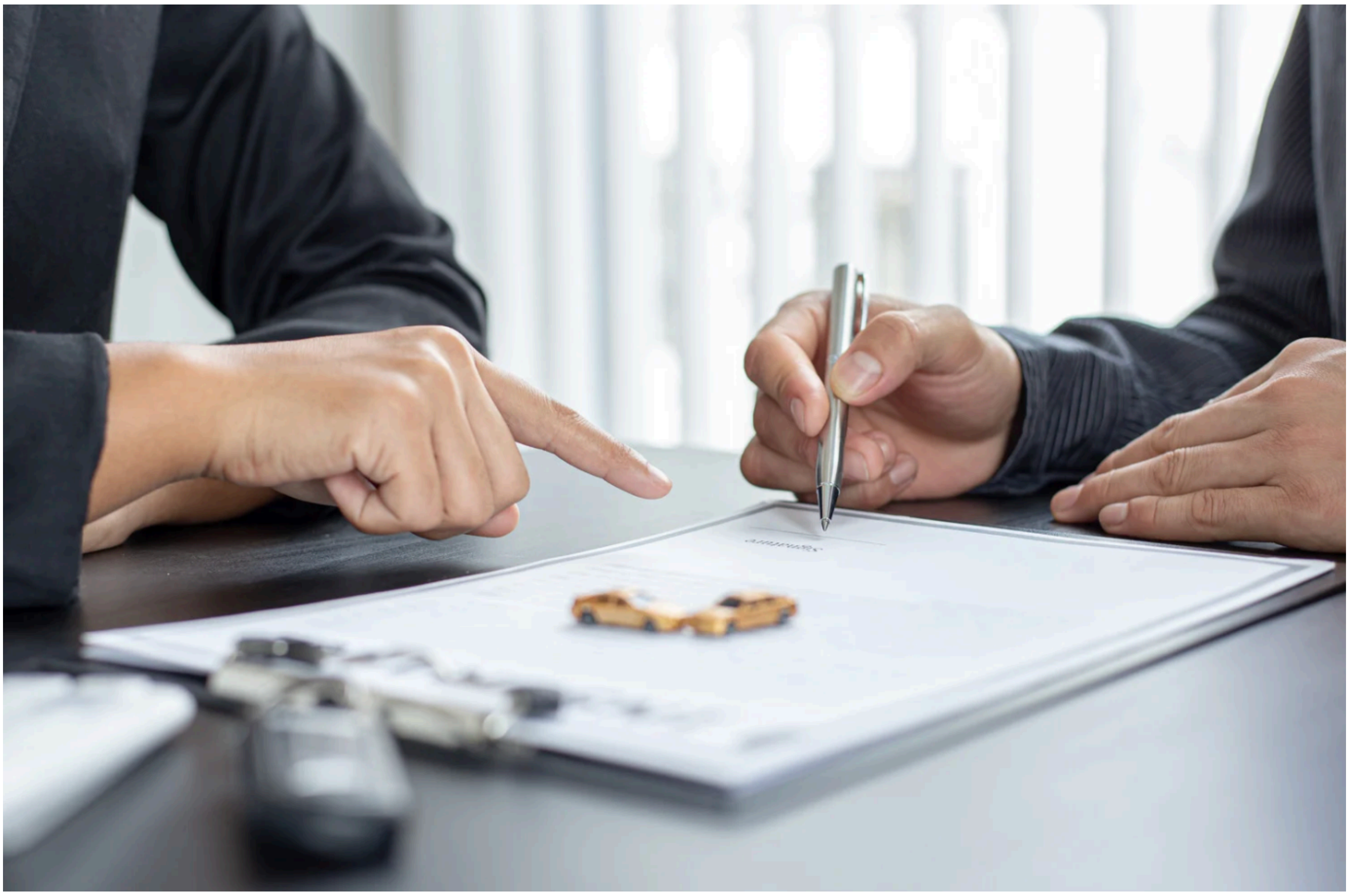
Planning the sale of your business?



In part one of this two part series, Steve Monnington of Mayfield Merger Strategies summarises the key messages given by his expert M&A panel at the recent EN Indy conference

At the recent EN Indy's conference, Mayfield presented a session on planning the sale of your business. The session was aimed at independent organisers who are thinking about going to market with their business. We heard from Anna John, partner Mayfield Merger Strategies, Lisa Hannant, CEO, Clarion Events, Jonny Baynes, partner, Plural Strategy, and Toby Walters, co-founder Elite Exhibitions.

If you have read the recent Dealmakers columns in *Exhibition News* you will know that the M&A market is currently extremely buoyant but for every successful transaction there is at least one that fails, generally due to trying to sell too early or because of a lack of preparation prior to selling.

The session explored the factors that make for a successful transaction. In part one, we look at when is the right time to sell your business and what buyers look for in acquisitions.

When is the right time to sell your business?

Anna John, partner at Mayfield.

"Buyers look for maximum growth with minimum risk. Therefore the best time to sell your business is when you reach the point on a growth curve where it is established, has good roots and barriers to entry with a proven value proposition and market leading position but where you are still leaving growth on the table for the buyer.

Sellers who have a good understanding of their potential universe of buyers and sellers and of what the industry wants and how their events will deliver this will always get good traction. Buyers expect to see a three-year plan for growing the business.

Scale is also important – bigger businesses are often easier to sell than smaller ones and there are few deals where the Earnings before Interest and Tax (EBIT) is under £1m and even fewer when it is less than £500k.

This is partly because the risks of a downturn turning a profit into a loss are greater with a smaller business but often because the bigger organisers are looking for deals that 'move the dial'.

Exceptions to this would be for businesses that offer tight synergies with the buyers event portfolio – a transaction is more likely if the buyer has something that can help the vendor grow faster and the vendor has something that can add to the buyer's existing event.

It's important not to start a sale process until you are ready for the rigors of due diligence. There are 3 strands to due-diligence – financial/tax, legal and commercial.

Financial due diligence is a check on your financial information – has everything been invoiced and paid in the right year and allocated correctly? Are the correct accounting methods being used? Do the exhibitor lists and sales invoices match? is VAT being handled correctly in international markets? Make sure you have proper financial input even if it's just a part-time or shared CFO.

Legal due diligence looks at the ownership of the business and the contracts held with employees, customers and suppliers. Key areas to look out for are ownership of IP, rights of any minority shareholders (which should be set out in a shareholder's agreement) and proper employment contracts for the staff.

Commercial due diligence is an analysis of the metrics of your business – the trends shown by the KPIs as well as research on your sector and interviews with your clients. It can cross over with financial due diligence to ensure that sales data and financial data match."

What do buyers look for in acquisitions?

Lisa Hannant, CEO of Clarion Events

"When evaluating potential acquisitions, Clarion tries to take a strategic approach. In the early years, we were focused on scaling the business, which meant acquiring business or shows in various sectors, it was an important part of our journey. Now we are very focused on building market leading and scaled brands in high growth sectors.

Creating portfolio cohesion is important to us, so we are prioritising acquisitions in geographies and complementary sectors, or where there is opportunity to acquire an event that has the potential to become the number one must-attend event in that vertical. We are also open to digital and media acquisitions where we believe they can help us achieve depth within a sector and create new revenue streams..

This means that we look at a several potential acquisitions each year, which whilst may be good business or shows, are not right for us now.

When it comes to the things that we consider once looking at an opportunity, quality is very important to us.

We place a lot of emphasis on customer feedback and satisfaction in diligence. Questions such as ‘is the event critical to customers and do they believe they receive value for money?’ are key indicators of the health of the event.

We also look closely at rebooking trends and pacing, so I would encourage any founder looking to sell, to be on top of this. And of course the team behind the business is critical. It always makes things easier if the team are known to us already as there is an understanding of how they operate and what’s important to them.

To help with deal success, Clarion assigns a commercial sponsor who works alongside the deal team. The commercial sponsor is very much part of developing the business plan, whilst the deal team focus on deal structure, managing advisors and the process itself.

We find this collaborative model avoids “paper exercises,” and is grounded in reality, as the commercial sponsor will often be responsible for the acquired entity post deal. It would be very difficult for the deal to proceed without alignment between the deal team and the commercial sponsor.

The deal team won’t be involved in the running of the business once it has been acquired so sellers really need to understand who in the commercial team they are going to be working with, especially if the deal structure includes an earnout

In part two next week, Jonny Baynes explains the importance of commercial due diligence and how sellers can prepare for this in advance. Toby Walters explains what the sale process was like for him and the challenges for entrepreneurs in adapting to corporate life