

Thinking about selling your business?

10 Things you should know



The Hire Exchange

The specialist advisory for selling hire businesses



“The nicest thing about not planning is that failure comes as a complete surprise”

Sir John Harvey-Jones MBE
Inspirational Business Leader (1924- 2008)



Introduction

With the market effects of Covid 19 receding and growing confidence in the construction industry and particularly the hire sector, it's a good time to be thinking of acquiring or selling a business.

The fact is that the acquisition of a business is an important strategic decision for both buyer and seller. It requires careful consideration, planning and preparation and that can take six to nine months.

Of course, there will be concerns about value and short-term business impacts, but buyers understand this. A good business is always in demand and now, more than ever, buyers seek growth opportunities.

Business value is based on trading performance, strategic 'fit' and growth potential. These are more important than short-term trading issues, which should not affect under-lying value or saleability. So, if you are considering selling your business, now is the time to start.

This guide has been designed to help you understand some of the issues you need to think about before selling. It will help you adopt a structured approach and to clarify your objectives and 'desired outcomes' to fulfil your personal 'life style' and financial ambitions.

It focuses on the need for understanding, planning and preparation in order to deliver a successful transaction at optimum value and it highlights some of the things you need to consider to achieve a smooth and efficient process.

1

Why do you want to sell your business?

People sell businesses for numerous reasons; fatigue, aversion to risk, lack of succession options, health or simply a wish to retire.

Your reasons for selling are key issues. They will determine your entire approach; either do nothing or plan the journey. This journey will include; valuation, buyer targeting, negotiation, timing and deal structure. So, think carefully about what you really want and how it will affect you personally, your family and other business relationships.

The next step is to plan your exit strategy. This will keep you focused on the end-game, guide you through the process and ensure that you reap the rewards that you richly deserve.



2

What specific 'outcomes' do you want?

Achieving your ambition won't happen by accident, so you need a plan. The most important issue is value. How much do you need to make it all worthwhile? What is the minimum you would accept after costs, tax and all the effort involved in achieving a successful sale?

What are the 'must haves' that will deliver your personal life-style ambitions and meet your commitments? What are the key deal conditions such as earn-outs, retentions, warranties, staying with the business during hand-over and retaining key employees? Finally, what type of buyer do you ideally want to sell to?

3

What is the realistic value of your business?

There are many ways of valuing a business and it depends on what type of sale it is, how profitable it is and many other factors. A common approach is to apply a multiple to EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation). Your advisor will explain the options.

However, value depends to a degree on historical performance and current status BUT the real value to a buyer is future growth potential. This will depend on sales volume, profitability, access to new markets, geographic coverage or customers and the synergies of acquisition.

So, finding the right buyer is the key to optimising value. This requires a real understanding of the market, the most appropriate buyers for whom the added value and 'strategic fit' is important and where the level of risk to the buyer is low. Low-risk equals higher value.



4

Is this the right time to sell?

Like most things in life, timing is everything for both seller and buyer. Positive market conditions are hugely advantageous but your business must be in good shape too.

Sell when you are on the 'up' and not when you are in decline, unless there is a good reason which can be corrected by an acquirer. Good examples of that are investment or an invigorated sales effort, which can turn a problem into an opportunity for a buyer.

While transactions are based largely on numbers and the opportunity, make the effort to smarten-up depots, admin systems, health and safety processes, financial controls and cash collection, all of which creates confidence for a buyer.

Remember, the selling process can take between six and twelve months, sometimes more, so think and plan ahead.

5

Understand the sales process.

Selling a business is an involved process which is why it takes time but if you understand it and plan your time around it you will stay in control, deal with the stages efficiently and still have enough time to continue to run your business successfully.

These are the key steps :

- Clarify your financial requirements and imperatives
- Produce Confidentiality and Non-Disclosure agreements
- Assess business performance and opportunities for growth
- Confirm a realistic valuation that is acceptable to you
- Collate the critical information supporting the acquisition opportunity



- Produce an Information Memorandum (IM) and a compelling acquisition case
- Identify, target and contact credible buyers
- Implement a campaign of buyer engagement and presentations
- Ensure a competitive environment amongst interested buyers
- Identify the best offer and confirm purchase capability
- Select and appoint your preferred professional advisors
- Agree Heads of Terms with your favoured bidder
- Prepare for and manage the due diligence process
- Complete the deal

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Preparation and presentation. The Role of the Information Memorandum

Creating a comprehensive Information Memorandum (IM) or sales prospectus is as crucial as it is time consuming. It can take at least four to six weeks.

Your advisor will help you decide what information is required. It will include financial data such as balance sheet, turnover, gross profit, profit and loss, with trends over three years and dividends. It also shows liabilities, details of assets such as fleet age and values, depots and leases, and numerous breakdowns of revenue streams and employee numbers etc. Specific issues will also be dealt with around depreciation, utilisation, fleet age, re-hire volume and end-of-life disposal.

If there are any anomalies or one-off events in the figures, identify and explain them. Better deal with them now than to be raised during due diligence.

So, be prepared to devote enough of your time, and your accountant's, to it.

Your reward will be more interest and better offers and a more efficient due diligence process. You will also see just how good your business is and this will help you know and understand your own numbers and build buyer confidence.

The IM not only provides the data that the buyer needs to understand what he is buying, but also explains how your business is different and better, the growth opportunity it represents and in so doing, creates a compelling case for purchase. It also speeds up the sales process and avoids the 'deal fatigue' that scuppers many acquisition opportunities.

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Dealing with offers and preparing for disappointment

With a well-presented IM, a realistic valuation and clear evidence of the growth opportunity, offers will appear. In an ideal world, there will be several offers because creating competitive 'tension' is the best way to get the best offer.

It is tempting to take the first good offer and sometimes that is sensible if it meets your criteria, one in the hand is better than two in the bush. However, accepting the first offer is not usually the best idea.

Be prepared for lengthy negotiation on the conditions of sale e.g. retentions, stock valuations, staged payments and warranties but be flexible and keep a sense of perspective.

It is all part of the process. Don't be afraid to walk away if the deal looks wrong or the buyer materially changes the offer and if the buyer withdraws, get over it and find another buyer. A good business will always find a good home.



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Due Diligence : The search for skeletons and proof of the pudding

This can be a tricky and frustrating time. The deal has been negotiated, the Heads of Terms are signed and you are all but on your way to the beach.

Then along comes a posse of the buyer's lawyers and accountants to check that what they are buying is as it seems. It is a perfectly reasonable and necessary approach and the advice is to be patient, be prepared and be organised.

You and your professional advisors will need to substantiate facts and figures and show the evidence of claims that you have made. That's why it is better to declare any anomalies in the IM or at the early stages of negotiations. The investigation will include tax payments and compliance, IP issues, legal commitments and liabilities, asset valuation and any employee and customer contracts. It is best to get a list of the typical areas covered in due diligence and make sure you have the detailed information to hand.

In the worst case, buyers can decide to change the deal to accommodate any misunderstandings and insist on you providing warranties or guarantees to protect themselves.

Your lawyers will advise you on all of this and look after your interests.

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Appoint experienced and reputable professional advisors

If you have read this booklet, it will have become obvious how important experienced and expert professional advice is, particularly in deal structure, personal tax implications, drafting sale agreements and in dealing with due diligence. They may be expensive but they are worth it.

This is why your local accountant and friendly solicitor are great for day to day support, but are not necessarily the right team to deal with the rigours of sale or acquisition.

While The Hire Exchange team are highly experienced in preparing, presenting and connecting buyers and sellers in the hire sector, we do not take the place of professional lawyers and accountants in transaction advice or negotiations. We will be delighted to suggest some firms that we know would be appropriate, and you may wish to consider these alongside your own.



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Think like a buyer, they are more like you than you think

Having read this booklet, you could be forgiven for thinking 'blimey', it sounds awful, is it worth it? The answer is of course yes, if the time is right for you.

Is it stressful? Yes again! It is one of the most important deals of your life and in some cases the culmination of a life's work. To sell out successfully is a fantastic achievement and a great prize.

It is very important for the buyer too and equally stressful. So, look at the buyer as your partner and understand that they too are excited about the deal, want to do it and are nervous about getting it wrong, either with their own hard-earned money or their company's.

They will ask lots of questions, some you may feel a bit awkward about, but they need to be sure.

Trust, confidence and integrity are vital for all concerned. The best deals are those that are conducted in good faith and with enthusiasm, pace and respect for the needs of both sides of the deal.

We wish you success in the future and we are ready to help you on your journey, whenever that may be.

If you would like to discuss buying or selling a hire business our experienced team would be delighted to talk to you.

Visit us at

www.thehireexchange.co.uk

or email

info@thehireexchange.co.uk

Our Story

As three highly experienced 'hire men' sat on the bank of the River Tay wondering how they could better spend their time than pursuing the elusive salmon, they hit upon an idea.

What if the often tortuous, disappointing and expensive process of buying or selling a hire business could be made faster, easier and a lot more cost-efficient for all?

And, in that moment, The Hire Exchange was born. A company that specialises in selling hire businesses, not fish and chip shops, hairdressers or tech start-ups. A company that helps sellers realise the true value of their company and helps buyers find their perfect acquisitions.

Welcome to The Hire Exchange, the new, low-risk way to buy or sell a Hire Business. Much more sensible than salmon fishing.

For more information contact Chris Harvey or David Graham or visit www.thehireexchange.co.uk, or call **03303 230643**.



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sellers of hire businesses

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