ICON | TECH INVESTMENT BANKING

Sell Your Business

Show Me the Exit – 3 Steps to Heaven

Most vendors will only get one crack at selling a business. It's clearly a very significant event in one's life and needs thorough planning and professional execution to ensure that you get the best possible deal. You wouldn't sell your house to someone who just knocked on your door; you need to market it properly, create a competitive environment and manage the process to make the most from the sale.

Stage 1. Preparation

PRE-SALE PLANNING

The first step in selling any business is preparation and that should ideally be well in advance of a formal sales process. There are two main types of preparation:

Housekeeping
Sort out housekeeping issues such renewing customer contracts that may have lapsed, review of IP, HR matters, litigation, disputes, selling peripheral assets, formalising informal business arrangements, selling or closing non-core business units, preparing your virtual data room and basic tax planning. The better the prep, the smoother the due diligence process.

Focus on fundamentals
Purchasers will typically look to value your business based on quality of earnings, recurring revenues, sustainable profits and revenue growth.

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Effort should be made to maximise these fundamentals leading up to the sale. By maximising revenue opportunities and reducing costs, profits and therefore value can be enhanced. Notwithstanding financials, acquirers may also look to buy companies for other reasons, such as technology stack, geography or customers.

APPOINT ADVISERS

When appointing your professional team, whether corporate finance or legal advisers you need to consider who is the right firm for the job. You will find no shortage of professionals with understanding of the sale process. However, you need to ensure they have other qualities too, including a relevant track record. You should look for a hunger, commitment and enthusiasm to see the process through. Ensure you meet with all the advisers that will be handling your deal, not just the partners who may hand it down to the junior members of the team. It takes 6 months or more to sell a business so you'll also need to ensure you have a good chemistry with your advisers and make sure that you can get along – you'll be seeing a lot of each other during the process.

PREPARE INFORMATION MEMORANDUM

The Information Memorandum (IM) or deck is prepared by your CF adviser and will become the main marketing document for the sale.
It needs to contain enough information to allow a buyer to make an indicative offer for the business and should paint a compelling growth story. It must be thorough and disclose important details, whilst retaining the confidentiality and integrity of the business. It also needs to be the right blend of fiction and fact. Buyers will expect some optimism - it is a marketing document alter all - but it needs to be realistic.

IDENTIFICATION OF PURCHASERS

Any adviser worth their salt will have a black book of potential buyers and know them well. In addition, specialist research will need to be carried out to identify other strategic buyers.

The key is to find those buyers for whom the acquisition would be tactically advantageous, for instance, where there is revenue or cost synergy or where there is a geographic gap - these buyers can justify paying a premium. In niche businesses the list of potential buyers may be very small (5 or 10), but in some service businesses or hot technology areas the marketing campaign would be much larger. You should expect to target both Strategic and Private Equity buyers.

Stage 2. The Chase

THE APPROACH

The corporate finance adviser will approach the list of potential buyers initially with a punchy Executive Summary (teaser) without disclosing the vendor's name. The key is to drum up interest without compromising the confidentiality of the business. Only once a confidentiality document has been signed will the name of the vendor be revealed and the in-depth deck be distributed.

MEETINGS

No one is going to make an offer for a company without having met the senior management. A small number of senior directors will typically need to participate in both the marketing meetings and the due diligence sessions. Initial meetings will likely virtual, where you will work through the commercial, financial, tech and legal workstreams.

However, the number of people involved should be kept to a minimum and staff should not be told of the process until just after completion. Rumours of a transaction or leaks can erode value and bring chaos to the process. While the adviser's role is to get the purchaser to the table, the vendor should expect to make the presentation, deal with Q&A and, importantly, establish a dialogue with the purchaser.

OFFERS & NEGOTIATIONS

You need a timetable to ensure that all the purchasers submit offers at the same time. Not only does that allow the vendor to compare offers, but it also lets the buyer know that they are in a competitive environment. Setting the timetable requires experience; too tight and you might frighten everyone off, too long and you risk losing momentum. Getting companies to meet that timetable is easier said than done - they work at different speeds in Bracknell to Baltimore.

The adviser needs to ensure at this stage that the offers contain adequate information for an informed opinion to be made on the preferred bidder. So, in addition to price, they should ask the purchaser to provide details of funding, timetable, diligence and plans for the business in as much detail as possible.

HEADS OF TERMS

Having received indicative offers, they need to be firmed up and a preferred bidder chosen. This is a good opportunity for the adviser to clarify aspects of the offer and to negotiate keener terms. Buyers will often resubmit offers having 'sharpened their pencil' and sometimes changes can be significant if they believe it will secure a deal.

Heads of Terms contain the details agreed and also set out further confidentiality terms and the extent of the exclusivity period offered. Once they are signed, the negotiating strength passes from the vendor to the purchaser (the 'Pendulum of Power') so care needs to be taken in choosing the partner. The highest offer does not always win, far from it; there is the important question of deal structure, cultural fit and an assessment as to whether the purchaser can deliver on the deal offered.

Stage 3. Closing the Deal

DUE DILIGENCE (DD)

Once Heads of Terms are signed, this signals the commencement of intense due diligence and various workstreams. This period typically lasts 10-12 weeks.

Due diligence (DD) can mean different things to different buyers. It normally involves a full commercial, financial, tech and legal review of the affairs. This can range from sending a member of the purchaser's team in for a day or two, to a full accountant's report and an in-depth diligence exercise over several weeks. Whatever the level of due diligence, as a vendor you need to take it seriously. Deals do fall down in due diligence and it is usually because of a change in business performance or breakdown in trust, due to lack of information. Due diligence needs to be controlled carefully to protect the business and the deal. Chipping away at the deal terms is a popular pastime of many buyers and needs to be controlled and the 'under bidders' need to be kept lukewarm.

LEGAL DOCUMENTATION

Lawyers' work will tend to run alongside the financial and commercial due diligence. While the purchaser's lawyers will typically draft the Sale and Purchase Agreement (SPA), the vendor's lawyer has a key role in limiting the downside by negotiating the SPA, disclosure letter, warranties and indemnities. They will also be on the lookout for anything else that the buyer's lawyer is seeking to push through. It is important to appoint a legal adviser with depth of relevant experience.

COMPLETION

Negotiations on a deal are never over until the deal is signed. To successfully close the deal, your adviser needs to actively manage the process right through to completion and resolve all the last minute issues that emerge. On completion, the days of getting together for an in-person signing exercise are gone. More likely you will exchange eSignatures over DocuSign, so remember to ensure signing parties are not in a Wi-Fi blackspot and keep a chilled bottle handy in your fridge to enjoy the momentous moment. Selling your business is a huge achievement – do not underestimate the hard yards it has taken to get there and relish the celebration!

250
deals closed
and counting