

MAXIMISE YOUR EXIT VALUE

When is the best time to sell your company? And, What are the factors to consider?

Timing your run

THREE CYCLES

There are three key cycles to consider and, if you can align them all, then you are very lucky and should get an exceptional price for your business.

The three key cycles are:

THE MARKET

Market conditions are arguably the most important factor, always sell on the up. If markets are contracting, confidence dips and many trade buyers will simply not make acquisitions at all. So you need to keep an eye on market conditions; both the macro-economic indicators (interest rates, stock markets) as well as technology sector indicators and M&A trends.

The market has recovered strongly from the wobbles of 2002/3 and deal volumes and values continue to grow. Conditions are currently as good as they have been since the top of the last market peak in early 2001.

COMPANY

Trade buyers want to buy growth. The more you can demonstrate that your business has grown and will continue to grow, then the more the buyer will pay. The key here is demonstrating that you have consistently grown profitably and generated cash flow, yet leaving enough growth on the table for the buyer. He is buying the ability to generate future cash flow and needs therefore to buy into your “growth story”. Consistency of earnings is also important; a lumpy earnings pattern is very difficult to value and puts off acquirers.

INDIVIDUAL

Private businesses will face individual shareholder pressures to realise shareholder value. It may be because a VC or business angel needs to realise their investment in a given period or because of other factors such as retirement, disagreement or most commonly boredom by longer term owner-managers. If these factors can be managed to align with the market and company cycles then it will clearly be to the benefit of all shareholders. Another key point is that owner-managed businesses actually need to be sold before you want to exit the business. With your commitment for at least a reasonable handover period it inevitably lowers the risk for the buyer, benefiting price.

OTHER FACTORS AFFECTING TIMING

Despite your best plans, the timing of deals can be de-railed by any number of factors outside your control such as: stock market crashes, 9/11, political events. In fact your chosen purchaser may, themselves, get taken over.

In many cases there is little you can do to affect these issues. However, the most common reason for deal failure is a change in business performance. It takes six months to sell a company. So you need to keep focused on managing the business and stay out of the car showrooms, property exhibitions and boatyards, at least until after the deal is done!

If you want to talk to ICON about grooming your business to maximise your exit value, contact Brian Parker at brian@iconcorpfin.co.uk

WHAT BUYERS ARE LOOKING FOR:

- ~ Growth in revenues – historic and future
- ~ Attractive profits and cash flow record
- ~ Visibility of future revenues
- ~ Strength, depth and commitment of management team
- ~ Brand or product recognition in chosen segment
- ~ Scalable business model
- ~ Potential cost or revenue synergies
- ~ Current technology
- ~ No surprises

WHEN NOT TO SELL

- ~ Market, sector and company cycles not aligned
- ~ Reliance on too few clients/employees/suppliers
- ~ Significant contract renewal imminent
- ~ Inadequate working capital
- ~ Lumpy trading patterns
- ~ Business ex growth
- ~ No planning – management/processes/housekeeping
- ~ Sub scale
- ~ Contingent liabilities – legal, technical, etc

GET THE MAX

For ICON's Top 10 Tips to maximise value on exit visit www.iconcorpfin.co.uk