities, refinancing its business, or in need of cash for investment elsewhere.

Whatever the reason for selling, the decision to sell should be based upon some clearly defined objectives and following consideration of the alternatives. The sale process can be time consuming and stressful, and it is important to receive advice from experienced professionals to help you shoulder this burden.

The most common objectives when selling are to:



Maximise sale proceeds (net of tax);



Complete the sale as quickly as possible, without damage to the business; and



Protect management and employees' interests as far as possible.

M3's advice is structured to ensure that your objectives are adhered to throughout the sale process.

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MAXIMISING SALE PROCEEDS

In the majority of business sales, maximising the sales proceeds is the key objective.

The ability to extract maximum value from a sale can be influenced by:

-  Choosing the best time to sell the business;
-  Identifying potential issues that could affect value and addressing them in advance;
-  Identifying those purchasers that will have a genuine strategic interest in acquiring the business;
-  Ensuring that all the key value drivers of the business are effectively communicated to the purchaser;
-  Introducing competitive tension into the sale process;
-  Avoiding last minute surprises for the purchaser which could jeopardise the deal;
-  Resisting last minute attempts by the purchaser to chip away at the price previously agreed; and
-  Complete the sale as quickly as possible, without damage to the business.

M3 will address all of the above issues and provide you with objective advice on whether the time is right to sell, and if not, what initiatives should be put in place to ensure that value is maximised when you ultimately decide to sell the business.

THE ALTERNATIVES

Before proceeding with a sale, we will help you consider alternative options, which include:



The sale of the company to a management buy out or management buy in team, or to a financial institution;

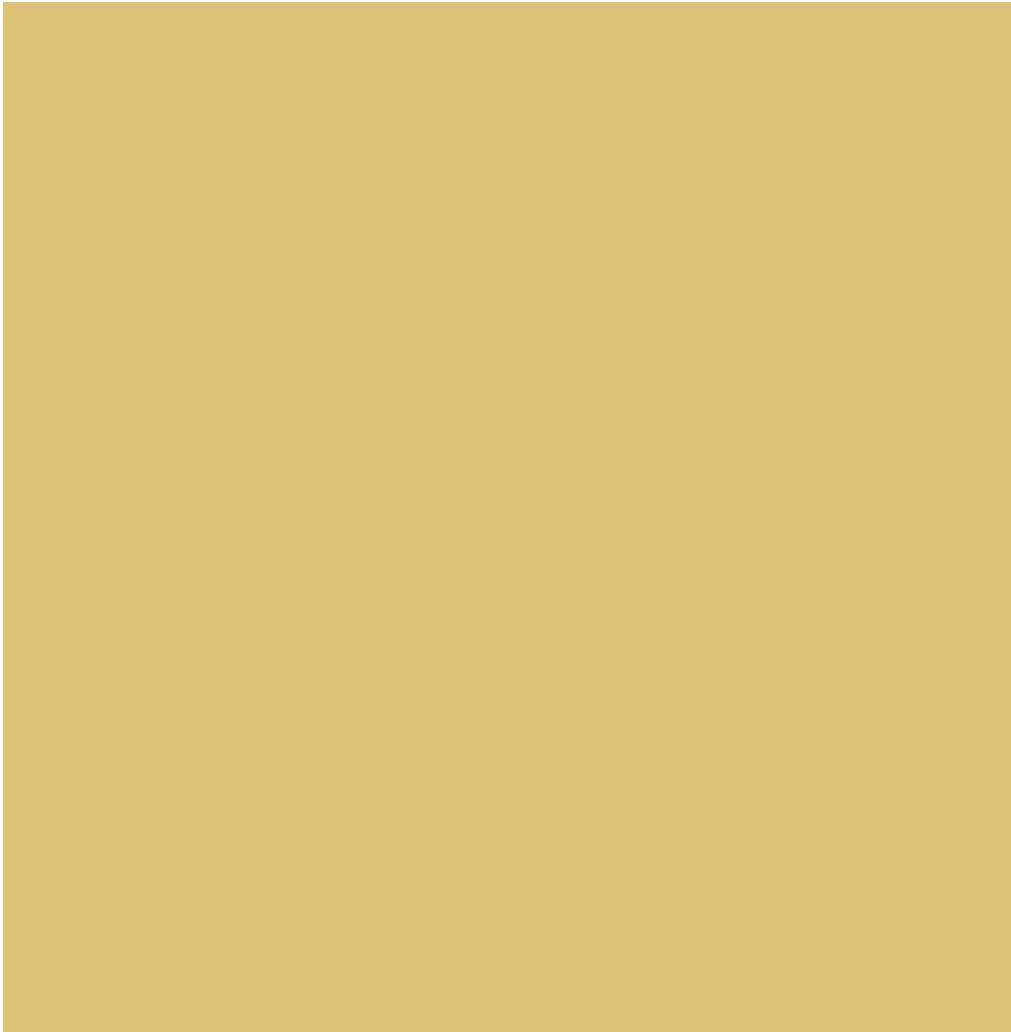


The sale of a minority stake to a financial institution to unlock some capital, whilst retaining management control; and

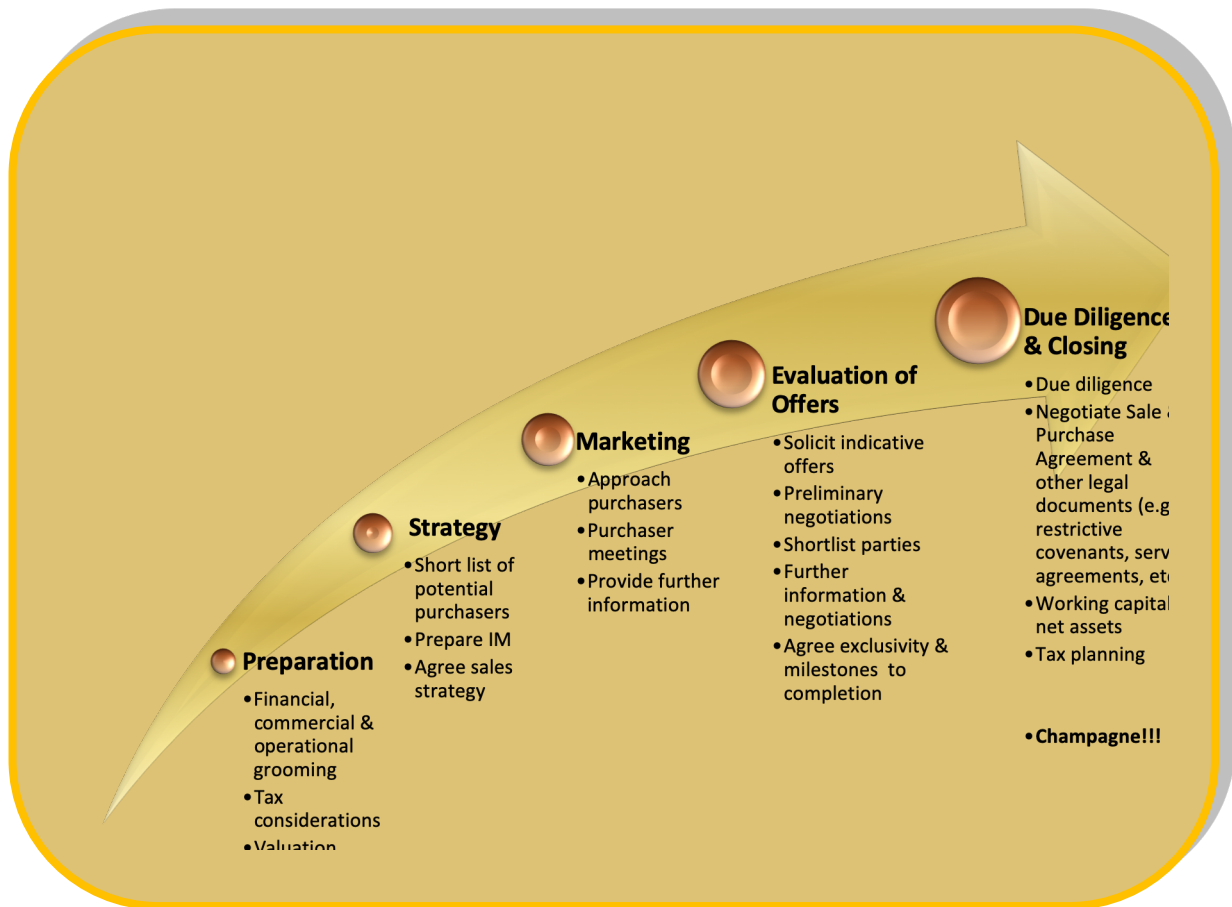


The purchase of shares by the company to enable a retiring shareholder to realise cash without the company being sold.

Once an informed and balanced decision has been made to sell the business, the process of selling the business can begin.



THE SALES PROCESS











PREPARATION FOR SALE

It is never too early to start planning a business for sale, but ideally it should commence at least two years before a potential sale if possible.

The objective is to ensure that the business is optimally positioned for sale, and that any key issues that could affect value are addressed well in advance.

A key aspect of this process is to identify the likely purchasers of the business and to address those issues most likely to be of importance to the eventual purchaser.

Other key considerations in the process, which should be considered well in advance and addressed as necessary, include:

-  Management structure and strength of management team;
-  A business plan which shows growth beyond the expected timing of sale;
-  Customer relationships and product / service quality issues;
-  Achieving a track record of improved profitability, through cost reductions and other profit improvement measures;
-  Extracting surplus assets or property;
-  Efficient management of working capital to generate positive cash flow;
-  Tax issues; and
-  Environmental, health and safety, regulatory and pension issues.

With adequate preparation, the sale process invariably runs much more smoothly, and the ability to maximise price is greatly enhanced.

For further information on Exit preparation, please see our Exit Planning and Exit Strategy Guide.

IDENTIFYING POTENTIAL PURCHASERS

This is one of the most crucial aspects of the sale process. If done properly, the rest of the sale process should follow naturally.

M3 fully evaluates all potential purchasers prior to disclosing any information to them. Although many companies may appear to be suitable purchasers, further investigation often reveals that they do not have the financial ability and/or appetite to make acquisitions. Often these purchasers are competitors to your business, and it is critical that you have assessed the credibility of a potential purchaser before they are furnished with the knowledge that your business is for sale.

When looking at potential purchasers, the following questions need to be asked:



How does your business fit with their strategy?



Do they have the financial resource?



Do they have a reputation for paying a good price?



Have we spoken to them recently to verify their acquisition criteria?

It is only if these questions have positive outcome, that the potential purchaser can be considered a serious contender to buy the business.

VALUATION

We will carry out a detailed review of your financial results and forecasts, and our knowledge of similar transactions in the market; we will then provide you with our view of the potential value which could be achieved on a sale.

For the vast majority of business valuations the following formula is used:

Earnings before Interest and Tax (EBIT) x Price Multiple








Determining an appropriate Price Multiple for a private company is a subjective process. Price multiples are only readily available for quoted companies. However, EBIT multiples can be calculated for comparable quoted companies and then a discount applied. It is important to use the normalised earnings of a business. This calculation gives an 'enterprise value'. Deducting any debt from the enterprise value and you have the value of the equity in a business.

Certain types of businesses need significant amounts of capital to operate efficiently. This may be in the form of capital equipment or working capital. This will affect the price multiple (both positively and negatively), but in all cases it is important that the business is as efficient as possible with its resources compared with similar companies.



STRATEGY FOR SALE

Key aspects of this stage of the process include:






-  Agreeing a suitable shortlist of potential purchasers;
-  Deciding how many purchasers should be approached;
-  Deciding whether financial buyers should be approached;
-  Consideration of whether a management buy-out is an option, and if so, at what time discussions with management should take place;
-  Preparation of an Information Memorandum;
-  Preparation of a management presentation; and
-  Agreeing the precise timing of the sale process.

We will agree with you a suitable shortlist of purchasers to be approached. We would never approach any purchaser without your agreement.

We would also prepare the Information Memorandum – this is essentially a selling document which is designed to provide sufficient information to whet purchasers' appetites, but not to provide any commercially sensitive information on the business. Typically it includes an executive summary and then more detailed information on history and ownership, financials, nature of operations, customers and suppliers, markets and competitors, directors, management and staff, future developments and the reasons for sale. We would not expect purchasers to make an indicative offer based purely on the Information Memorandum - we will meet with them as part of Stage 3 below, before requesting them to make an indicative offer.

We would also assist you in preparing a suitable management presentation, highlighting the key value drivers of the business, which is presented to potential purchasers.

Key aspects of this stage of the process include:

-  Approaching the agreed shortlist of potential purchasers, firstly to obtain a confidentiality agreement, and then to provide an Information Memorandum;
-  Meeting with potential purchasers, providing further information and organising management presentations;
-  Assessing the appetite of potential purchasers;
-  Drip feeding further information to potential purchasers as necessary; and
-  Inviting indicative offers.








We will normally conduct a limited marketing exercise, with usually no more than six to eight potential purchasers in order to minimise confidentiality risks.

We insist on meeting with potential purchasers on at least one occasion before they submit any offer. This gives an opportunity to understand the strategic rationale for their interest in acquiring the business and to assess their level of interest. It also gives an opportunity to understand what information is important to them and to ensure that such information is provided before an indicative offer is made.

Once we are satisfied that the purchasers have received adequate information, and we are all comfortable with their approach, we will invite them to make an indicative offer.

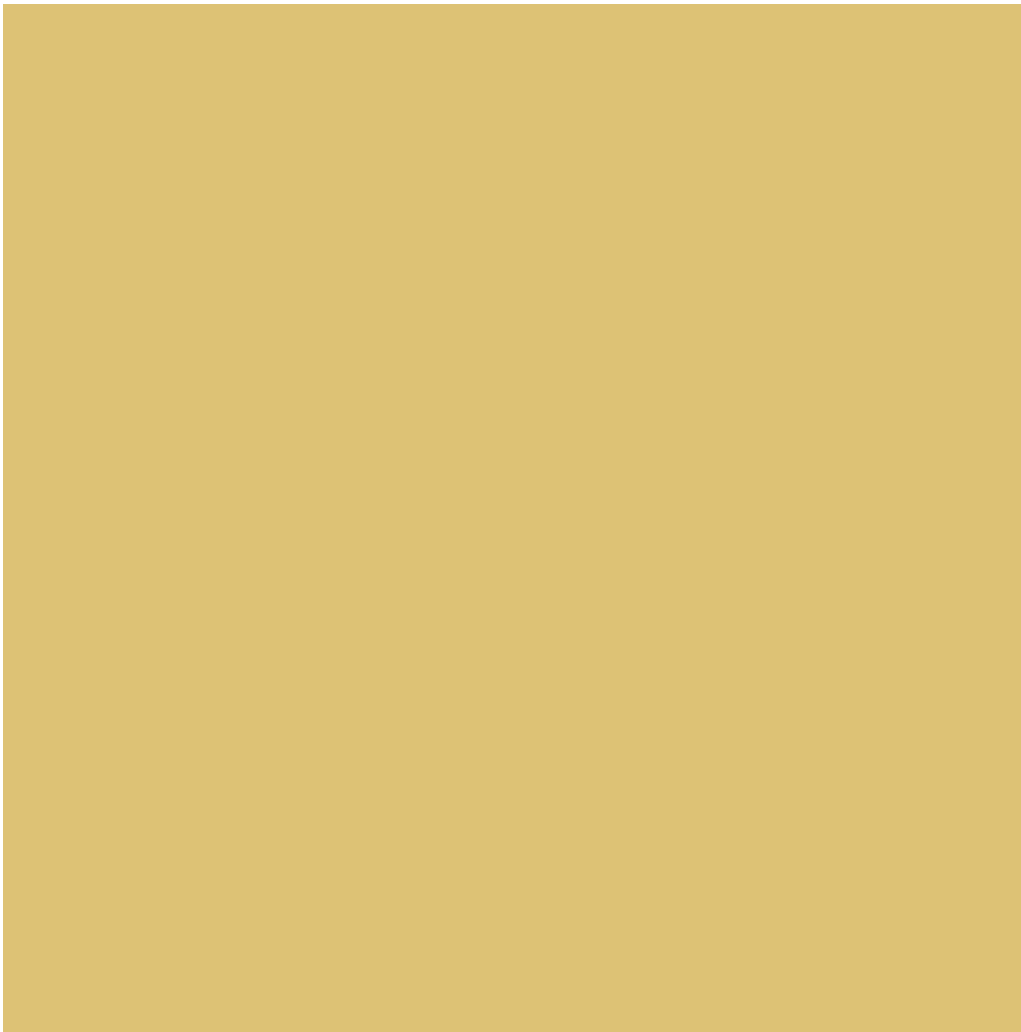
EVALUATION OF OFFERS

Indicative offers should be submitted in writing, setting out:

-  Price to be paid;
-  Proposed method of funding the transaction;
-  The form of consideration;
-  Details of any deferred consideration;
-  Approach to due diligence;
-  Estimated timetable to completion; and
-  Conditions attaching to the offer.

Once indicative offers have been received, we will advise you of the pros and cons of each offer. This is often driven by what is most important to the shareholders. If, for example, the welfare and future of your workforce overrides ultimate sale value for you, certain purchasers may not be the best home for your business.

If required, we will contact the purchasers and ask them to clarify aspects of their offer. It is essential that any conditions attaching to their offer are fully understood. It is also important to know how they will fund the transaction and whether they need to raise external finance, as this could have a significant impact on the timetable.



DUE DILIGENCE

Once indicative offers have been evaluated, we will shortlist those purchasers who will proceed with more detailed due diligence. This process should, as far as possible, be confirmatory due diligence only, as any relevant information which could impact on value should have been communicated to the purchasers during Stage 3. Our objective is to ensure that there are no surprises and nothing arising out of due diligence will result in offers being reduced.

It is critical in a sale process to maintain a high degree of competitive tension. Where possible, more than one potential purchaser will be shortlisted for due diligence. However, there will be situations where it is appropriate to proceed with just one party at this stage.

It is quite common for purchasers to attempt to chip away at their original offer. We are mindful of this, and will ensure that a purchaser is provided with all relevant information before making its offer. Once the purchaser has submitted its offer, we will ask him to re-confirm the offer immediately after completing due diligence.



CLOSING

Once the terms of the deal have been agreed, there is still a lot more work involved in closing the deal. The Sale and Purchase agreement will be drafted and negotiated between respective sets of lawyers. Our role is to ensure that the agreement reflects the commercial understanding of the deal, and that the process is run as efficiently and smoothly as possible. It is very common for this stage of the process to become unnecessarily protracted, as minor issues seem to become major obstacles. We will prevent this happening, keeping in mind the overall objectives of the shareholders.

A key aspect of the legal process is the negotiation of the warranties and indemnities. In conjunction with your lawyers, we will help you through this important process, ensuring you have fully considered the implications of the warranties and indemnities, and assisting you with appropriate disclosures.

It is important that you use your adviser to co-ordinate the whole process during this period, as there are often a large number of parties and advisers involved and you will have to cope with the demanding provision of information for the due diligence process. The adviser will also be able to identify issues in advance, ensure that their effects are minimised, and conduct negotiations to deliver the best result for you.

The sale process is long and complex and therefore it is important to use your advisers to run the process, leaving you free to focus on running the business.



KEY INGREDIENTS FOR A SUCCESSFUL SALE



It is essential to 'keep your eye on the ball' during any sale process; purchasers in general react badly to current trading surprises.



Identifying the strategic purchaser is key to achieving optimal value. Remember, who you consider as the strategic purchaser of your business is not always the case and quality research is essential.



Never market your business for sale by 'Mailshot'. Confidentiality is key to most sale processes and 'anonymous' one-page flyers rarely achieve their desired effect.



'Selling the story' to purchasers is critical to achieving enthusiastic buy in to your business. A meeting held between a willing buyer and seller is important as soon in the process as possible.



Drip-feeding information to potential purchasers allows a significant degree of control over the process, whilst protecting the business commercially until you are certain of a purchaser's intentions.



A deliverable offer from a potential purchaser is achieved by disclosing sufficient information such that any price chipping is made difficult and unjustifiable.

WHY USE M3?

Your advisor needs to be an experienced corporate finance adviser with wide experience in advising owners on exit strategies and a proven record at selling businesses in all sectors to all types of investors.

M3 Corporate Finance are an ideal partner to take owners through the initial exit planning and grooming exercise that ultimately leads to a successful exit. We work alongside many of our clients as they seek to groom their businesses for exit.

M3 differentiators

So what...?

Owner managed business



Its more personal



We understand deals as Principal & Advisor



Entrepreneurial in outlook

Our people



Senior partner – led advice throughout the deal



Experienced team who know how to acquire & sell businesses & understand the dynamics of transactions



Mix of backgrounds from accountancy, banking, private equity & industry

Track record



Regular contact with funders



Activity creates experience



Vast pool of accessible knowledge

Creative & innovative



Creative deal structures that work for our clients



We get the job done

Independent & focused



This is all we do – no conflicts of interest



Team hungry to deliver



We focus on our deals

Excellence & commitment



We strive for excellence in our work



Strong research capabilities



Committed to client satisfaction, standards & performance

CONTACT US

For more information and / or a confidential discussion please contact:

Bristol Office:

130 Aztec, Aztec West
Almondsbury
Bristol
BS32 4UB

Birmingham Office:

Cornwall Buildings
45-51 Newhall Street
Birmingham
B3 3QR

Tel: 0845 270 0345
www.m3cf.co.uk

M3 Corporate Finance – our Owner Partners

Gary Hyem



gary@m3cf.co.uk



Gary originally trained as a Chartered Accountant with two periods working in industry.



Having spent the last 16 years in Lead Advisory and Venture Capital markets, including five years as a Venture Capitalist, Gary has valuable experience in raising finance for businesses, working with management teams on MBO's and MBI's, as well as buying and selling companies from £1m to £100m+ and in numerous sectors both as an advisor and a principal.

Matt Oliver



matt@m3cf.co.uk



Matt provides lead advisory support to corporate clients & management teams on the complete range of corporate finance activities.



He has developed particular expertise advising management on both buy out and buy in transactions. In previous roles he has advised on larger international transactions & helped secure growth equity finance, both as advisor and as part of a management team.



In addition, Matt held a number of senior financial positions globally.



Matt qualified as a chartered accountant with Arthur Andersen.