

ICON | 66

THE ICON CORPORATE FINANCE MAGAZINE – FOR TECHNOLOGY AND IT SERVICES COMPANIES

ICON
OPTIMISING VALUE

CORPORATE
ACHIEVING THE IDEAL EXIT

FINANCE
BEAR TRAPS
CREATING COMPETITIVE TENSION

MAGAZINE
SUCCESS IS ABOUT WHO YOU KNOW



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ICON 66

WELCOME

SUCCESS IS ABOUT WHO YOU KNOW

When we set up ICON Corporate Finance nearly 5 years ago we were committed to the idea of offering a high quality corporate finance advisory business focused on the technology sector. While there were moments in 2002 when we questioned that commitment, we have remained resolute in our belief that there are still greater opportunities to start and build a high value business in technology than in any other sector.

It has been a challenging time, but we have retained our focus and the size of our team knowing that we would have deeper knowledge and be stronger for our commitment when the market turned. The first signs of recovery have been seen in the last few months, and if sustained, indications are that over the next 12 months we should see a good pick up in activity.

Much of our marketing effort in driving the ICON brand has been focused on our VC funding advisory business for high growth technology companies. We have built that part of the business into a market leader and have been named No 1 corporate finance advisers for technology companies and No 8 "powerbroker" in the UK; I am also reliably informed from a leading VC that ICON introduce more quality technology proposals than any other advisory firm.

We have also achieved considerable success in building our M&A business, focused on the trade sale of both technology and service sector businesses. In the past quarter we have been particularly active with the sale of Cleartone Telecoms to a management buy-in team, the sale of data management company Forvus to RM Plc and most recently the sale of Projectlink Motivation to The Grass Roots Group Plc. Activity is picking up, American buyers are back in town and concept stocks are again listing on the stockmarket.

This is the time that owners and owner/managers should be formulating plans for an exit, whether it be retirement or merely to realise an investment. You should be working with us, planning your exit and looking to groom the business for sale well ahead of the event.

We would welcome the opportunity to come and talk to you about any corporate finance opportunities that you may have. Call us.

> ALAN BRISTOW

GLOBAL REACH

London, Palo Alto, New York, Paris,
Frankfurt, Amsterdam, Sydney, Mumbai



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“Ensure you meet all the advisers that will be handling your deal, not just the partners who hand it down to the junior members of the team”

SHOW ME THE

EXIT

3 STEPS TO HEAVEN

[DELIVERING SUCCESS]

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

GROOMING

The first step in selling any business is preparation and that should ideally be 12 months before talks start. There are two main types of preparation:

HOUSEKEEPING

Get your house in order and sort out housekeeping issues such as litigation, disputes, selling peripheral assets, renewing contracts that have lapsed, formalising informal business arrangements, selling or closing non-core business units and basic tax planning. Due diligence will then be much easier.

PROFIT

Purchasers will undoubtedly look to value your business based on sustainable profits and effort should be made to maximise these profits leading up to the sale. By maximising revenue opportunities and reducing costs; profits and therefore value can be enhanced.

APPOINT ADVISERS

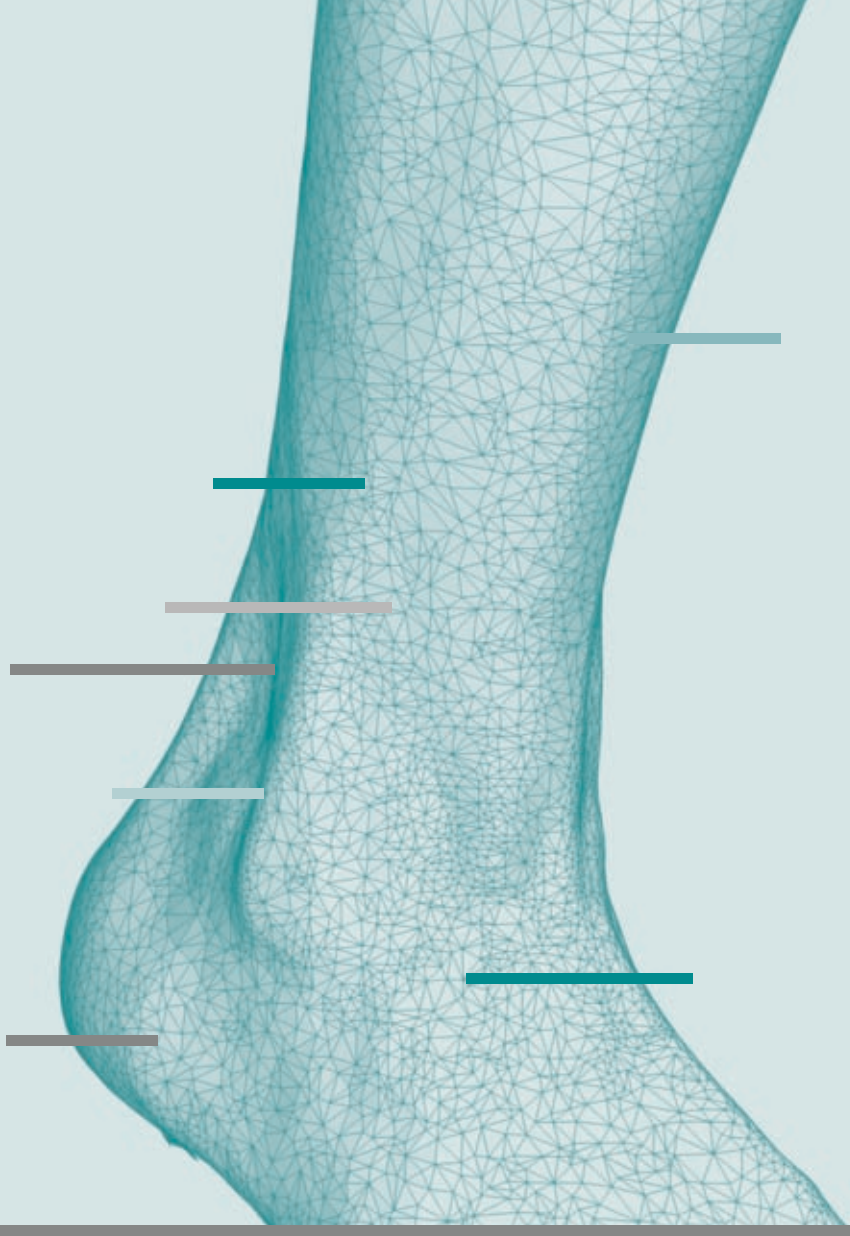
In appointing corporate finance advisers you need to consider who is the right firm for the job. You will find no shortage of corporate finance professionals with understanding of the sale process. However, you also need to ensure they have other qualities too, including a "relevant" track record, contacts or research capability to identify the strategic buyers. You should also 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 adviser, make sure that you can get along – you'll be seeing a lot of each other during the process.

PREPARE SALES MEMORANDUM

The Sales Memorandum is prepared by your adviser and will become the main marketing document. 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 needs to be a balance between being thorough and disclosing 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 after all, but it needs to be realistic.

RESEARCH TARGETS – KEY RELATIONSHIPS

Any adviser worth his salt will have a database 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 identify those buyers to whom the acquisition would be strategic, 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 as many overseas buyers as domestic ones. →



STAGE 2. THE CHASE

THE APPROACH

The corporate finance adviser will approach the list of potential buyers by personal contact or using a teaser (or one page summary) 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 sales memorandum be distributed.

MEETINGS

No one is going to make an offer for a company without having met the senior management and had a quick walk round the company premises. 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. A small number of senior directors will need to be involved in both the marketing meetings and the due diligence. Meetings should generally be kept off-site as often as possible.

Adequate preparation needs to be made so the message is consistent and the proposition is attractive. While the adviser's role is to get the purchaser to the table, the vendor should expect to make a brief presentation, answer questions and importantly establish a dialogue with the purchaser.

TIMESCALE



OFFERS – COMPETITIVE TENSION

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 and beware the French buyer.

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, he should ask the purchaser to provide details of funding, timetable, diligence and plans for the business in as much detail as possible.

HEADS OF AGREEMENT

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 sets 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, 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. Normally, once Heads of Terms are signed completion can be achieved in 4-8 weeks. →

TRADE SALES PROCESS

- APPOINT SALES ADVISERS -



- PREPARE SALES MEMORANDUM -



- RESEARCH OF PURCHASERS -



- THE APPROACH -



- CONFIDENTIALITY -



- MEETINGS -



- NEGOTIATIONS -



- INDICATIVE OFFERS -



- DUE DILIGENCE -



- FINAL OFFERS -



- TAX PLANNING -



- LEGAL DOCUMENTATION -



- PROJECT MANAGEMENT -



STAGE 3. DELIVERY

DUE DILIGENCE

Due diligence can mean different things to different buyers. It normally involves a full commercial, financial 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 draft the Sale and Purchase Agreement, the vendor's lawyer has a key role in limiting the downside in negotiating the warranties. 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. Completion itself is often an anticlimax and is no more than a paper chase followed by a warm glass of bubbly in a lawyer's office at 1am in the morning. Then off home for a decent night sleep, safe in the knowledge that you probably won't ever have to go through it all again – heave

“chipping away at the deal terms is a popular pastime of many buyers”

EXITS MASTERCLASS

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FORVUS SOLD TO RM PLC

GOVERNMENT IT SECTOR

“We were delighted with the job ICON did. Both in identifying strategic buyers and managing a competitive bidding process. It was invaluable in extracting the best deal for both shareholders and the employees”

UPI PATEL, MANAGING DIRECTOR OF FORVUS

DATA MANAGEMENT

Forvus is a leading supplier of statistical and data management services to the government sector with a turnover of £3m. The company was founded in 1985 and has a wealth of experience in data management, dissemination, statistical analysis and web based information systems. Major clients include The Teachers Training Agency and The Department of Education and Skills.

ICON SEMINAR

Having met at a seminar ICON ran in London in conjunction with Intellect, the three founding shareholders of Forvus engaged ICON to sell their company. After several meetings with the management team to understand the business and prepare forecasts, we drafted the main marketing document – a 20 page Sales Information Memorandum to highlight the strengths of the business and set out the financial details.

CASH IS KING

We researched the market and contacted 60 potential purchasers, half of whom were overseas companies. After a good response and having received signed confidentiality agreements, we met with 6 of the companies which gave management a good feel for alternative purchasers. We then ran a competitive bid process and received several offers that were substantially cash but had different deferred payment structures. Having given each purchaser a chance to revise their bids, the management chose RM Group Plc as the preferred buyer and we signed a 10 week exclusivity agreement which allowed them to conduct their due diligence and complete the deal.

HIGHEST ISN'T NECESSARILY BEST

Choosing the right bidder from a competitive process is not always easy. RM made a competitive bid but was not actually offering the highest amount on completion. They were chosen for a combination of reasons, including the cultural fit, our assessment as to whether they could deliver the deal promised, its hands off policy, its financial strength and its reputation in the Education sector. As Tim Pearson CEO of RM Plc said: “The acquisition of Forvus is part of our strategy of moving RM into the broader education services market, and their expertise will be significant in broadening RM's education proposition. There is increasing recognition of the need to use data to underpin improvements in the delivery of public services and the skills Forvus brings to the Group, position us well for deeper engagement with our customer base”.

KEEPING OTHERS WARM

Nevertheless, we kept the under-bidders warm in case there were problems during due diligence. Fortunately all the issues raised during due diligence were resolved including for example a renegotiation of a lease on the Head Office, a restructuring of the deal as a result of a taxation change and obtaining release of Change of Control clauses in contracts from clients.

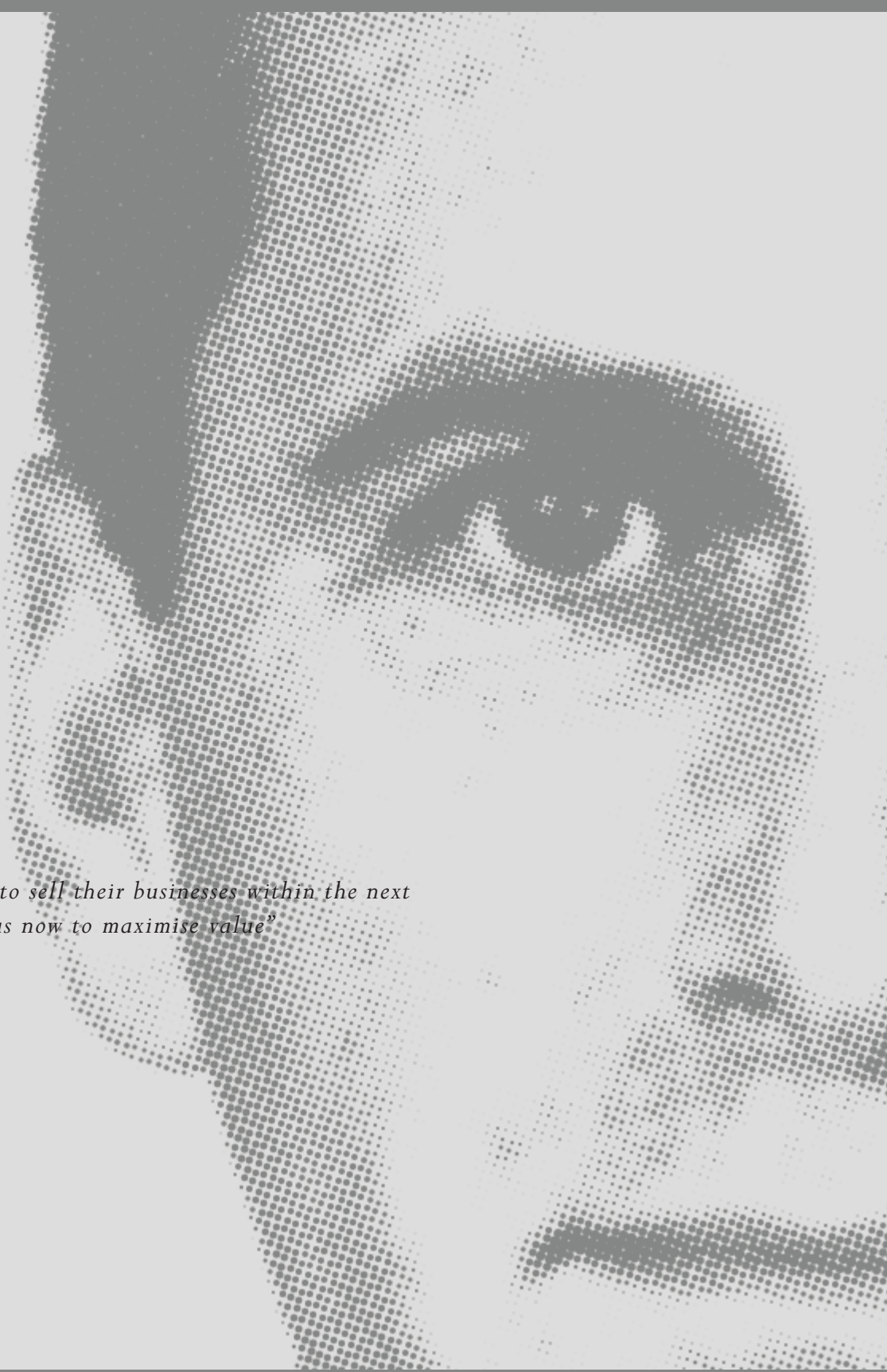
THE DEAL

The deal took 6 months from start to finish. A pre completion bonus was paid to staff and £4.5m cash was paid to shareholders plus the opportunity to earn a further £2.5m during the next three years.

Corporate Finance advisers
ICON Corporate Finance

Vendor's legal and taxation advisers
Stevens & Bolton, Guildford

www.rm.com
www.forvus.co.uk



“Entrepreneurs who are looking to sell their businesses within the next two years should be talking to us now to maximise value”

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WITH

BRIAN PARKER

HEAD OF M&A AT ICON

How did you become Head of M&A at ICON? I've earned my spurs by having nearly 20 years experience of the financial equity markets. Having qualified as a chartered accountant in the City in 1984 I've been involved in capital markets ever since. I was responsible for acquisitions at two high growth Plcs in the eighties and was personally responsible for over 15 purchases in the UK, USA and Europe. Then as an analyst and Head of Equity Research with a leading stockbroker I gained 8 years further equity market experience before joining Alan Bristow at ICON in 1999. In the past few years I have focused on trade sales and worked with over 20 technology and service companies on their M&A programmes.

Do you feel that the M&A climate is changing – are things warming up? The last couple of years have been tough in M&A, and particularly tough in the technology sector, but activity levels have definitely picked up. A low interest rate environment, together with building confidence as equity markets recover, should be good news for a sustained recovery in M&A markets in 2004. M&A activity tends to lag the valuations in the main stock market and this is already filtering through.

Which sectors of the technology markets are currently most active? Until recently we have seen the most activity in the defensive IT sectors like public sector, defence and healthcare as well as restructuring and opportunistic bids driven by low valuations. However, we have seen activity spread to other technology areas in the past few months. The US market has been particularly active in business intelligence software, internet services, some areas of e-commerce, content management and integration software. Increasingly, we are seeing US buyers emerge out of hibernation and they are actively starting to look in Europe again.

Where now for M&A in the technology sector? I think that if markets remain firm, confidence will build for a more sustained recovery in transactions across the technology spectrum. Technology spending would appear to have bottomed in many, if not all areas and with confidence building I would expect volumes to pick up again in 2004.

Deals have been taking longer to get way, is this your experience and if so, why is it the case? In the bear market days of 2001/02 we saw deals just about grind to a halt as the downturn hit. Deals took much longer, and in many cases were pulled as performance targets weren't met in due diligence. However, we recently closed the trade sale of a business that took 6 months from meeting to completion. Having said that, we have also recently completed a transaction that took nearly three years from start to finish. Some of our deals take longer as we work with management to groom the business for sale and time our run to market. Most of our clients are not forced sellers and "timing your run" is crucial for success. Entrepreneurs who are looking to sell their businesses in 2004/05 should be talking to us now to plan the process.

So timing is critical if businesses are to maximise shareholder value? Yes, in an ideal world you would sell a business just before the peak of the stock market, the sector and the company cycles. When the stock market values are high, earnings are booming and there are new players from out of town looking to buy market share. However, we don't live in an ideal world so some compromise is needed. Selling a business on the up is very important and selling a business when the stock market is falling is to be avoided as confidence can quickly drain out of a deal. A lot of deals ended up being pulled in 2001 as the cycle had past. Leaving something on the table for the purchaser is important, don't be too greedy or you can miss the boat. →

Where do you source your clients and what factors are driving their exits? Over two thirds of our clients are referred from our network of professionals, venture capitalists, lawyers and bankers. The reasons for a sale may vary but all our clients are either owner managed and their capital is tied up in an asset where there is no liquid market, or they're VC backed and are looking to cash out. Planning that process is key, few deals are now done without some sort of earn out or deferred payment scheme to retain and motivate owner managers. Some are as short as 3 months others are for 3 years, but offering that commitment to a buyer reduces his risk and can result in a premium. It also means that many businesses are ready for sale quicker than some owners think. If you are planning on selling your business and then heading straight for the beach, then it's possible, but frankly you are unlikely to get nearly as much. It's better to offer a handover period to the purchaser – even if it doesn't run its full course.

“ICON has an extensive M&A database that identifies the strategic buyers who can pay a premium”

How do you differentiate yourself from your peers? I think there are several differentiators. Firstly, at ICON we only operate in the technology and service sectors and by retaining that focus through the highs and lows of the business cycle we have accumulated in-depth sector knowledge, networks and relationships and we have an extensive M&A database that identifies the strategic buyers who can justify paying a premium. Secondly, all we do is corporate finance, we are not offering due diligence services, management consulting, tax, legal or accounting work, there is therefore, no conflict of interest and so we can honestly say we are focused solely on maximising the value of the deal. Thirdly, we are owner managed and we operate a “success orientated” fee structure, so we are fully committed to the process and our fee is contingent on getting the deal away. Finally, we also offer a personalised service, the Principals are hands-on, so we personally see an assignment through from start to finish. Therefore, there's greater empathy, continuity and understanding with the client, which is important when you are going to be working with someone for 6 months or more.

How active has the market been for partial exits? A partial exit is a situation whereby shareholders can realise some of the value in their shareholdings whilst securing further investment for the business. This can be an excellent way of providing the future capital for the company whilst de-risking the founders/management teams' position through realisation of some cash. The appetite for these deals has remained strong with VCs and we expect this to continue. However to be successful in achieving a partial exit the company must have created some real shareholder value and have demonstrated a good track record of cash generation and profit growth. This is not the route for early stage companies. Also VC investors tend to price these types of transactions more aggressively, as a greater risk is attached given that cash is going out of the business, as opposed to all the investment going into the business. These deals however, in the right circumstances, can be an excellent way of accommodating the needs of some shareholders to achieve a partial exit whilst satisfying the requirements of the company for further investment – VCs are very active in this area.

MAXIMISING VALUE

7 KEY BEAR TRAPS

1. WATCH THE BIRDIE

Keep your eye on the business and keep hitting forecast numbers. The most common reason for purchasers chipping away at the price is that vendors don't meet targets in the negotiation period.

2. TRANSPARENCY

One sure way of losing a deal or facing a price reduction during negotiations is lack of transparency. You need to give full and frank disclosure before offers are made.

3. STRESS

Watch out for a significant increase in stress as you try and juggle the input necessary in the process with the management of the business. It helps if you've planned it and your house is in good order, but in reality this is rarely the case. Hospital beckoned for one unfortunate client.

4. MOMENTUM

Keep momentum in the deal and the timetable tight. Purchasers are busy and will quickly lose interest if information is not available or if milestones are not achieved.

5. DETAIL

Get as much detail as you can in your Heads of Terms. A deal is not done until it is done and the balance of the negotiating position swings against the vendor once a purchaser has exclusivity.

6. HOUSEKEEPING

Business process documentation, organisation structures and such, may sound like management consultant speak but they can be “dealbreakers”. A buyer recently pulled out of due diligence after just one day when the processes of an IT service client were thought not to be strong enough and this was deemed to affect the ability to scale the business.

7. CASH IS KING

Deals that look too good to be true often are. Be wary of offers with a high non- cash element. Shares can go down as well as up. Do not accept the highest offer when assessing bids, one has to consider the total package offered and also whether a purchaser will deliver!

→ MAY WE EXPRESS OUR HUGE APPRECIATION FOR ACHIEVING THE SALE OF PROJECTLINK TO GRG.

THE EXPERIENCE OF FINDING AND NEGOTIATING WITH PREVIOUS PROSPECTIVE PURCHASERS WAS AT TIMES PAINFUL, DRAWN OUT AND FOREIGN TO US. WITHOUT ICON AS OUR MENTOR AND GUIDE, WE DOUBT WE WOULD HAVE ACHIEVED OUR GOAL. AGAINST THIS BACKGROUND THE SPEED AND EFFICIENCY OF THE GRG DEAL WAS A CASE OF BEST PRACTISE PROFESSIONALISM.

THE COMMON THREAD THROUGHOUT HAS BEEN THE DEPTH AND STRENGTH OF THE BUSINESS RELATIONSHIP WE HAVE ENJOYED WITH YOU.

IT'S A RELATIONSHIP BUILT ON OUR TOTAL TRUST – BLIND AT TIMES! – IN YOUR ABILITY AND THE QUALITY OF YOUR ADVISE. WE KNOW IT WILL NOT END HERE AND WE LOOK FORWARD TO WORKING WITH YOU AND RECOMMENDING YOU TO OTHERS IN THE FUTURE. OUR WARMEST REGARDS

RICHARD KIRK AND STEPHEN HUMPHREYS
PROJECTLINK MOTIVATION LIMITED



WHAT IS YOUR BUSINESS WORTH

GET THE

MMA

THE ART OF

IF YOU LINED UP TEN POTENTIAL PURCHASERS AND ASKED THEM TO VALUE A BUSINESS YOU WOULD GET TEN DIFFERENT ANSWERS. ESSENTIALLY A BUSINESS IS WORTH A DIFFERENT AMOUNT TO DIFFERENT PEOPLE AT DIFFERENT TIMES, AND THE REALITY IS THAT VALUATION IS A LOT MORE ART THAN SCIENCE.

VALUATION

To get a full price you need competition. It's only when you get purchasers into a competitive environment that you know the real value of your business. Once purchasers are going head to head, fundamentals can get forgotten and in bull markets valuation almost becomes a 'Dark Art' as rational measures of value get forgotten in the scramble to do deals. However, in the current climate, buyers have returned to business fundamentals and are firmly focused on profits and assets rather than sales or cash-burn.

There are any number of different valuation techniques purchasers use ranging from discounted cashflow models, asset value, multiple of sales, replacement cost and opportunity cost, but by far the most common valuation method we see for private companies is one of the oldest and most simple, the Price Earnings or PE ratio adjusted for surplus assets:

$$(UNDERLYING EARNINGS \times MULTIPLE) +/- SURPLUS ASSETS/DEBT$$

UNDERLYING EARNINGS

Most trade purchasers are looking at acquisitions as a way of improving their future earnings and as a result improving the valuation of the enlarged group. The best guide to assessing the future earnings of any prospective target is to look at their historic, current and forecast earnings. However, this may not paint a true picture, many private companies are not run to maximise profits; due to a natural reluctance to pay large amounts of tax. So when presenting financials to a buyer, adjustments need to be made to calculate the "underlying earnings". While these adjustments are common the fewer adjustments that are made the better.

EXCESS STAFF REMUNERATION

Packages to staff that are above market norms may be viewed as quasi-equity and adjusted. A recent client paid significant bonuses to staff in lieu of equity participation in the deal, so clearly that needs to be added back.

BENEFITS

This can include all sorts of expenditure which is common in private companies but tends to be tolerated less in the post-Enron environment at Plcs. As well as the obvious expenses like entertaining, other real life examples include: the running costs of a team of racing cars, the payment of little Johnny's school fees, membership of Loch Lomond Golf Club; a £150,000 staff party and the overseas holiday home.

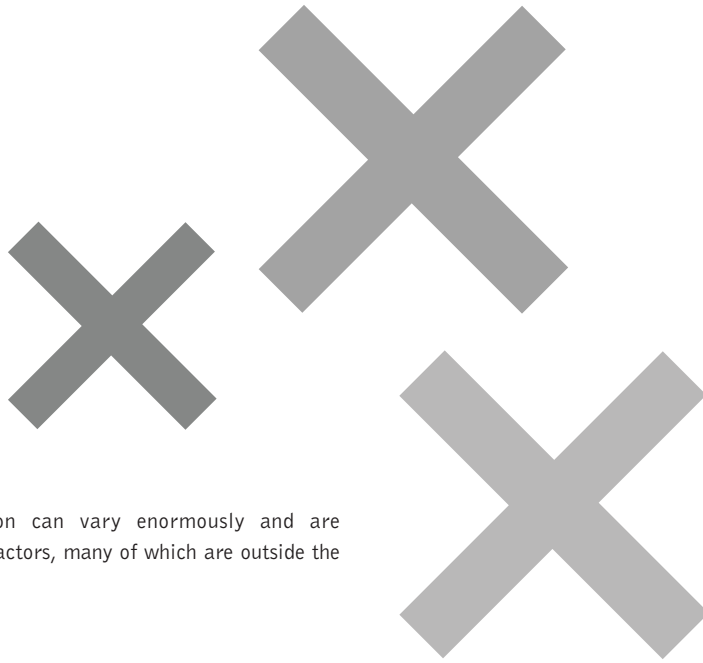
NON-RECURRING ITEMS

These are usually large one-off items. Whether they are actually defined as exceptional items in the audited accounts is largely irrelevant, although it certainly makes the inclusion of an item easier to justify. Unusually large bad debts, unusual professional fees, losses on discontinued or sold business divisions, losses on foreign exchange transactions or asset disposals are examples that may fit into this category.

INTEREST

Most purchasers tend to look at operating profits and will therefore exclude all interest payable or receivable.

Once the underlying earnings of the company have been established, this will form the basis of a purchaser's valuation, however, further adjustments may well be needed by the buyer to account for: differing accounting policies, rates of depreciation, software amortisation amongst other things. The more transparent a vendor is in disclosing the financials the better. →



MULTIPLES

Multiples used in valuation can vary enormously and are determined by a number of factors, many of which are outside the vendor's control.

LISTED COMPARIBLES

First, and foremost, multiples used in valuing private companies have a direct relationship with the value of comparable listed companies. Just ask anyone connected with PWC Consulting who saw its value drop from a mooted \$18bn from HP to an eventual \$3.5bn when acquired by IBM eighteen months later.

STRATEGIC PREMIUM

Secondly, a strategic buyer will always be prepared to pay a premium over a tactical or financial buyer, as their earnings will benefit from the deal through a combination of:

- a. Cost savings – profits will be boosted by cutting costs, for instance, cutting the accounts department or closing duplicate offices or manufacturing plants.
- b. Revenue synergies – companies will often make acquisitions to plug a significant product or skills gap in their portfolio, particularly overseas buyers who need to build a global network quickly and efficiently to service their international accounts.
- c. Opportunity cost – the acquisition may benefit the strategic buyer in indirect ways. For example, we sold a wireless services company to a financial institution that was able to bring to market its new wireless financial product a lot earlier by deploying the acquired wireless engineers, justifying a premium price.

GROWTH

Buyers want growth, and are prepared to pay for it. As a very rough rule of thumb a listed company that can grow profits or sales at 30% annually will warrant a PE x 30 whereas one growing at 10% will only have a PE x 10. So, build a robust and compelling growth story. Selling a business at the peak of the business cycle is too late, you need to leave something on the table for the buyer. He needs to buy into your vision for growth to justify paying a premium.

PROFIT RECORDS

A business that has a consistent record of profitability will be worth more than a one-year wonder. You need continuity to build confidence in the business model. Recurrent business, non-reliance on one customer, longer term contracts and substantial order books all reduce risk to a buyer and therefore justify a premium in the multiple.

COMMITMENT

Show commitment to the buyer to help reduce handover risk. Most deals nowadays have an earn-out or partial deferred payment to retain and incentivise management to stay. If you are an owner/manager and have a fixed date that you want to exit by, then you are better selling the company early, unless you're not really involved with the day-to-day management.

FLEXIBILITY

Be flexible, every vendor wants cash, yet most purchasers want to use shares. There is usually a compromise. Recently, most of the deals we have seen in the market have actually been all (or substantially all) cash, but as equity markets recover shares will be used again. Vendors that were enticed by notionally high valued equity deals in the last bull market had their fingers burned. There is a base price for a business that clearly needs to be in cash, but taking some equity shows commitment and enthusiasm to the purchaser. An earn-out can also be a useful way of increasing value, linking future performance to returns.

“Buyers want growth and are prepared to pay for it, so build a robust and compelling growth story”



PROJECTLINK MOTIVATION SOLD TO THE GRASS ROOTS GROUP PLC

MARKETING SERVICES SECTOR

FASTER FASTER

Projectlink Motivation based at Teddington, London, was founded in 1984 by Richard Kirk and is the fastest growing full-service motivation house in the UK with a turnover of more than £40m. It provides incentive and motivation services and products to many of the leading companies in the UK such as British Telecom, Royal Bank of Scotland, Astra Zeneca, Nationwide, Lloyds TSB, Abbey National, MFI and Oracle. Projectlink's brands include Supercheques, theincentiveshop.com, Landmark and Flexi Vouchers.

MOTIVATION

Having built the business up over nearly 20 years, Richard and his fellow shareholder Stephen Humphreys wanted to realise some of the value they had created in building the group, but they also wanted to remain with the business. There were a number of potential interested parties including competitors, overseas players wanting to enter the UK market and listed companies in the UK in related and complimentary businesses.

CONTINENTAL CAPERS

We approached a cross section of potential acquirers and had meetings with 7 to establish the strength of interest. We then entered into detailed discussions with several of them, including two overseas players. However, beware the foreign buyer. For many vendors the idea of a foreign company paying a large amount of cash for their business is their ideal scenario. However, the reality is that bureaucracy and decision making processes are quite different, particularly in Europe and this can play havoc with the timetable unless managed properly.

NO SEX BEFORE MARRIAGE

"Selling your business is like getting married", it's an emotional experience. Vendors have often built their businesses over a considerable time and they need to be courted properly. Suitors

who don't recognise that, who are too arrogant or who look to get "up close and personal" without the right sort of foreplay are often sorely disappointed!

CULTURAL FIT

We received several offers but the vendors had a relatively simple choice given the cultural fit and the attraction of the offer they received from Grass Roots. Crucially the two respective Principals had, over a period of 20 years, built up a healthy mutual respect for each other. Also Grass Roots, who are a larger UK competitor part owned by WPP Group Plc has a very strong balance sheet and we thought they had a good chance of delivering the deal. Heads Of Terms were signed with The Grass Roots Group and they entered exclusive talks, leading to completion six weeks later.

LARGEST IN UK

Following the acquisition, the combined group has a turnover of £115m and becomes the largest motivation and incentive company in the UK. Richard Kirk, the founder of Projectlink and Stephen Humphreys the Managing Director will remain with the enlarged group. The deal was structured with cash initial consideration (which was not disclosed) and a three-year earn out.

CULTURAL FIT

Richard Kirk said: "ICON's commitment to the process over two and a half years was invaluable. They introduced us to a good mix of potential buyers, enhancing our knowledge of the market and the players. Whilst I was surprised by the behaviour of some buyers during the process, it only enforced our belief that there was an excellent cultural fit with Grass Roots".

Corporate Finance advisers
ICON Corporate Finance

Vendor's tax advisers
Berkeley Hamilton

Vendor's legal advisers
Russell Cooke, London

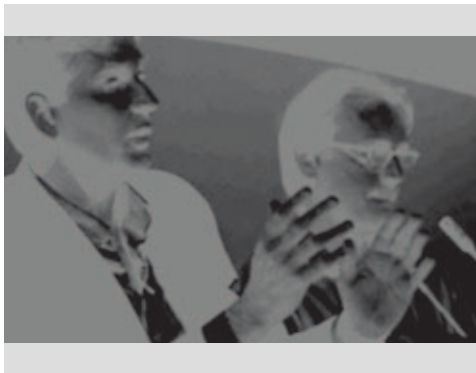
www.projectlink.co.uk
www.grg.com

ICON EVENTS

ICON is one of the UK's leading independent corporate finance houses. Over the last few years we've helped numerous entrepreneurs maximise value on the disposal of their businesses.

Our seminar programmes bring together speakers from some of the UK's top companies with leading-edge experts in the fields of M&A and venture capital.

Each seminar offers entrepreneurs a practical A-Z on each of the key aspects involved in a deal, whether it be exit strategies, disposing of part or all of your company, raising capital for start up, growth or MBOs. Whatever the transaction, attending one of our seminars will give you valuable insights into maximising shareholder value whilst also providing you with an ideal opportunity for building relationships with many of the most dominant players in the technology industry.



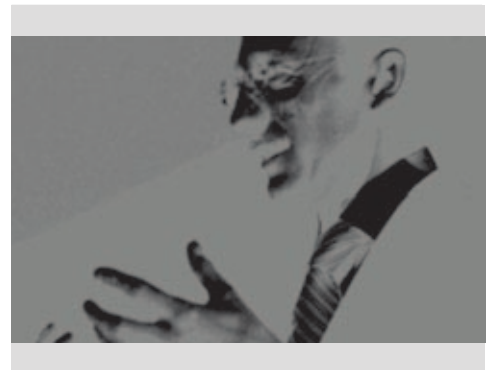
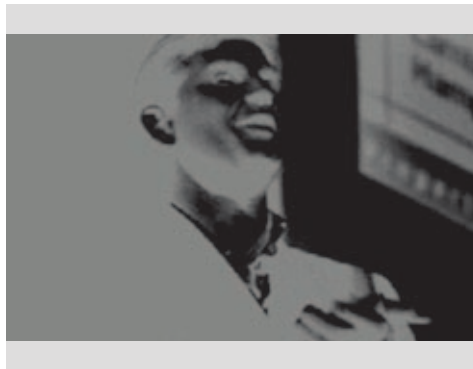
PROGRAMME

We continue to work closely with IntellectUK, (the trade association for the Computer Software Association and The Federation of Electronics), the major International conference organisers Tornado Insider, Euromoney Plc, Hawkesmere Plc and Henley Management School. We also continue to provide guest speakers from ICON for other seminars such as the International Semiconductor Fabless Forum.

OUR EVENT SCHEDULE INCLUDES

- > Successful Exits Masterclass
- > Raising Venture Capital Masterclass
- > Management Buyouts and Venture Capital Masterclass
- > Writing the Killer Business Plan
- > Growth and Exit strategies

For full details of all ICON events, please visit our website www.iconcorpfin.co.uk/events page. If you are unable to attend any of the specified dates or you would like us to run an in-house Masterclass for your management team please call us on +44 (0) 117 922 0505 email nicky@iconcorpfin.co.uk



PREVIOUS SPEAKERS INCLUDE:

- Cisco
- HP
- BTEExact
- 3i
- Primary Capital
- TaylorWessing
- S. J. Berwin
- Osborne Clarke
- Nabarro Nathanson
- Merrill Lynch
- Infoconomist Magazine



CLEARTONE TELECOMS SOLD TO MANAGEMENT BUY IN TEAM

TELECOMS SECTOR

RADIO TALK

Cleartone is a designer, manufacturer and supplier of mobile radio communications equipment, principally for the emergency services. The product range includes VHF/UHF handheld, mobile and fixed equipment operating in all frequency bands, as well as the new TETRA digital mobile radio products that are specifically aimed at the 'blue light' markets. While some bespoke manufacturing is done at Cleartone's premises in South Wales, the majority of equipment manufacturing is now carried out in Japan. Cleartone has a good opportunity for growth in the next few years from UK police forces who are replacing their existing analogue radios with new TETRA digital mobile radios.

3i GROUP INTRODUCTION

Cleartone was controlled by Aspen Group Plc, who wanted to sell their holding as part of a realisation programme following their privatisation from The London Stock Exchange in 1999. Aspen was partly owned by 3i Group Plc who introduced the opportunity to ICON.

NOT SO CLEAR

Although Cleartone was well placed to benefit from the rollout of the new TETRA networks in the UK, there were a number of other issues that clouded the picture, ranging from, the effects of foot and mouth (which was affecting orders and therefore cash flow was lumpy), to the state of the telecoms sector which was bombed out. Far from buying, many telcos were disposing of assets and two major competitors Marconi and Simoco in the UK had both been sold.

HBOS FUNDED MBI TEAM

Nevertheless, although the conditions were not great, the potential for growth in the digital radio market was significant. We highlighted this potential in our Information Memorandum and received interest from 18 companies ranging from large US companies to mid-tier UK listed companies and some "Buy-in" candidates. The timetable slipped when a potential buyer withdrew after its shares were suspended. Not to be deterred we received several indicative offers and exclusivity was given to a management buy-in team led by Richard Hill who was financed by Bank of Scotland Plc. The transaction was structured with a cash consideration that together with restricted warranties provided the clean exit the shareholders sought.

LEAVE SOMETHING ON THE TABLE

Brian Parker from ICON commented "Given the conditions at the time, we got a good deal for the vendors. Importantly, the purchaser knew the business well and saw significant growth potential from the radio communications market". In an ideal world you would sell a business when the corporate and market cycles are near their peaks but that is rarely the case. Whenever you sell, you need to have a good growth story and leave something on the table for the purchaser.

Corporate Finance advisers
ICON Corporate Finance

Vendor's lawyers
Clark Holt, Swindon

Vendor's tax advisers
Smith & Williamson, London

www.cleartone.co.uk
www.hbosplc.com

EXIT DEALS

PROJECTLINK MOTIVATION LTD SOLD TO **THE GRASS ROOTS GROUP PLC**



FORVUS LTD SOLD TO **RM PLC**



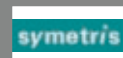
CLEARTONE TELECOMS PLC SOLD TO **MBI TEAM**



TRAFFICMASTER PLC SOLD UK FLEETSTAR BUSINESS TO **CYBIT**



SYMETRIS LTD SOLD TO **METTONI GROUP PLC**



SYNAMIC LTD SOLD TO **SILA COMMUNICATIONS**



MCA HOLDINGS LTD SOLD TO **E-XENTRIC PLC**



LANGDALE SYSTEMS LTD SOLD TO **NCP**



HELP DESK SUPPORT SERVICES LTD SOLD TO **QUANTICA PLC**



CENTURY COM LTD SOLD TO **DIAGONAL GROUP PLC**



CYMAP LTD SOLD TO **GRAPHISOFT NV**



ICON

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