How to maximize the value of your company

ONE to ONE
CORPORATE FINANCE

For some business owners, the sale of their company is a great success – they achieve their target value or better and the sale proceeds to completion without any major problems. Sadly, many other business owners find selling their business to be a very stressful process and then fail to get anywhere near the value they were aiming for – or any sale at all.

The market for selling a trading business is not perfect. However, preparing the business properly for sale and applying the most effective techniques in the sale process itself will help maximize the value of your company.
Many business owners will sell to the first buyer that approaches them, without taking into account other potential buyers. When selling your business it is important to ask specific questions. Is my business ready for sale? Is this the person that can pay the most for my business?

Business owners often rely on a broker or an auditor to look for potential buyers and investors, without considering that 70% of the deal value lies in finding the most suitable buyer. Hence, it is essential to find the buyer, which is the best strategic fit, and will pay the most for your company.

To maximize the value of your company, you or your advisors must engage in a rigorous search process to find the buyers or investors who deliver the highest synergies for your business, and those with the strongest financial profile.

At *ONEtoONE Corporate Finance*, iit is our priority to maximize the value of every company we collaborate with; hence we are a leading firm in the sale of small and medium sized businesses. Through years of experience, we have created a unique methodology that is essential to maximizing the price of your company. In this brief manual, we summarize the most important steps.

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When to Sell?

Taking advantage of market trends to get the timing of sale right is vital. At the moment, an abundance of liquidity is driving high levels of deal flow as PE Funds and larger corporates are in the market to acquire other companies worldwide. Demand to acquire good businesses is high and is leading to higher prices.

At any one time, there will always be some sectors which are consolidating causing the leading companies in that sector to accelerate their acquisition activity and compete with each-other to buy good businesses. This buyer demand will often "trickle down" through the sector and provide great exit opportunities even for relatively small businesses which have been prepared well for sale.

Private equity firms also drive consolidation when they acquire a "platform" business in a particular sector with the aim of building the scale of that business rapidly through a series of acquisitions. They will often be working to a 3 to 5 year timescale to buy, build and exit which means the pressure is on though the first 24 months to complete deals.

As well as selling at the right time in the market, it is also important to sell at the right time for the business and its owners.

At some stage, most business owners want to make lifestyle changes and decide to sell their company. Where the owner is still one of the key drivers of the business, most potential buyers will expect them to stay for an extended handover period. This often means that an owner intending to retire in 5 years' time needs to get a sale completed by year 3, and therefor needs to be preparing the business for sale now.

As their thoughts begin to turn towards a sale, there are many reasons for an owner to delay. The sale process is daunting and will be a completely new experience for most owners. Confidentiality can also be a major worry – particularly where the best potential buyers could be competitors.

It is all too easy for the owner to focus wholly on the day to day needs of the business and allow time to drift by without getting the sale process started. Eventually the business may be approached by a buyer and the owner may be tempted to take whatever offer is available – although they may find the value of the offer reduces significantly during due diligence because the business was not ready for sale.

Alternatively, a business sale broker may approach the business with a pitch based on an unrealistic valuation and persuade the owner so sign up to their process. After they sign up, the owner may find there are no offers at this valuation and find themselves tied-in exclusively to the wrong advisor.

Sometimes, not all shareholders are aligned on the preferred timing of an exit. Some shareholders may need to exit soon for family or health reasons, while other may be keen to continue and drive value higher. It may be that the best solution is a partial management buy-out structured to meet the needs of both sets of shareholders as closely as possible. In these scenarios there is always a risk of the shareholders ending up in a dispute and then stalemate making the business unmanageable and destroying much of its value. Guidance from an experienced advisor can make a real difference to preserving and then growing value further in these circumstances.

Sometimes specific events or requirements within the business can determine when the time is right for a sale. The business may reach a point where additional debt or equity needs to be raised to move it to the next level. Given the time it will take for the business to generate a return from such an investment, the owners may need to decide between selling now or staying in the business for at least another 3 to 4 years.

In other cases, the current owners may reach the point where they feel they have taken the business as far as they are able – or as far as they want to. Whilst they could bring in additional management with the experience of running a larger company, this step carries its own risks and some owners will decide this is the time for them to sell.

Most owners have a view on how much value they want to realise for their business, and, for many owners, achieving this value is vital to enable them to retire comfortably. In such circumstances, the timing of sale needs to be based on a realistic assessment of when it should be possible to realise their target level of value for the company.

Whilst the events leading to the sale of a business can vary widely, it will always be the case that preparing the business in advance of the sale, and working with experienced advisors will help to deliver better value for the business

The 10 steps to maximize the value of your business

1.

Prepare your business for its sale

When a house owner plans to sell their house, they usually undertake a series of improvements fixing anything that's broken and generally ensuring that the house is well presented to a buyer. These small touches can increase the value of the house in the eyes of the buyer because it changes its overall appearance. With a value much higher than a house, this approach becomes even more important when selling a business.

One of the primary objectives of preparing the company for its sale is to identify the essential aspects for improvement, and to act upon these to reduce the risk for the potential buyer. Examples of this would be: ensuring the business is not overly dependent on the owner, ensuring all key customers have a current contract and/or up to date terms of business, deal with any loss-making products, services or customers, ensure timely and accurate financial information is being produced each month and remove any non-business expenses from the company. Ideally this preparation should enable to the business to build a track record of rising profits and then be able to demonstrate this trend will continue beyond the sale based on a business plan which covers a period before and after the target date for a sale.

Let's anticipate future problems and repair any existing problems. Let's clean the house to achieve our objective of selling at the highest price possible.

2.

Focus on value to the buyer

Many advisors prepare extremely long Information Memorandums, explaining the sector as well as the company´s history. They might spend months compiling and elaborating the documentation necessary for the sale of the business, without starting the search for buyers. This can be because it is not easy to find the best buyers.

The Information Memorandum is important, but

showing the interested buyers the potential value of the company is vital. This does not mean showing what the company has done or earned in the past, rather it means to show the value that the company could attain in the future.

Once we have found and selected the best potential buyers, who will maximize the value of the company, we contact them to raise their interest. To do this, we develop a company presentation known as Opportunity Document. This document reflects the real value of the company, while simultaenously demonstrating its capacity to create value in the future. The potential buyers can only access the Opportunity Document after they have signed a letter of confidentiality.

To eliminate any leakages regarding confidentiality, as professional advisors, we use a virtual data room. This is a secure software that only allows the potential buyer to have access to the information by providing them with a password. The user cannot download or print any documentation that appears in the virtual data room without permission. This function is very useful, because it allows us to control the number of consultations the potential investor has, what information they see, and how long they remain connected to the information. This also allows us to understand his degree of interest.

3.

Never go to market showing a current business valuation

Providing a potential buyer with a valuation of the business based on its historic earnings and revenues starts the conversation at the wrong place for the sellers.

The business should be worth more to the right buyer who may have the benefit of cost or revenue synergies or simply the benefits of scale. The job of the advisor is to pull as much of this additional over to the seller's side of the deal as possible. Starting from the wrong place makes this job much harder.

Our recommendation is never to sell your business showing only the current company valuation. It is important to present the company and its capabilities, understand why it is that they want to buy, calculate the synergies, and ask for offers. Following this, we can discuss the value that will be created through the collaboration of businesses and make them compete amongst the other parties that have presented an offer.

In the face of a negotiation with potential buyers, we are not just trying to sell the value of the company; we are selling all of the elements that contribute towards increasing the value of the company to the buyers. We have to be aware of these to express the importance to the buyer. By doing this, the buyer will realize that our company is the opportunity in the market that will maximize his returns.

4.

Manage the sale process proactively

The process of selling a business typically takes 4 to 6 months and can take longer.

Maintaining momentum in the sale process is vital - particularly for the sellers. The longer the sale process runs on, the greater the risks around confidentiality and the harder it becomes for the seller to maintain focus on the day to day running of their business.

Once discussions start with potential buyers, we need an action calendar with tight deadlines and clear goals, making it a priority to meet these in a timely manner. This helps potential buyers to see they are in a competitive process whilst enabling the seller's advisors to manage the different negotiation processes in a parallel manner, so that the best choice of preferred buyer can be made when the moment comes.

From the point at which terms are agreed with a preferred buyer, the advisor needs to drive the due diligence and completion processes and ensure that due diligence or legal points are dealt with quickly when they arise on the way to getting the deal done.

5.

Do not limit your search geographically

To find the best buyers, do not limit yourself only to your home region or country but search worldwide for businesses that match. The objective is to locate the potential buyers/investors to whom your business has the greatest value, wherever they may be.

In many sectors, supply chains are now global and it Is entirely possible that there are active potential buyer for your business in overseas markets

Identifying these opportunities means conducting a global mapping of potential buyers which requires access to international databases of companies and of buyers who are actively completing deals.

Having a clear picture of the benefits which a business can bring to buyers helps us decide where to look and also to select the most appropriate possible buyers to approach. We will want to understand the degree of fit with our client's business and also assess their financial capability to complete the acquisition.

6.

The best buyer is not always the most obvious choice

The best buyer is not always the most obvious buyer, or the closest one. The best counterparty

ONEtoONE advised on the sale of a Spanish company that generated ten million euros in sales each year. The company had two million euros in operating income (EBITDA) and six million in financial debt. We found a Spanish buyer who´s company earned double the amount our client earned, but had accumulated a lot of debt. They were interested in buying the company, and offered six times the operating income. This meant that, after discounting the company´s debt the potential buyer was willing to pay six million euros for the company. As the potential buyer did not have enough capital up front to pay for the company, they offered to pay two million at the time of the sale and the rest of the four million over the upcoming years.

We were also able to find a German buyer with a turnover of double the selling companies. Given that it was an international operation, and the German company did not have a presence in Spain, he offered to pay a higher price for the company. He offered to pay seven times the operating income, (which after subtracting debt, valued the company at eight million euros) and also planned to pay for the company in deferred payments, paying six million at the start and the rest in two yearly one million dollar payments.

We then attracted a third buyer, a Canadian company with a turnover of more than a billion euros, operating profit of one hundred million, and with no debt. This buyer saw many synergies with our client, and did not have a presence in Europe. The Canadian buyer offered to pay ten times the operating income of the company, which after subtracting the debt left the buying price set at fourteen million.

If we sold the company to the Spanish firm, there would always have been some risk around the four million euros in deferred payments, which could have left our client with on two million euros. The Canadian company paid seven times that.

for your company could be from a different sector located on the other side of the world.

As the boundaries between sector blur and supply chains converge, it is now essential to think creatively about where we look for buyers. For example, many buyers in the IT sectors are focused on building their customer bases through acquisition of telecoms businesses so they can cross-sell across the 2 sets of customers. Similar trends have been visible for many years in a wide range of outsourced business services.

For many businesses a financial buyer or Private Equity firm may bring the best deal. Even for companies not large enough to be seen as potential platform acquisitions (most of which involve deal values of £10m+), it may be that a PE Fund has an existing portfolio company which is the best fit and is prepared to pay the best price.

Focusing also on larger potential buyers and listed companies who are may well be able to pay higher multiples has also been a proven route to success in past deals.

7.

Focus attention on the synergies

Experience has shown us that when the buyer is able to identify the synergies that your company can generate for them, they are willing to pay a higher price for it. Synergies are, on many occasions, the key factor affecting the impact of the economic transaction.

Helping the buyer to see and understand these synergies gives you a valuable bargaining tool in negotiations. For this reason, it is important to compile a synergies plan showing the value that the company has to offer each potential buyer that comes to the table.

Most potential buyers will be well aware that the same synergies will be available to any of their competitors who buy the business - although it never does any harm to remind them of this.

8.

Create Competition

The universal laws of supply and demand apply in the buying and selling of business just as they do in all sectors. Potential buyers who see the business being marketed effectively are more likely to assume they are in competition when they make offers. They will also be keen to progress quickly through the process.

The level of real competition that can be generated between buyers depends on the quality of the search to find buyers, the effectiveness of the approaches which are made to them and the way in which negotiations with them are managed.

By having competing buyers, sellers are better able to walk away from negotiations with any individual buyer when this is necessary.

Competitive rivalry is, therefore, crucial to maximizing the price of your business. Having more offers maximizes the possibility of finding the best buyer.

9.

Know the keys to the negotiation

99% of success in negotiations can be attributed to preparation. When you face a potential buyer, analyze the reason behind why this buyer wants to buy: what are the buyer´s restrictions, what multiples have they used to close other acquisitions, and what are the possible synergies with your company.

It is crucial to analyze the logic behind the opportunity for the buyer. What are the economic motivations? How much do they expect to gain with our company? For what reason do they want to buy the company? What do they intend to do with it?

You may receive a very good offer from someone that in reality, has neither money nor the possibility to obtain it, or with a reputation for being a harsh negotiator after the due diligence has taken place. For this reason, before you accept an offer, study the financial capabilities and the selling record of the offeree company. You can have access to a lot of this information when you look at how the company has behaved in prior acquisitions.

Experienced advisors will know how to read the words and actions of each buyer and will be able to guide you through the negotiation process.

Preparing your company for its sale, finding several alternatives, and the way you approach the deal, are all elements that help you arrive at a successful negotiation for your company.

10.

Use Advisors with experience

Selling a company is a complex and risky process - it is much easier to destroy value during this process than to add to it.

Very few sellers have previous experience of the process when they start to sell their company. It is highly likely that they will be dealing with experienced buyers using good quality advisors.

A good team of advisors will bring proper balance to the negotiations. They should also be able to bring more and better potential buyers to the negotiating table in the first place and be able to separate out the serious buyers most able to complete a deal at the best available value.

Advisors are expert negotiators when it comes to the buying and selling of businesses, and they know how to frame the negotiation. Advisors leverage this to guide the client, by advising them on what they should and should not say during the negotiation.

Your advisors can provide imaginative solutions if negotiations stall and to manage the process through to completion.

ONEtoONE´s clients have access to a tool that enables them to control the process of the mandate. This tool is unique to ONEtoONE´s clients. You have control over your mandate 24 hours a day, 360 days a year. With this tool, you can know, in real time the results of the contacted counterparties. (When were they contacted, who has contacted them, and what has been the counterparty´s respond) Also, you can also download all the documentation associated to your selling operation, (valuation, information memorandum, possible buyer list...).

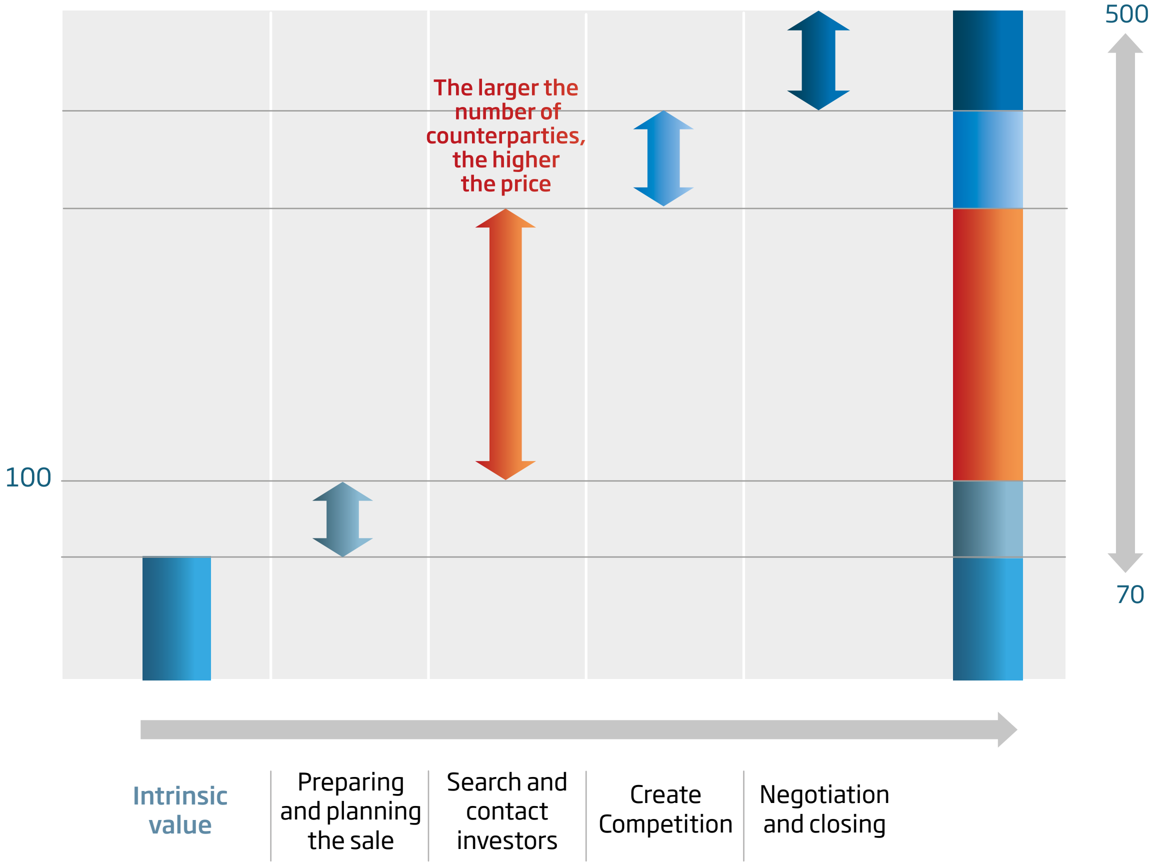
Conclusion

As we have seen, it is important to find not just a buyer, but a buyer for whom your company will create the highest value. You will have to present your company´s key selling points, manage communication and its timing, frame the negotiation highlighting the key aspects that give your company its value, and create competition. These aspects are critical to getting the best available value for your company.

Selling a company is not an easy process, and it requires a lot of time. Without good quality advisors, sellers often find it difficult to focus on running their business during the sale process which leads to a downturn in results and can reduce value.

Good advisors should be able to identify potential buyers at home and overseas, covering all relevant sectors and all types of buyers including Private Equity. They should then have the experience to negotiate effectively on your behalf and manage the deal through to successful completion.

The final price will depend on how well the different phases of the selling process are managed



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