Mike Robson

Why should somebody buy your business?

This may appear to be a simple question that demands a simple answer, but for most business owners producing a well- reasoned response to this question can significantly affect their post-sale financial standing. And we remain constantly surprised when we ask this basic question and often receive very uncertain responses.

In our experience acquirers have four principal motivations for buying a business:

1. For medium or long term financial returns
2. For fun
3. To gain strategic advantage for another business owned by the acquirer
4. For rapid growth, usually followed by a second sale.

The first category is relatively simple. Businesses with steady, reasonably predictable and risk-free revenue streams are appropriate for institutional or other investors looking for income and steady capital growth.

The acquisition decision is likely to be based on financial criteria alone: what are the likely returns, and what is the appropriate multiple of earnings to value for the risks involved? Multiply the first by the second and you have the value.

Many management buy-outs are valued on a purely financial basis as there is no strategic element to the acquisition, and nothing is being added to the business to make it grow faster or be more profitable.

The second 'fun' category is much more random. Many golf clubs, restaurants, sporting estates and, if the acquirer's 'day job' is big enough, football clubs are acquired for the personal satisfaction and kudos of the acquirer. The acquirer's reasons are likely to be entirely personal and unpredictable. If you are looking for this type of sale, we wish you the very best of luck.

The final two categories are where we believe the most value can be extracted in advance of a sale event. In almost all of the sales of businesses we have been involved in during the past seven years, we have been able to identify and, where the time has been available, develop a strategic angle to the sale.

Look closely at the fundamental attributes of your business; its geography, client relationships, management and staff skills and experience, intellectual property, marketing and sales capability, delivery mechanisms, resources and equipment. Who in two or three years' time is going to be able to use some or all of those attributes to leverage additional profit from their existing businesses? Which acquirers will be able to lever the attributes you have identified in your business to make one plus one equal three?

Combine this strategic assessment with an analysis of the recent or predicted acquisition activities of potential acquirers to develop a profile of the acquirer you want to attract. Then do the strategic exercise from the opposite viewpoint: what attributes of your business are going to put an acquirer off or reduce the price they are going to pay? As time allows, build the strengths and mitigate the weaknesses.

Exit planning cannot be an exact science as there will always be areas in which judgement is required. However, time invested in an effective planning process is likely to lead to a much more effective and profitable business before sale and a higher sale value. As with most considered planning, the act of planning is as valuable and instructive as the plan itself.

About the Author

Azure Partners work alongside the Boards of progressive companies from their earliest stages though growth and maturity to preparing them for sale or flotation. We have the skills, the commercial experience and the necessary knowledge to significantly enhance the value of your business. In 2013 the aggregated turnover of our 5 most engaged clients increased by 16% to £35 million. The profits of those 5 companies increased by 107% to £7.5 million in total.

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Important Notice

Publication issued on 1 May 2015