

Merger & Acquisition.... And All That

From the sellers 'seat'

We've been around in the sector since 1999 and the principals at MBA have more years than we care to count in the building products sector and the window industry in particular so it was always going to be the case that in working with clients at every stage of the business cycle we'd be asked about buying or selling businesses. We've worked with clients on both the buy and sell side of transactions (but never on both sides of the same deal as some M&A 'boutiques' like to do!) and

completed a number of very successful deals for clients. The motivations for selling are varied and could fill an article on their own but once that decision is reached there are some common questions. Clients who are looking to sell and realise what is often a working lifetime's emotional as well as financial investment want the right buyer and often that's where the conversation starts:-



Who is the right buyer?

For some it's easy - whoever will pay the shareholders the amount that they want but it's usually way more complex than that and vendors will want to know that the people who helped them build the business are going to be looked after or even as part of a larger organisation be given opportunities to progress. It may even be if your name is over the door and that you are staying as part of the local community (and not heading off for the Bahamas) that you want the buyers to do the right thing as you see it with the business. Maximising the consideration also means looking for the right buyer, one who has a strategic or supply chain 'upside' may pay more and often the best deals in small businesses are done with employees who buy the business (called MBO's - management buy outs, or BIMBO's - buy in management buy outs where a combination of external buyers and employees take the business). MBO's are very difficult to fund however and often rely on vendor finance (the vendor lends the money to the buyer in one way or another) so may not deliver the instant capital uplift some vendors are looking for.

How Much is My Business Worth?

The glib answer is of course "as much as someone will pay" however that's not terribly helpful. Buyers look for a number of things but sustainable profitability and cash flow are the main drivers of value and a multiple of EBITDA (earnings before interest, tax depreciation and amortisation i.e. essentially what the business 'earns') is often quoted. This sector sees some crazy multiples quoted - often headlines that don't take account of the complexity of the deals they purport to describe and that don't really reflect the actual deal. Think about a buyer paying for so many years of trading his acquisition before he makes a profit on your asking price and you'll be seeing the deal from his perspective. You may be able to get a buyer to pay a 'strategic price' if your business gives them some significant upside (market share or

segment, positioning or product for example). You can look for 'addbacks' to that profitability, costs that the new owner would not have, maybe functions that would be handled centrally like finance or other drawings that you take that they would not need (the 'Other Half's' Ferrari?), conversely the buyer will look at what they will have to spend when you and possibly other shareholders have left the business and adjust their view of EBITDA accordingly.

What is the process?

Essentially it's about preparing a sale document, finding a buyer that will (and can!!) pay the agreed price and selling either the assets or the shares as a going concern. Asset sales are sometimes good for buyers as they have less risk and less due diligence requirements but they usually leave the vendor with some tidying up to do. Confidentiality is very important in any sale process, it's very unsettling for employees and the last thing you need is valuable management "bailing out" because of uncertainty about their future similarly suppliers may be sensitive and of course in B2B businesses customers are more likely to be concerned than suppliers.

If you are considering a sale it's a good idea to review the business and your personal financial situation well before you take the business to any prospective buyer, that will allow you to make the business as attractive as you can to ensure that you achieve the best price and also make sure that you keep as much of the consideration as you can without handing it over to the taxman.

This article just skims the surface so if you'd like a confidential and informal discussion about the issues we'd be pleased to hear from you. Contact us at <http://bit.ly/contactMBA>

*Chris Ball is a Director of MBA and a member of the Institute of Consulting www.ibconsulting.org.uk, **MBA Associates Ltd** is a specialist consultancy that partners clients to **Recruit, Retain and Develop Top Performing Teams**. 01242 821 432, info@mba-associates.co.uk or through the website at www.mba-associates.co.uk*

Follow news and jobs on twitter - <http://twitter.com/MBAAssociates>

Follow us on LinkedIn <http://linkd.in/Tg6YAY>

© Chris Ball August 2015