DEAL LEADERS INTERNATIONAL

ONE SHOT

Market-proven insights into exiting your business successfully

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CONTENTS

Taking the First Step **3**

Your Motives for Selling 4

Exit Strategy Influencers **6**

About Deal Leaders International **10**

The DLI Methodology **11**

Preparation Phase 14

Market Engagement 15

Negotiation Phase 16

Deal Conclusion 18

Concluding a Successful Exit and Fetching the Best Value for Your Business **20**

Always Have a Deal Strategy 21

Tell the Market What You Want 21

Be Proactive **22**

Challenges You Can Expect to Encounter 23

Fetching Maximum Price for Your Business 24

Insights 25

Bulletproof Preparation **30**

Financial Analysis and Business Planning 31

Cast Your Net Wide When Looking for Buyers 32

Engaging the Market **34**

Be Ready to Negotiate Like Hell 36

Ensure That You Always Have Choices 38

Moving Parts 39

Be Future-Focused **42**

Conclusion **44**

Key Take-outs 45

Meet the Author **46**

CONTINUE

> **TO GET THROUGH THE HARDEST JOURNEY WE NEED TAKE ONLY ONE STEP AT A TIME, BUT WE MUST KEEP ON STEPPING**
>
> **- CHINESE PROVERB**

Taking the First Step

Selling your business ranks as one of the most stressful experiences any entrepreneur will go through. Not only does your business represent a significant period of your life, but also your most valuable asset. Embarking on this journey is a big step to take. Completing the journey successfully is even more difficult. I have written this book 'from the trenches', for want of a better term. I feel it is easy to theorise about what it takes to complete a successful transaction from behind a computer. The good old desktop valuation approach doesn't cut it, and the way you built your business is the very way that you need to approach selling it. Walking the hard yards and a lot of elbow grease are essential to the successful sale of your business.

This book has been written to give you insight into the complexities of selling your business. Irrespective of whether you decide to embark on this journey alone or with a specialist in your corner, I believe that the information that you will work through over the course of this book will empower you to execute a far more successful transaction. I wish you every success with your exit strategy.

REALITY CHECK

There are no shortcuts on this journey.

Your Motives for Selling

In a market filled with acronyms, egos and complexity, it is important to slow down to a mild panic and ask: What is your true motive for selling? There are multiple reasons why you would embark on this journey, but we are seeing trends in the motives behind this important decision. Do any of the following resonate with you?

LIFESTYLE CHANGES

Growing a business can be an infinite journey. Having achieved your goals and not having an appetite for the next chapter in the life of your business, you may be considering a change. Perhaps you want to move off into a completely new direction of business, follow a passion of yours or spend more time with your family. Whatever the reason, the fact that you will be making a change that will counter the massive investment you have made over the years will have a big influence on your decision to exit.

YOU ARE 'GATVOL'

There really is no diplomatic alternative to the amazing South African term of being 'gatvol'! When you are spent at every level and have lost your passion and energy for your business, it may be time to plan your exit.

BUILDING A BUSINESS VERSUS RUNNING A BUSINESS

We frequently engage with entrepreneurs who are passionate about building a business, but not excited about running it. Have you become tired of being the HR manager and sitting in meetings all day? Are you tired of the disconnect between yourself and the coalface, where you used to spend all your time? These are indicators that the time may have come to make a change.

YOU CAN'T DO IT ON YOUR OWN

An exit strategy is not only about exiting your business. We talk about the triggers to exiting your business in detail in our next section. With the next exciting chapter of your business staring you in the face, perhaps the right strategic growth partner could make the decision easier, so you can hit it with everything you have in the final chapter of your business.

Exit Strategy Influencers

Looking at Diagram 1 below, we see the common growth graph of most successful businesses. Being able to stay in business is tough enough, let alone consistently invest in your company to drive growth. Look back at your own journey. I'm sure there were many times when you were faced with big decisions that impacted the direction of your business. Some good and, no doubt, some bad.

Diagram 1: Business Growth Curve

The million-dollar question, which we are sure you have asked yourself many times, is whether it is time to invest again. Depending on where you find yourself on the curve above, you will be asking yourself a number of difficult questions relating to the next phase of your, and your business's, life cycle. In breaking down what 'investing' means, we have identified four criteria that are prominent in influencing your decision to exit. These criteria need to be analysed and assessed in order to determine what the right decision will be for you.

Is it time for a full exit or to find a strategic growth partner? Diagram 2 clearly shows the four influencers that determine which exit strategy will be the very best for you:

Exit Strategy Influencers

PERSONAL ENEGRY
How much personal energy do you have to continue and grow?

VALUE
Are you happy with the current value of your business?

TIMELINE
What is your timeline to exit?

RISK
Do you want to de-risk totally?

Diagram 2: Exit Strategy Influencers

TIMING

At what life stage are you finding yourself? Do you still have a solid runway of 10 to 15 years ahead of you, or is it time to hang up your gloves? Time is the most important currency of our lives. It is finite and more valuable than anything else. You need to assess how time will influence your decision to exit. Remember that, on average, it takes three years to exit your business.

RISK

You have pretty much put it all on the line to reach this stage. It is often an eye-opener to see that there are sureties and guarantees that have been in place for 20 years, but that have been long forgotten. When your personal financial future and financial security are overexposed to your business, can you afford to take on more risk in the next phase of your business? Having come so far, can you risk 'betting' it all again to invest in the next phase? Is it time to release yourself from that risk, share it with a strategic partner or carry it on your own moving forward?

VALUE

How much is enough? Have you made your money already or are you waiting for your exit strategy to cash in on your sacrifice over the years? Can you grow your business even more, but require more capital? Can you risk placing your nest egg back into the pot and embarking on the next phase? Only you will be able to answer these questions relative to the life phase you are in. Perhaps a starting point is knowing how much money you need to retire on or move on to the next phase of your life. We have always recommended engaging with a reputable wealth manager as a starting point. When you have an idea of what the required amount is to live the way you want to, you can determine what your business would be worth and measure whether the numbers align. If they don't, it may be time to embark on the next growth phase of your business.

ENERGY

The physical, mental and emotional impact of running your own business takes its toll. The sum of the elements listed in Diagram 3 will directly impact on how much energy you have left in your tank. Having just finished a marathon, do you have enough energy in reserve to start the next race?

EXIT INFLUENCERS	HIGH	LOW
Time available to you	Look for a strategic investor or BEE partner to help you grow your business.	Explore a full exit
Risk appetite	Look for a strategic investor or BEE partner to help you grow your business.	Explore a full exit
Current value of your business	Time for a full exit	Look for a strategic investor or BEE partner to help you grow your business
Your personal energy levels	Look for a strategic investor or BEE partner to help you grow your business.	Time for a full exit

Diagram 3: Exit Plan Decision Matrix

ON AVERAGE IT TAKES 3 YEARS TO EXIT YOUR BUSINESS

About Deal Leaders International

Deal Leaders International (DLI) is a Johannesburg-based professional advisory firm that specialises in working with the owners of privately owned businesses to implement their growth or exit strategy. We have built a successful business doing just this one thing, as we know that the journey is an emotional roller-coaster with everything at stake. The journey for you, the business owner, is a tough one. Getting to a stage where you start considering your exit strategy is not an easy chapter to explore. With years of experience in dealing with entrepreneurs and business owners alike, we have developed a robust process and methodology to guide you through the sale or growth phase of your business. This focus and experience gives our clients comfort that they have the right partner in their corner.

Being entrusted with your most valuable asset is a privilege to us. This is why we have built a highly skilled team that will support you throughout the process. From expert deal advisors, business analysts and researchers to graphic designers and editors, our experience and intellectual property is perfectly geared to take your business to market effectively.

Through our local and international networks, we are able to identify the very best acquirers, strategic growth and transformation capital (BEE) partners to suit your exit, or growth strategy requirements.

Our level of professional service, execution capability, governance and confidentiality make us the number one choice as sell-side advisors for the owners of privately owned businesses.

The DLI Methodology

Our approach has been described in many ways. Maverick. Contrarian. Innovative. Irrespective of the adjective used, we know one thing's for sure. Our methodology works and resonates with you, the entrepreneur and business owner. There are a number of themes that influence our process. These will become more and more apparent as you progress through this book.

As a start, what if I told you that selling your business isn't a financial process, but rather a sales and marketing process? My guess is that you would vigorously challenge me on that one. What if I told you that the process of selling your business should be controlled by you and not the acquirer? What if I told you that there are acquirers who would be interested in your business even though they do something completely different to you? What if I told you that you could get more than one interested party to the table by only showing them a very brief insight into your business?

Lastly, what if I told you that you could get these acquirers to put an offer forward on your business without performing due diligence? Sound far fetched? Well, it isn't. This is exactly what our process delivers for our clients.

The DLI Methodology

PREPARATION

- Business Immersion
- Business Planning
- Research

MARKET ENGAGEMENT

- Prospect Engagement
- Meeting Phase

NEGOTIATION

- Offer Submission
- Offer Uplift
- Offer Acceptance

DEAL CONCLUSION

- Due Diligence
- Agreements
- Pay Away

Diagram 4: The DLI Process

Diagram 4 gives a high-level overview of our process. This process has evolved over the years to a point of refinement that we at DLI are very proud to call our own. Unlike other methodologies that represent international models being panel-beaten into the South African market, we have built our business and methodology from the ground up. Combining best of breed intellectual property and experience, we have crafted a mergers and acquisitions (M&A) process that leverages both local and international reach and resources with a distinctly South African DNA. There are multiple layers that underlie this overview, but I am sure that this at least gives you some idea of what it takes to execute a successful transaction. We are sharing this tried-and-tested methodology to provide you with insights into what you need to do to execute a successful exit strategy.

Preparation Phase

Once you have made the decision to explore an exit strategy, the amount of preparation you put into the process will have a material effect on your success in the marketplace. Speaking to a number of clients who have concluded successful transactions, we have seen that the importance of the Preparation (Prep) Phase that's driven through our process is a common theme. The Prep Phase can take up to three months if executed thoroughly. Areas that are covered include:

BUSINESS IMMERSION

Whether you are doing this yourself or with an advisor, you need to take a step back from your business and analyse every element of it as though you were an acquirer. What makes your business unique? You need to take a close look at the good, the bad and the ugly. An extremely important part of this analysis is to identify where the internal and opportunities are. It is critical that you encapsulate the essence of your business during this process. What is the DNA that makes your business tick? You will see as you read through the rest of this book that a great deal of value resides in the intangible elements of your business. You will also need to tap into this information to start understanding what your personal and business non-negotiables are. These will have a massive impact on how you will need to go about executing your exit strategy in a way that will ensure its authenticity and success.

BUSINESS PLANNING

Like the business immersion step above, you will need to pull your numbers apart. Where does the real value of your business reside? What are your revenue and cost drivers? What are your working capital requirements? Are your debt levels palatable in the eyes of an acquirer? What does the sustainable and normalised forecast look like over the next three years? A financial understanding of the business is critical, as it will enable you to show an acquirer what the future looks like. This future is what business planning is all about. You are selling the true value of your business based on what it will deliver for the acquirer moving forward.

RESEARCH

The ability to successfully identify the right buyers and get them to the table influences the probability of success of a transaction more than any other variable. You will see the complexity and challenge of identifying the right targets to approach. You will see how our experience has shown us why traditional methodologies don't work. In this phase you are looking at anything between 20 and 150 potential buyers!

Market Engagement

If I thought I could get away with having a tattoo (and not seem like I was going through a mid-life crisis) I would definitely get something along the lines of 'Reality Rocks!' Climbing into the market and dealing with reality is the very essence of what makes our model so effective. The safety and comfort of sitting behind a computer screen creates a very dangerous equation of theory and opinion. I am not a huge fan of theory without physical evidence and believe that the market will tell you very quickly whether you are heading in the right direction or not. You will see that while placing a potential acquirer on a list is a simple step, actually getting them interested in your business is easier said than done. This is what the market engagement phase entails,and it serves as a conduit between all the hours invested in the prep phase and getting to the all-important negotiation phase. Ironically, we see many advisors in the marketplace leave this critical phase to their most junior staff members... Go figure!

PROSPECT ENGAGEMENT

Physically having a conversation with the right decision-maker and selling the opportunity to them in a way that gets them to 'bite' is what this phase is all about. Adding complexity to the mix would be elements like engaging with overseas buyers in different time zones and potentially in different languages. Overcoming these challenges and getting an acquirer interested is only the beginning. You need to achieve this without telling them anything about your company upfront as you can't risk the market getting wind of the potential sale. You therefore need to exercise good governance in terms of ensuring that you get a non-disclosure agreement (NDA) signed by every potential acquirer before you share any meaningful information with them. Once they have the details of the opportunity, you need to get them to the table for a meeting.

MEETING PHASE

The meeting phase is critical as it represents the first face-to-face engagement you will have with the potential acquirer. This gives you the opportunity to sell your business and at the same time assess whether the party sitting on the other side of the table is the right acquirer for you. The challenge in this phase is to secure meetings with enough potential acquirers to give you choice as the seller. We unpack the importance of choice at a later stage in this book. After going through the research and prospect engagement phases, you will end up with a handful of meetings relative to the number of targets you initially had on your research list. If you contact 150 potential acquirers and end up with four meetings, you will have done very well.

Negotiation Phase

Having successfully executed your prep phase and market engagement phase, you now start the real work! I don't say this flippantly, but you need to ensure that all the preparation and work you have done to date culminates in effective discussions and negotiations with prospective buyers. Later on in the book we will cover the elements that determine the success of a negotiation. What is positive is that you would already have negotiation skills based on your day-to-day experience. There is no doubt that these skills will be put to the test.

OFFER SUBMISSION

Everything that you commit time to during this process needs to be part of your plan, triggering a 'cause and effect' mechanism. You are investing time in these meetings to sell the opportunity to potential acquirers with the intention of extracting an offer out of them. Getting an offer out of a prospect before they have concluded a due diligence process is not easy, but very necessary. If an acquirer convinces you that they need to perform due diligence before they submit an offer, you typically would have lost control of the process. There are ways that this can be managed, but it must be the exception rather than the norm. It is also very important to get offers out of several acquirers so you have something to compare each offer to. In isolation, one offer is difficult to assess.

OFFER UPLIFT

The receipt of offers from potential acquirers is a massive achievement. Once you have analysed the offer it is important to position an uplift mechanism to get the acquirer to increase their initial offer. You heard me right. You need them to pay more! However, this is not as easy as it sounds. The uplift process needs to be strategically planned and positioned through a combination of market intelligence and synergy. You have one opportunity to lift the offer 'bar' and this is the time to achieve that.

OFFER ACCEPTANCE

Once you have actual offers in front of you, in writing, you need to make a decision. What makes the final decision tricky is price, structure, timing, funding, regulatory approvals and cultural. The list goes on, but you need to get to a position where you can compare like with like. On acceptance, you have to let the other suitors down softly and move into exclusivity with your chosen acquirer. It is at this point that contractual obligations start to kick in.

Deal Conclusion

DUE DILIGENCE

Everything that has been positioned thus far with the acquirer has been done so at a very high level. On acceptance of an acquirer's offer you will move into an exclusivity agreement confirming that you may not engage with any other suitor during this phase. You can understand why this is important for an acquirer, as they are about to commit significant resources to conclude this transaction and the last thing that they need is to have the rug pulled out from under them. The due diligence (DD) process can be extremely stressful as you would typically be dealing with a third party auditing firm that will be coming in cold. There are pros and cons to this for all parties. I would say that the biggest challenge would be that the auditors were not party to the 'spirit' of the negotiations, which can create some friction between the parties. Prepare yourself for a barrage of requests and a significant investment of time dealing with this process. The average DD process takes about six weeks, so the investment in time and energy is material.

AGREEMENTS

We cannot overstress the importance of investing the requisite amount of time and resources into getting your legal agreements accurate and correct. We advise our clients to get an experienced legal advisor as the complexities and nuances in concluding a legal agreement that protects the seller, encapsulates the spirit of the agreement and measures blowout risk is mission critical. Acquirers will insist on extensive lists of warranties, which you have to commit to, as their insurance policy. Like a divorce agreement, these agreements need to be drafted as though the deal, or relationship, has fallen apart. Remember, it is common practice to negotiate with a CEO or CFO that you connect well with. When there is a constructive and positive spirit to the negotiations, you may make the mistake of reviewing the agreements through rose-tinted spectacles.

A caveat is to make a practice of reviewing these agreements as though those individuals are no longer there, and a new individual has taken over who wasn't there for the negotiations and has no way of knowing what the spirit of your negotiations looked like. He or she will default to what is in black and white.

PAY AWAY

When everything has been concluded, the due diligence completed and the agreements signed, the time will come to be paid for your shares. Depending on the structure of the deal, this will trigger the transfer of your shares or assets, along with the risk and reward of your company moving forward. You will receive the funds in terms of the agreement, at which time the transaction will be concluded.

HOPE IS NOT A STRATEGY

- FORMER NEW YORK CITY MAYOR, RUDY GIULIANI 2008

Concluding a Successful Exit and Fetching the Best Value for Your Business

"How do I conclude a successful exit and fetch the best value for my business?" This is the most common question we face from our potential clients at Deal Leaders International. I wish it was easy as providing a single answer to what should be a simple question. Unfortunately it isn't, and this book is testament to what it takes to achieve what you are looking to accomplish. Achieving your goal will take careful planning, meticulous execution and bulletproof resilience. The journey could take six months or longer. It could be likened to spending hundreds of hours on a roller-coaster ride that is as difficult to describe as it is unique for each and every business owner. By reading through the next section carefully, you will start getting insights into what it takes to exit your business successfully.

Always Have a Deal Strategy

Never go to market and 'see what happens'. I love the phrase above and use it pretty much every day. Are you willing to gamble everything you have invested into your businesses on a word like 'hope'? Excuse the pun, but I hope not!

Going to market without a defined strategy and goal of what you want to achieve leaves you vulnerable to the plans and strategies of acquirers. Believe me when I say that acquirers have been doing this for a long time and they definitely have a strategy. Selling your business is the ultimate chess game. So, like chess, your exit plan needs to involve a robust strategy. As difficult as it may be, write your plan down.

Think it through carefully and answer questions like:

- Do I know what my business is worth?
- Is my business ready to sell?
- Can my business run without me?
- What makes my business an attractive target for my acquirer?
- Do I have the time and skills to sell my business myself?

Tell the Market What You Want

"Let's go to market and see what happens" is the most dangerous position to adopt. With this approach you have already lost control. By not telling the market what you want, you are exposing yourself to the whims and requirements of the acquirer.

The key steps here are as follows:

- Write down your personal non-negotiables.
- Write down your business non-negotiables.
- Approach the market with these non-negotiables and present them.

REALITY CHECK

Always be in control.

Be Proactive

Typically, the acquisition process is driven by the acquirer. Those of you who have been approached by an acquirer previously will know their modus operandi. Having been on both sides of the table, I know it well. Common strategies and behaviours we have picked up from thousands of acquirers around the world are:

- Separate the business owner from the pack (if there is more than one buyer at the table).
- Always control the process as the acquirer.
- Create hoops for the business owner to jump through to wear them down for the negotiation phase.
- Never over-pay.
- Create urgency with a 'take it or leave it' offer deadline.
- Make sure that the business owner has skin in the game by structuring the deal to mitigate their risk and reduce cash outflows.

Sound familiar? Sound scary to those of you that haven't embarked on this journey? I'm sure it does. This is the minefield that is the M&A market. I am sure that you are slowly starting to see why it is necessary to have someone in your corner who knows how to operate and flourish in this market.

Challenges You Can Expect to Encounter

YOU ARE FORCED INTO BEING REACTIVE

By reading through the various comments above, you can easily see that the traditional process and pressure forces you to be reactive. You will pick up a theme throughout this book detailing the importance of having a plan and being proactive. Throughout the remainder of this book, we will detail more of what is required to structure a proactive strategy and process to put you, the seller, in a far more commanding position than previously experienced.

A LACK OF M&A EXPERIENCE OFTEN RESULTS IN PASSIVITY

Having engaged with hundreds of acquirers around the world, I still find it fascinating to see how many nuances there are in the M&A market, let alone the financial and technical languages involved. Without adequate experience in M&A and corporate finance, one automatically finds oneself on the ropes when it comes to attempting to decipher what the party on the other side of the table is actually saying. You are an absolute expert in what you do and everything relating to that. Similarly, the acquirer on the other side of the table is an expert in buying businesses. You need to ensure that the playing field is levelled. How you achieve this is really up to you. Without doing that, you face the risk of not achieving a great transaction. I cannot stress it enough how important it is to bring yourself up to speed with the M&A world or to get someone with plenty of expertise and experience in your corner.

REMEMBER, THE BEST BUYERS ARE RARELY LOOKING TO BUY!

This has been an interesting discovery for us at DLI. Although we have built up significant market intelligence over the years and developed strong relationships with serial acquirers, many of our best transactions have been concluded with

a company that wasn't actively looking to acquire at the time of approach. So, if you are looking for someone to buy your business, how many companies should you approach? What would a reactive strategy versus a proactive strategy look like?

Reactive

- Approaching 1 to 10 companies only
- Approaching a competitor
- Approaching someone with money

Proactive

- Approaching anything from 20 to 150 acquirers
- Approaching acquirers from multiple sectors that have potential synergy with your business in one way or another

Fetching Maximum Price for Your Business

NEVER TAKE A PRICE TO MARKET!

How do you fetch maximum price for your business? Well, the first answer is pretty straightforward: Don't take a price to market! Conventionally, the entire M&A market is built on performing a valuation to determine a value for your business and taking that value/price to market. However, you would be correct in challenging this statement. By way of an example, let me demonstrate why:

Using your accountant, you value your business at R50 million. Armed with that knowledge, you approach the market with an offer to sell your business. When asked what you want for the business, you guessed it, you tell them the price is R50 million. In our experience, this is a big mistake.

Let me tell you why. If you were talking to buyers who were familiar with your company, but based on their limited knowledge, didn't know the intrinsic detail of what made your business special, the value of R50 million would seem way too high. On the other side of the scale, there may be a strategic acquirer who knows that your business could

unlock significant value for their own business and would have been prepared to pay R100 million. However, you have already offered the business to them at R50 million. They aren't going to pay more than the offered price. It would be a great investment for them as they would acquire your business at a 50 percent discount. Taking a price to market is a dangerous strategy that we avoid at all costs.

If you were to sit across the table from me and ask me what I think the value of your business is, I would reply with the following: What price do you want for your business? Maybe R50 million? If I offered you R60 million would that be a good price? Yes? How would you know if you have nothing to compare it to? Price is what I would pay for your business based on the economic principle of supply and demand. If I, as an acquirer, paid you R60 million for your business but through buying your business I can access your customer base for my products or services, unlocking another R100 million a year, what is the value of your business to me now? I'm sure you will agree that it is a lot more than R60 million! The following insights are going to seem very counter-intuitive coming from an accountant (yes, I am an accountant but please don't hold that against me!) but they are tried and tested, so please work through them carefully:

Insights

YOUR FINANCIALS TELL A STORY

Any business owner that has weathered the economic and political instability over the last few years deserves a medal. Looking at the general financial performance over the previous three years, we find that many of our clients' results dropped off from previous years, creating concerns around whether decent value can be achieved by going to market. You may look at your business and feel that your numbers have dropped, but there is generally a good reason for it. There is a story behind the numbers. What happened to your competitors? How many enterprises went out of business in your industry because of market pressures? Your performance is all relative. If your revenue stayed flat year-on-year, but your

sector declined by 15 percent, you performed 15 percent better than the average. As an acquirer I would find that very attractive. As I said, there is a story to be told here. Analysing your business and your numbers is definitely not one-dimensional.

YOUR FINANCIALS ARE ACADEMIC

This is a sweeping statement I know, but in all honesty, it is meant to be. With tax planning, effective structuring and the need to maximise returns to you, does a set of historical financial statements accurately present the true value of your business? In my example above, they definitely wouldn't.

VALUE IS DRIVEN BY NORMALISED AND SUSTAINABLE EARNINGS

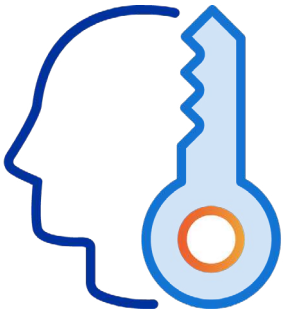
An acquirer is buying into what your business will deliver for them moving forward. In addition to that, they will buy into your business on a sustainable and normalised basis. What I mean by this is that if, for example, you are drawing a massive salary of, say, R4 million a year, but the market-related salary for your role is R2 million, you would need to add back R2 million to your bottom line, as this better reflects what the costs to your business would be if you weren't operationally involved or are now working for the acquirer for your lock-in period. There are many examples of this, all representing a great deal of hidden value that needs to be normalised in the eyes of the acquirer in order to fetch maximum value for you. Step one is to work through your financials and management accounts to separate once-off and recurring costs that may need to be added back, and to convert all your costs to arm's-length transactions. The best example of this would be if your company's premises is owned by another company that you own, and you charge your business rent at an inflated rate compared to the market rate. By making the rent market-related, the costs of your business decrease and the profitability increases. All of your company's relevant costs and income sources need to be normalised in this way.

ACQUIRERS ARE LOOKING FOR VALUE

I am sure you will agree that there is a great deal of value sitting in your business that isn't necessarily reflected in your financial statements. If your business has been around for 20 years, has weathered multiple market downturns and has established itself as a market-leading brand, would that be worth something to your acquirer? Overlay this onto a set of pedestrian financials impacted by economic pressures over the last two years.

What would this do to those numbers? You guessed it! Absolutely nothing. However, if I wanted to enter your market and had the opportunity to buy your business and achieve 20 years of pedigree from day one, that would definitely be worth something.

As far as I am concerned, this intangible asset would need to be paid for in addition to what your business can financially deliver for the acquirer. More importantly though, is it worth more than what is reflected in your financial statements?



The number one driver in choosing the right acquirer is cultural fit... Not price!

TRADITIONAL VALUATION METHODOLOGIES

It's time to get your dictionary out for this one. Depending on which sources you go to, there are in excess of 10 valuation methodologies out there. There are also new hybrids presenting themselves internationally all the time. It is a maze of complexity that becomes daunting for all of us. The following are but a few examples of traditional valuation methodologies:

- Multiple of earnings
- Discounted cash flows
- Trading multiples

SO, WHAT IS YOUR COMPANY WORTH?

A desktop valuation is based on a theoretical set of assumptions at a particular point in time. There is an important word that requires highlighting in that last sentence: theoretical! Sitting in isolation from the market and doing a valuation is an exercise in futility as a seller. Each acquirer out there has a different set of filters, assumptions and investment criteria. Each and every acquirer will do their own valuation using a valuation methodology that works for them. Taking a price to market based on a valuation methodology will be challenged by acquirers anyway. You will spend the majority of your negotiation arguing about the assumptions in your model and not the real value in your business.

VALUE IS RELATIVE TO WHAT AN ACQUIRER IS LOOKING TO PAY

Value is created by both the quantitative and qualitative benefits that your business brings to the acquirer. It is this true value that impacts the price paid for your business. What are the acquirer's motives for buying your business?

- Growth opportunities
  a. New products
  b. New markets
  c. New customers
  d. New geography
- Risk diversification from their current portfolio
- Intellectual property or patents that you have developed and monetised
- You offer a skilled workforce that could give the acquirer a competitive edge in their own business
- Increased profitability margins and return on capital
- Operational synergies reducing overheads and increasing productivity

Bulletproof Preparation

When you approach the market, you need the right documentation. Documentation that isn't designed to sell a company! This sounds counter-intuitive, but you need to approach the market with just enough information, but not enough for an acquirer to make a final decision. I always use the analogy of a meal at a fine dining restaurant. Have you noticed that the very best meals are always two or three bites too little? If only there was a little more, then it would have been perfect. It's the same principle here. Your target audience must be 'hooked' by the document but still want more answers. We challenge the traditional prospectus that consists of 100 pages of your company details that pretty much open-up the inner workings, competitive edge and financials of your business. In the hands of a competitor this could end up being a very dangerous move. Less is more is the approach that is needed.

NOT A MARKETING BROCHURE

We are not selling your products or services. This is not a process where the creative style and new age design will be entered into the international design awards arena. This is a process designed to get the right information, in the right format, in front of the right target market. This document does not represent your legacy! You need something that speaks to your target market (CFO's, CEO's... guys like me).

You need to speak the same language as your target audience. You need to communicate why your business is an excellent target for them despite the fact that they may not be in your industry and may not fully understand the nuts and bolts of what makes everything tick. You need to catch their attention, as these decision makers are inundated with investment opportunities every day. You need something punchy that really sparks their interest.

Financial Analysis and Business Planning

UNDERSTAND WHERE THE TRUE VALUE OF YOUR BUSINESS LIES

Presenting the true value of your business to potential acquirers has to be done in a way that provides just enough comfort and detail to that party. This is where a degree of obsessiveness kicks in. Looking at the qualitative and quantitative value in your business requires analytical creativity. The ability to carve out gems of value that don't necessarily sit on your financial statements will make all the difference.

CONVINCE ACQUIRERS THAT YOUR FORECAST IS BELIEVABLE

A lot of acquirers look at the past to value your company. With the complexity and uncertainty surrounding the markets in which we trade, the ability to convincingly present even a 12-month forecast takes divine intervention. Now try and get an acquirer to buy your business on those predictions. The reason we say this is that the true value of your business resides in what the right acquirer will deliver through your business in the future. They cannot impact the past or hope to extract value looking backwards. That is done. Chapter closed. It is all about looking forward.

PACKAGING THE REAL BOTTOM LINE OF YOUR BUSINESS

One of the biggest benefits of owning a company is the ability to structure your income and tax efficiently. Reconciling management accounts and financial statements can be a tricky business when you have material differences between the two. Being able to present these on a structured and transparent basis without scaring acquirers away is not an easy process. Putting yourself in the acquirer's shoes would surely reveal a few issues that could be perceived by them as red flags from a risk perspective.

REALITY CHECK

Approaching the market combines science and art!

Cast Your Net Wide When Looking for Buyers

The market is a big place. It is extremely difficult to determine how many companies are out there. According to Dun & Bradstreet there are more than 235 million companies across 200 countries worldwide, (Dun & Bradstreet, D&B Global & U.S. Business Data in 2013). And that was nine years ago! Even if one out of a thousand businesses were large enough to consider looking at your business, that would indicate that there are 235 000 companies worth approaching. It is not a simple, straight-line calculation, but it does demonstrate a powerful point. The market is a lot bigger than you think.

DON'T APPROACH THE OBVIOUS BUYERS

Once you have made that all-important decision to sell your company, a common temptation arises to approach competitors or someone you know with money. We say don't approach either. Here's why:

Don't Approach a Competitor as the Final Buyer

- Competitors want you out of the market and won't pay a premium for this.
- There aren't any logical synergies that they would pay for and a competitor always thinks that they can run your business better than you can.

Don't Approach Someone Because They Have Money

- Having available funding for a transaction doesn't make an acquirer the right acquirer.
- Selling to an individual restricts any form of synergy driving the price up for the acquirer.
- An individual with money doesn't qualify them to run your business successfully.

LOOK BEYOND THE OBVIOUS

Who would have thought that looking for the right buyer could be one of the most creative processes that you could follow on this journey? Think of the process as being an artist looking at a blank canvas. The number of possibilities you could create is limitless. We see researching the right potential acquirer in the same way. Throwing a few ideas out there will get the creative juices flowing and will open your eyes to the exciting options that exist. Think objectively. Think subjectively. Analyse the value chain you operate in. Look at your customers, your suppliers, your process and your intellectual property. Who might find any of this appealing?

LOOK IN DIFFERENT SECTORS AND GEOGRAPHIES

Might your buyer operate in another sector? Could they be doing something similar in a different geographic region? Cast the net as widely as you can. You never know who the right buyer could be.

Engaging the Market

Having identified your list of potential buyers, what do you do next? Developing this list is the easy part. To give you insights into what the process of getting them to the table involves, take a look at the following:

- You need the right point of contact.
- Once you know who that is, you need all of their contact information.
- Next you need to get through to them somehow and position the opportunity.
- Now you need to figure out how to position the opportunity without giving too much away upfront and potentially letting the market know that your business is in the market to sell.
- Once you have achieved this, you will have to find a way to get them to the table. This is difficult enough if the buyer is in your own country. What do you do if they are in South America and don't speak English?
- Now take all of this and apply it to 100 potential buyers. As you can see, this step alone, never mind all the rest, is a mammoth task.

IT CAN TAKE UP TO 7 ATTEMPTS TO GET THROUGH TO THE RIGHT DECISION MAKER

ONCE THEY'RE AT THE TABLE, YOU NEED TO GET AN OFFER OUT OF THEM

Play this one out with me. You have managed to complete your market-facing material that only covers high level aspects of your business. You've identified and engaged the right target acquirers, shared the information with them and have gotten them to the table. After that meeting you feel that the fit is good and that this could be a win-win situation. Now, without allowing them to conduct a due diligence process, you need to get an offer out of them. If you have more than one party at the table, you need to achieve the same from each party and let them know that it is a competitive process, while at the same time providing them with the assurance that you aren't playing the suitors off against one another. In addition to this you need to ensure that you are not too aggressive or abrasive as you may have to work with these guys in the future, should their acquisition be successful.

Be Ready to Negotiate Like Hell

The art of negotiation is not an easy set of skills to develop. Striking that balance between getting an acquirer to pay more than they wanted while ensuring that they still feel that they concluded a good deal is definitely a challenge. Many a book has been written on how to develop these skills. These are some of the capabilities that need to be in play to succeed:

ALWAYS BE IN CONTROL

This isn't the first time that the need to be in control has been critical to concluding a successful transaction. Being in control doesn't imply that you are 'winning', but rather that the process is going according to a plan. You may be on Plan C at this stage, with Plans A and B having gone down the drain, but at least the possibility of having to revise the plan was on your radar.

UNDERSTAND HOW TO CIRCUMNAVIGATE A DEADLOCK

There isn't a negotiation that I have been party to where someone has asked for something and the other party has agreed to it straight away. There will always be some elements of a transaction that create a deadlock. Should this happen, you can't just throw in the towel and walk away. When you reach the final negotiation phase, you would have invested months into concluding a transaction and you know that your true currency is time. You can't afford to waste it. You may need to withdraw and restrategise. Your opponent will do the same. Then you must ask yourself, who makes the first move? To answer this question like an economist... Well, it depends! What you must make sure of is that you collectively find a way to make it work.

HOW TO TRADE TO GET WHAT YOU WANT – WITHOUT EVER CONCEDING OR COMPROMISING

I've never really liked the concept of a compromise. It implies that you have had to give up something you really wanted. We spoke about non-negotiables earlier on in the process. If you have had to concede or compromise on one of those non-negotiables, you need to determine whether it was indeed a non-negotiable or not.

If you are comfortable conceding on it, then it probably was more of a nice to have than a true non-negotiable. By analysing the implications of the compromise and how you feel about buckling on this one, you will be able to establish how important this issue is to you. Conceding on an issue that affects your values or top priorities will rattle your soul, I'm afraid.

Remember, you get one shot at getting this right. I have no doubt that most business owners are good negotiators. You would have to be to get this far. There is, however, a significant difference between negotiating business contracts and negotiating with the buyer of your company. When it comes to suppliers, banks and customers, the negotiations are tough, really tough. However, if it doesn't go according to plan there is generally an alternative. In addition to that, the supplier, customer or bank wants to work with you, since you have a mutually beneficial relationship. This is vastly different to an M&A negotiation. You are dealing with someone on the other side of the table who is seeing this as a potential once-off transaction. If it works out, great. If it doesn't, there are lots of other opportunities out there to explore. There is a fine line between pushing to get what you want and pushing so hard that you lose them altogether. This is where the art of what we do plays its most crucial role.

HOW CAN YOU MAKE A DEAL WORK *VERSUS* WHY YOU CAN'T?

YOU NEED TO THINK ON YOUR FEET

Let me paint a scenario: Your acquirer has just landed from Europe and you have four hours to wrap up the deal, sign on the dotted line and pop the champagne. You have limited time, as they are flying out again later that day to finalise another transaction in Brazil. The terms of your agreement have been pretty much finalised with a few outstanding elements needing to be bedded down. You are happy with the price, the fact that it will be paid on day one, the need to stay on for two years and you are very comfortable with the cultural fit. Two hours into the finalisation, the acquirer's CEO throws a curveball. Based on certain political and economic concerns in South Africa they have decided to pay you your price in two instalments. They will pay 50 percent on day one and the balance at the end of your two-year sign-on period. When you woke up this morning you really didn't see it turning out this way. Everything you have worked for, the offers you have turned down, the 12 months of the exit process – all the blood, sweat and tears come down to this moment. What are you going to do? No lifelines and no friends can help you on this one. It really does help if you have someone in your corner who has seen it all before.

Ensure That You Always Have Choices

Remember the common drum we keep beating? Yes, the one about always being in control. We cannot stress this enough. As a seller you must always be in control. An important part of being in control is CHOICE! Another way to define this would be to say that you need to have options. I always say that you will automatically have one option immediately. What is that, you may ask? Well... do nothing! You can always decide not to exit. I like to think of this as your barometer as far as comparing options is concerned. Compare any other option to staying as you are. If it is not significantly better than what you would achieve by hanging on to your business, why would you explore it? Ironically, acquirers need to be reminded of this constantly.

REMEMBER, DOING NOTHING IS ALWAYS AN OPTION

Having concluded the process of getting buyers to the table, you automatically create a foundation of choice. Getting someone to the table and getting an offer in writing from them is a critical step in enabling the mechanism of choice. The importance of comparing like-with-like cannot be understated. Unfortunately, most of the offers put forward will not be the same. The list below will give you some idea of the number of moving parts to consider and try to analyse.

Moving Parts

CULTURAL FIT

Knowing that cultural fit is the number one driver behind a successful transaction, how does each of your company's suitors stack up in terms of their fit with you, your team and your business? How would you determine the culture of each acquirer so that you can make the right decision? Not an easy task.

PRICE

What is the price that the various acquirers are prepared to pay? What valuation methodology has been used? Is it a fair reflection of the value to you? Have the properties been included in the price?

STRUCTURE

If you are looking for a full exit, do the offers all position the acquisition of 100 percent of your shares? Are the offers paying you 100 percent of the purchase price upfront? Is there a structure in place based on time? Do you have to rely on an earn-out to meet your price expectations?

FUNDING

Do you have to wait for the acquirers to raise their own funding or are they funding the transaction themselves? If funding is required, have the funders been brought into the loop and approved the offer price? Do you have to fund any part of the transaction either in cash or time?

SPEED

How long will the transaction take to conclude? Is the acquirer a listed entity that requires multiple layers of approval? Will the transaction require Competition Commission approval? If the acquirer is an international acquirer, what regulatory requirements would they need to manage in order to conclude? Will the acquirer be handling the due diligence themselves or will they be using a third party to conclude this critical step? The list goes on.

THE POWER OF CHOICE

Practically speaking, how does the power of choice actually show up? As a start you should receive more than one offer. You will be able to measure each offer against your own criteria. Most importantly, you will be able to measure each of these against your non-negotiables. This will be the ultimate test of whether your non-negotiables are in fact non-negotiable.

TRIGGERING A COMPETITIVE ENVIRONMENT

I'm sure you will by now have picked up a covert strategy in creating the mechanism of choice through learning about our experience and methodology. You guessed it, the need to create competition between acquirers. Once the offers are on the table you have a reality. Now you need to negotiate the very best deal you can out of each acquirer using all of the tools available to you. You need to let the acquirers know that this is, in fact, a competitive process, while at the same time giving them the comfort that it is not a 'horse-trade'. You may remember that I spoke to you about the balance of science and art in a previously. Well, this is the art element.

CHOICE IS THE ULTIMATE INSURANCE POLICY

We are all accustomed to having insurance to cover risk in our lives. This being the case, why wouldn't you insist on an 'insurance policy' when selling your business? Outside of your own life and health, and that of your family, what else could be riskier than selling your biggest asset? Choice creates that insurance policy. It avoids the 'all your eggs in one basket' concentration risk situation. To let you in on another secret we have developed over the years, those suitors you choose not to move forward with can become your insurance policy if your primary choice of acquirer defaults. There's a great deal at stake here, as well as many moving parts that contribute to the complexity and precariousness of the situation. The good news is that these can be managed effectively.

Be Future-Focused

The biggest attractor to the methodology that we use is the fact that the true value of the business sits in the future and not in looking backwards. Don't get me wrong. The past tells a very important story and will always set a foundation for what your business can deliver in the future. However, the true value of your business is what it will deliver for the acquirer moving forward.

The number one swear word to an acquiring CFO is 'synergy'! Getting an acquiring CFO to pay for benefit that his or her company is bringing to the table is no mean feat. I have nearly been thrown out of many a boardroom by mentioning the most taboo word in the M&A dictionary, namely, 'synergy'.

HOW TO GET AN ACQUIRER TO PAY MORE THAN YOUR BUSINESS IS TRADITIONALLY WORTH

The honest answer to this question is, "With difficulty!" A common argument put forward by acquirers is that the purchase price that has been put on the table includes the benefits of synergy. This is a weak excuse at best as there are so many layers to synergy. Synergy, however, should not be a generic term that gets thrown around in a discussion. In its truest sense, synergy is underpinned by in-depth analysis, market intelligence and business planning. The culmination of these elements provides the basis for a strong negotiation presentation that has great potential to win the acquirer over. Ironically, in many cases, these synergies may be elements that the acquirer hasn't even thought of.

CAN YOUR BUSINESS UNLOCK ADDITIONAL VALUE FOR THE ACQUIRER'S BUSINESS?

The additional value I'm talking about here is value that goes beyond what your business will deliver via its normal operations. This is the heart of what needs to be demonstrated to the acquirer. Analysis of multiple elements of your business interlocked with theirs will create a matrix of opportunity that cannot be denied. A few high-level questions could involve:

- **CAN THEY SELL THEIR PRODUCTS TO YOUR CUSTOMERS?**
- **ARE YOU BASED IN A GEOGRAPHICAL REGION WHERE THEY AREN'T OPERATING?**
- **CAN THEY PLUG AND PLAY THEIR BUSINESS INTO YOUR OPERATION TO ACCESS NEW MARKETS?**

If the answer to any of these is yes, then the acquirer needs to pay for the right to significantly increase their return. A good example that I have personally used related to working capital. Our client had a project-based business that required significant working capital to fund these projects. As the business grew, the size of the projects grew and the working capital strain on the business increased. Despite this strain, our client earned a massive 30 percent return on capital. The acquirer would unlock the ability for our client to access much bigger projects, as now they would have a 'big brother' with much deeper pockets. The CFO of the acquirer refused to pay for the future returns of these big projects as they were bringing the working capital. The answer was a simple one, to be honest. Without our client's brand, track record, customers and capabilities, money alone could not unlock such a high return. The acquirer's other businesses were delivering between 10 percent and 15 percent return on capital. Thus, for the acquirer to qualify for the right to access our client's profitability and earn a return significantly higher than its other investments, they had to pay a premium upfront.

Conclusion

I hope that the insights provided in this book will assist you on your journey to exiting your business. You would have gathered that there is no 'drive-through' option to fetching maximum value for your business and no shortcut to maximising your legacy. We all know that you only have one shot to get this right and if anything in this book has assisted you in making your exit transaction more successful, the process has been worth it.

In conclusion, I would like to leave you with the key take-outs from this book. Plant these seeds in your mind and aim to reap the benefits of implementing them when you embark on this journey.

Key Take-outs

- Invest time into becoming knowledgeable in the M&A mechanisms and methodologies.
- Invest as much time as possible in preparing your business to take it to market.
- Ensure that your market-facing documentation is purpose-written for your target audience (remember guys like me!)
- Package your financial information in a way that doesn't show too much upfront while at the same time sparks sufficient interest.
- Cast the net as wide as possible when it comes to looking for buyers.
- Obtain insights and market intelligence on those buyers to increase your probability of getting them to the table.
- Make sure that you get more than one acquirer to the table.
- Extract offers out of them before allowing them to conduct a due diligence process (this one is really important).
- Get a good legal advisor.
- Make sure you measure everything against your non-negotiables.
- Always, always control the process.
- Make sure that you have choices when making that final decision.

MEET THE AUTHOR,
Andrew Bahlmann

As a Shareholder, Director and the Head Deal Advisor at Deal Leaders Corporate and Advisory division, Andrew has been exposed to a diverse set of businesses across multiple industries and countries. As a member of extensive international networks, he has found that his experience on both sides of the table has allowed him to authentically connect with both client and acquirer alike.

Andrew qualified as a Chartered Accountant after starting his own business immediately after matriculating and running it for six years. After qualifying, he spent a year in New York, where he worked at a large South African insurer's operations in Bermuda. He then returned to SA to take up the position of CFO at WesBank Corporate Division.

This role provided an incredible learning curve and saw Andrew serving a successful tenure, during which he oversaw the implementation of enhanced profitability structures, which yielded positive growth for the Corporate, Fleet and Motor Divisions and contributed to a R114 billion balance sheet. As a result of this experience, Andrew developed an understanding of the dynamics of how large companies invest and grow through negotiation and acquisition.

It was during this period that he learnt and executed on what filters acquirers apply and use to assess attractive acquisitions. Having completed numerous successful acquisitions and disposals of businesses, and having worked alongside some of the largest international motor manufacturers during joint ventures with Toyota, Volkswagen and General Motors, his exposure to the international mergers and acquisitions market has proven to be invaluable. Following his time at WesBank, Andrew built his consultancy, IntelStrat Consulting, to focus on fostering 'entrepreneurial DNA' in both the corporate and SME spheres (coining the term Corpreneur™). His biggest insight during this time was identifying the areas that business owners need to focus on to maximise the value of their business.

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