

Guide to
Selling your
Business

ArmstrongWatson[®]

Accountants, Business & Financial Advisers

www.armstrongwatson.co.uk





Selling your Business and Realising your Goals



Welcome to the Armstrong Watson Guide to Selling your Business.

The reason business owners like you decide to sell are many and varied. For some, the impact of the COVID-19 pandemic, lockdowns and increasing uncertainty mean that this is the most challenging time in their business career. For others, they may have succeeded in adjusting to the "new normal", but have had to invest heavily in their business model, perhaps building new infrastructure to allow them to move their business platform online.

Whether it's "director fatigue", or feeling trapped in your business - the "gilded cage", or simply the time is right to go, many see the sale of their business as a key step in the process of their financial planning for retirement, the final task in preparing for the next stage of their journey and a leap towards the personal and financial freedom it may bring.

Deciding exactly when and how to sell your business is one of the most important decisions you will make as a business owner, and we want you to know that help and trusted advice is available to ensure you get the very best outcome for you, your family and your staff.

This guide will look at the very best practices, will help you consider your next steps, and assist you to make the right decisions.

A personal, Partner-led approach

We pride ourselves on being a BIG, LOCAL firm. With close to 500 people covering the North of England, Central and South West Scotland, we have the same local resource and capability of most large, London headquartered firms. However, with 16 locations across the region, including both town-centre offices and flagship city centre locations, we are truly local to our clients, ensuring that you receive a personal, responsive and proactive experience, led by our partners.

We understand the sale of a business, often your life's work, needs to be tailored to your specific requirements and needs. There's no 'one size fits all' approach and our Partners will work with you to maximise the value realised, whilst meeting your personal objectives.

Mike Kienlen
Restructuring & Insolvency Partner

...we're with you

Armstrong Watson had been our accountants for many years, and, given that relationship, I contacted them when I was thinking about selling Gardenwise. Douglas Russell introduced me to Ian Durie, and I was pleased with the way in which he explained the process, including the steps involved, the information that would be required and the likely timescales. Perhaps most importantly, the fact that I would be able to get on with the day to day running of the business while they ran the sales process was a key factor.

Once we had chosen Klondyke as our preferred purchaser, Ian and his team advised on the most appropriate structure, liaised with the purchaser's management team, their lawyers and our lawyers and effectively managed the project through to its successful conclusion. I was delighted with the help and assistance I received from Armstrong Watson and very impressed by the professional and diligent way they handled the work. I would have no hesitation in recommending Armstrong Watson as a corporate finance advisor to anyone considering selling their business.

Alistair Bertram -
Former Owner of Gardenwise (Dumfries) Limited

Laying the foundations

For some, the sale of a business is an objective set many years before the disposal takes place. For others, a direct approach or a life changing event may lead to an accelerated process. Whatever the timing of the decision, business owners have the opportunity to take steps to maximise the likelihood of a successful sale and improve the value obtained.

Know your industry

Keep an eye on what is happening in your industry – read the trade press, speak to your competitors and suppliers. You will quickly get a feel for market trends and opportunities, and this will allow you to have an informed conversation should you receive an approach.

Know your business

Take some time to step outside your business and understand why it performs the way it does. Customer and supplier feedback is always useful, and understanding the motivations and concerns of your staff may lead to improved working practices and efficiencies.

Depending on how much time you have before a sale, there are certain steps you can take that will help in the sales process when it begins.

Three years before a sale

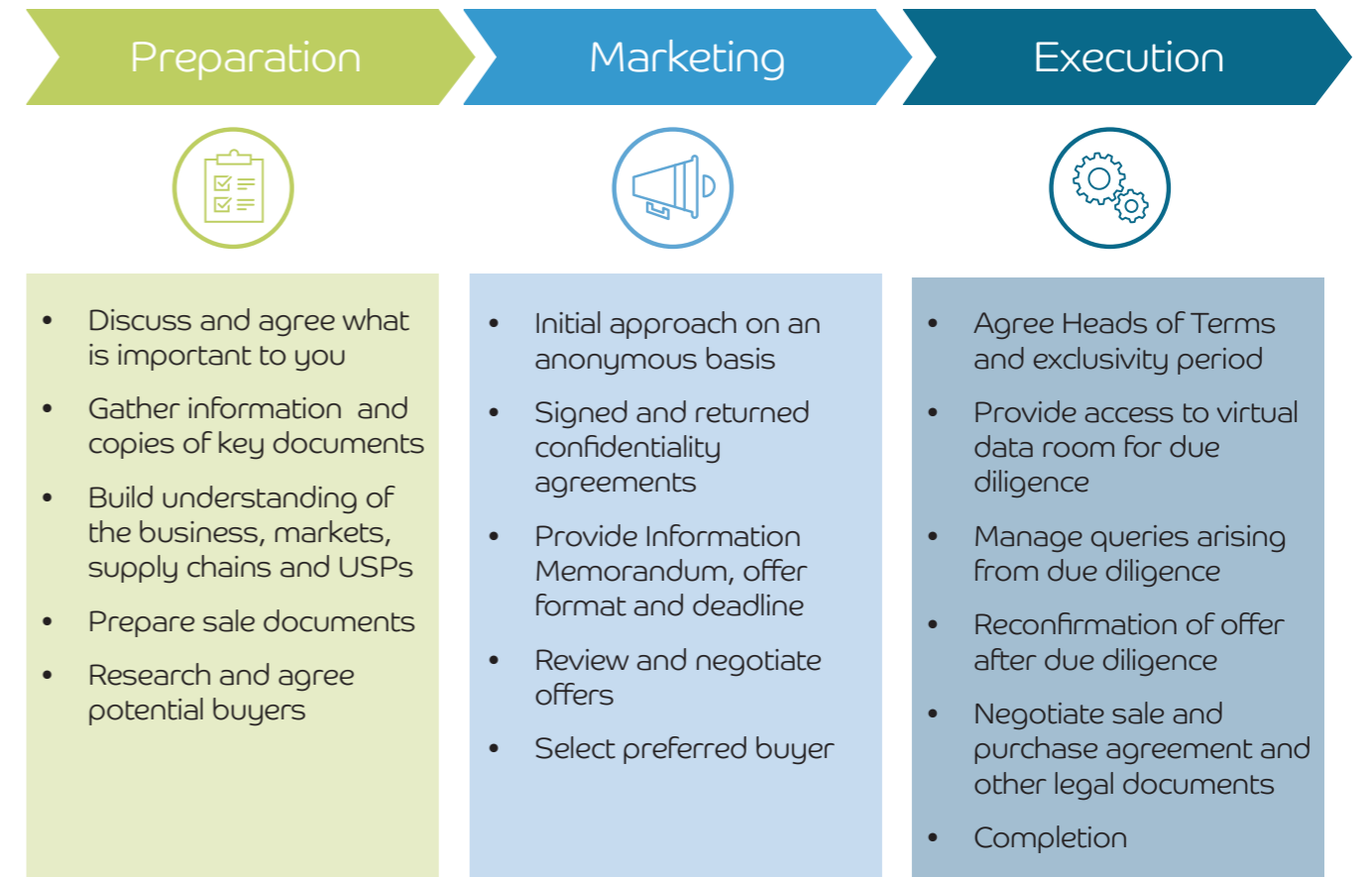
- Undertake a personal financial review and understand your financial position following a sale – include pensions, property and a business valuation. This will tell you if a potential sale meets your objectives and allows you some time to correct any shortfall.
- Consider a restructuring of your business, removing any assets to be retained and dividing the business into separate entities if they might be sold separately. This will allow you to demonstrate a trading history for each entity.
- Document a business plan and projections. This will show you what can be achieved in the next three years, and by documenting this, you will be able to benchmark to potential buyers how realistic and accurate your business projections are.
- Begin to separate the business from the owners. This might include a name change, promotion or recruitment of key individuals, training for certain staff members, and the separation of business and personal lives.
- Ensure the owners remuneration is clearly identifiable, including all benefits, as these may be “added back” for valuation purposes.
- Undertake a review and improve your website and social media presence – this will be reviewed early in the assessment process by a potential buyer. If you can, increase your social media activity and raise your business profile.
- Review and improve your management information and reporting. You should aim to produce information in an accurate and consistent way to meet deadlines. This will give a buyer comfort that the information on which they are basing their decision to buy is accurate and reliable. Address inherent weaknesses in your reporting, such as stock valuations or work in progress. Provisioning on an ongoing basis will also help avoid large reductions in profits.

One year before a sale

- Review and update your legal documentation, including employment contracts, leases and customer contracts. Renew and extend customer contracts if possible, and consider any potential claims or clawbacks from previous contracts. Identify and settle all disputes.
- Update your three year projections and set a budget for the forthcoming year.
- Review your performance over the last three years and update your valuation. Begin the process of reducing your costs and making savings in order to increase profits. If you can, look to drive some additional growth – new customers with growth potential are always welcome!
- Consider discussing a potential sale with your key people. This may lead to a Management Buy Out (MBO), but in any event will reduce the shock of a sale announcement which is likely to be much more unsettling.
- Interview Financial and Legal advisers. This will allow you to take a range of views on your business and the potential issues surrounding a sale, and obtain some comfort that the advisers you choose understand you and the business.

Reset your timetable if necessary. The decision to sell is yours, and if the timing is wrong, or you become uncomfortable with the process, don't be afraid to stop and look again at decision to sell.

The sales process



Finding a buyer

"Our key deliverables in the sales process are identifying and engaging with the right buyer."

First we need to understand your business and agree your objectives, before we discuss the most suitable route for your sale and begin our search. We will also discuss with you your appetite for the marketing of your business, and your concerns about confidentiality and the impact of a sales process on your customers, staff and suppliers.

We'll endeavour to provide you with a range of potential trade acquirers, considering both UK and International where appropriate, often from within a similar or complementary sector. Alternatively, the right buyer may be located within your very own business, or if you'd like to retain some control, investment via private equity might be the best option for you.

Limited Marketing and Sale Options

Previous Approaches

If you've been directly approached to consider a sale in the past, we will discuss this with you, providing a report on the financial position of the potential acquirer and considering the appropriateness of opening discussions prior to any marketing.

Private Equity Investment

Private Equity Investment is an ideal way of releasing value in your business and achieving growth without giving up full control, with the support of professional investors. Our internal resources and contacts can identify UK and overseas Private Equity and investment groups of all sizes.

"Off Market" Approaches

If you wish, we can directly approach a small number of "pre-vetted" potential acquirers, to canvass potential interest. This has the advantage of ensuring a direct response from an interested acquirer and can be a quicker route to a sale. It can also help address any confidentiality concerns.

Management Buy Out (MBO)

An MBO may be the right option for your business, but it's essential to consider this very carefully. We can discuss the appropriateness of approaching your Management Team, considering their capabilities (including any gaps), and their capacity to raise funds. We can then help enable them to complete an MBO, either directly or alongside a PE house or Investor.

Opting for the Full Sales Process

If you do decide to engage in the full sales process, we will ensure your business is marketed in the most appropriate way and to the right audience. This could include:



Your network

- we can help you identify key suppliers, customers and business partners within your network, to highlight any potential purchasers from your own contacts.



Wider Industry and trade buyers

- we will use our range of desktop research tools to identify businesses, presenting you with the opportunity to review and consider these prior to an approach.



Professional Network

- we will approach our UK professional network on your behalf, benchmarking their acquisition mandates with your opportunity.



Private Equity (PE)

- our relationships with PE businesses, and the companies they invest in, will allow us to identify and approach potential acquirers directly.



International buyers

- if you feel that the most likely buyer for your business comes from overseas, our international network allows us to reach potential buyers across the globe.

"I would not hesitate in recommending Armstrong Watson to someone thinking about selling their business. It's been a journey - without Armstrong Watson and the team's support, help and sound advice, I know we wouldn't have achieved the outcome we did. We've been through a lot, Armstrong Watson genuinely care and have always been there going above and beyond to help us. We'll be eternally grateful for the support we've had."

Vendor -
Project Sunflower July 2020

Case Study

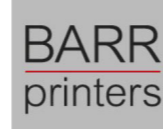
Our experience



Lead advisor on the sale of Gardenwise (Dumfries) Limited to Klondyke Gardens Centres
JANUARY 2020



Lead advisor on the sale of Watson Burton LLP to Weightmans LLP
MAY 2020



Lead advisor to Chalmers & Milne Limited on the sale of Barr Printers to East of Scotland Colour Print
JULY 2020



Lead advisor on the sale of Integrity Office Limited to Eco Communications Limited
NOVEMBER 2020



Lead advisor on the MBO of Thermal Care Scotland Limited
AUGUST 2020



Lead advisor on the sale of Atherton Godfrey LLP to Switalskis
JANUARY 2021



Lead advisor to Cubby Construction Limited on the acquisition of Finlayson Contracts Ltd from Esh Group
OCTOBER 2020



Lead advisor on the MBO of Crawford Higgins Associates Limited
SEPTEMBER 2019



Lead advisor on the MBO of Watsons Business Services (Holdings) Limited and its subsidiary Watsons Building Services Limited
MAY 2020



Acted as lead advisor for management of Atlas Cloud to secure equity investment to support the scale up of the business
FEBRUARY 2020



Project Sunflower
Lead advisor on the confidential sale of a children's home and independent school to a PE backed buyer
JULY 2020



Lead advisor on the sale of IT Shaw Limited to Floodsafe Group Limited
AUGUST 2020

Background

Founded in 2009, Integrity is an IT solutions and consultancy business, delivering IT Solution packages to small businesses and larger organisations, and has more than 1,500 users.

Managing Director, Andrew Fisher, has been a client of Armstrong Watson since Integrity was founded in 2009. In 2015 he started thinking about retirement plans and engaged with Armstrong Watson for specialist advice around his exit options.

What did we do and how we did it?

Initially we spent time gathering an in depth understanding of the business operations, a detailed view of the financials and the management information available, getting to know Andrew - understanding his personal objectives for selling to better advise on value expectations.

Using our knowledge and sector experience, we carried out market research into potential purchasers. We prepared an anonymous flyer noting key investment highlights and circulated it to our target list and wider network of M&A professionals. An excellent response followed and we issued confidentiality letters to 17 interested parties. This was then narrowed down to the preferred purchaser and Heads of Terms agreed. However, close to completion, the purchaser changed the terms of the deal. Despite our own remuneration being contingent upon successful sale completion, our objectives remain aligned with Andrew's. We reminded him that if the deal no longer met his initial selling objectives, it wouldn't be advisable to proceed, and he withdrew from the transaction.

We continued to work closely with Andrew and the business continued to grow, with turnover increasing by over 60% by January 2020, when Andrew received a direct approach by a potential buyer. Fast forward to November 2020, and Integrity Office was sold to Eco Communications Ltd, a communications and IT solutions provider.

Result

Eco was not the buyer Andrew initially received a direct approach from, but with our help and expertise we solicited offers from two further parties, creating the competitive tension that ensures the best possible value for the business, ultimately driving the price upwards. However, the best offer is not always down to price. The company was more than just an investment for Andrew and he appreciated that without his loyal customers and excellent team members, the business wouldn't be where it is today and he was not prepared to sell solely to the highest offer. Andrew instead chose the preferred purchaser based on the offering and opportunities for customers and staff alike, and sold at a competitive price following the increase in value and interest we were able to drive into the process.

“It was apparent that Darcie was not set on just getting any outcome. Through her pro-activeness and her understanding of my own objectives, she made sure she got me the best outcome possible.”

Andrew Fisher -
Managing Director,
Integrity Office
Limited



Large Firm Capability, Local Firm Delivery

Our relative size means that we have many of the features and benefits of large, national firms, whilst our independent structure and local focus allows us to deliver a level of service that is truly different within the market.

Large Firm Capability



Resource capacity

- giving us the ability to mobilise people across the UK, at short notice, for any project, large or small



Partner Led Service

- our Team is led by one of the most experienced Partner teams in the UK, who will be intimately involved in all aspects of your transaction



Market leading research capability

- our research team will identify potential buyers using our range of online research tools and assess the quality of potential purchasers



High calibre team

- from graduate through to partner level, our people benefit from an industry-leading learning and development programme, while our senior team includes home-grown talent alongside large firm recruits



Large-firm infrastructure and technology

- allowing us to be efficient, agile and responsive



International Capability

- alongside our UK Network, Armstrong Watson are members of MSI Global and IAPA International, two of the world's largest professional services associations. This gives us the ability to reach out to overseas buyers, while also allowing our clients to benefit from our international advisory network for transactions involving overseas subsidiaries or branches



“Our trusted corporate finance team can bring their experience, original thinking and proactive approach to advise and support you to find the right way forward for you and your business.”

Local Firm Delivery



Unique approach to pricing

- with a commercial offering that aligns cost with value and gives flexibility and control back to you, the client



Commercial and Collaborative

- while it is important that we maintain our professional independence, we are not constrained by internal diktats, allowing us to work collaboratively and commercially with you in a way that is designed to enhance the value of your business



People focused

- we recruit well-rounded, passionate, people-focused colleagues and train them to be great advisers and accountants. We find it's much easier than the other way around!



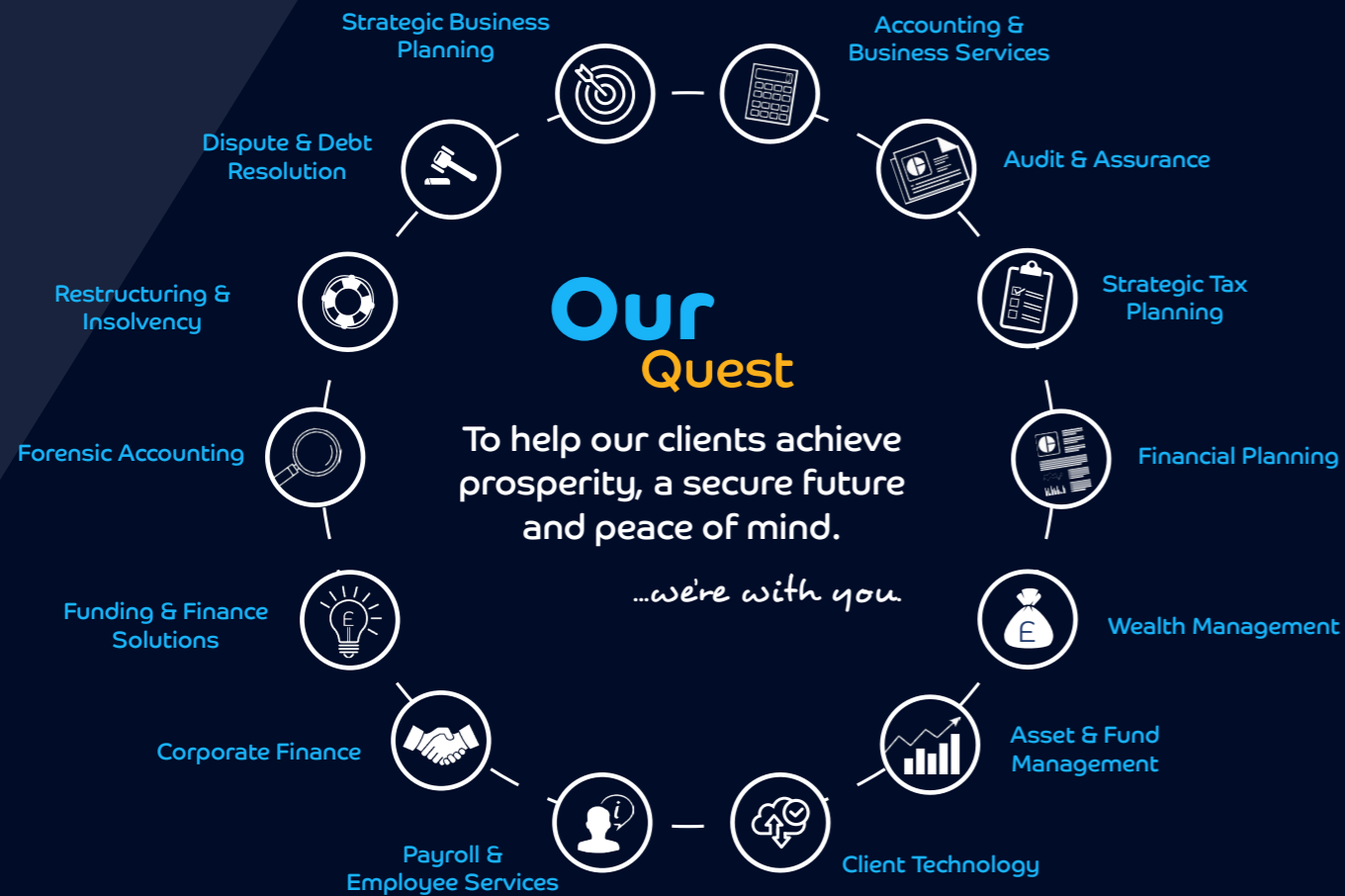
Value Focused

- we have the flexibility and autonomy to spend time with our clients. Only by dedicating this time to you can we properly understand your needs and objectives, allowing us to build a transaction that is bespoke to you and is focused on delivering real value



Our Services

Much like large international accounting firms, Armstrong Watson offers a true 'one-stop-shop' solution for businesses.



Our Values

We believe that how we work with our clients is as important as what we do. That's why our approach to our own internal values and culture is central to everything we do.



...we're with you.

“Selling your business and family home of over 40 years is a life changing event... Having never sold a business before there are so many unknowns and uncertainties, not to mention doubts... Andrew and Darcie guided us all throughout the entire process and invested their time to ensure we had a clear understanding... Cutting through the jargon and liaising with the legal advisers made things even easier for us and without their guidance and support we may have never completed the sale...”

The Quinion Family - formerly of Farlam Hall.

Dumfries
01387 955900

Carlisle
01228 690000

Penrith
01768 222030

West Cumbria
01900 310440

Kendal
01539 942030

Settle
01729 320960

Manchester
0161 2590260

Glasgow
0141 233 0130

Newcastle
0191 434 0830

Hexham
01434 375550

**Tees Valley/North
Yorkshire**
01609 702000

Skipton
01756 620000

Leeds
0113 221 1300

Call **0808 144 5575** to be put through to your local office or
email **help@armstrongwatson.co.uk**

ArmstrongWatson[®]

Accountants, Business & Financial Advisers

www.armstrongwatson.co.uk

...we're with you.