Planning the sale of your business: Part two

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

In Part One of this feature, Mayfield Merger partner Anna John talked about the key steps that independent organisers need to take before embarking on the sale of their business and Lisa Hannant, Group CEO of Clarion Events, gave us some insight into the process that Clarion goes through when reviewing potential acquisition opportunities.

If you reach the stage where you have negotiated and accepted an offer from a buyer, you enter the wonderful word of due diligence. Commercial due diligence (CDD) – which includes interviews with your key customers and stakeholders – has become a fundamentally important workstream for many buyers.

Here, Plural Strategy partner Jonny Baynes explains exactly what is involved and how best to prepare.

Preparing for CDD: Jonny Baynes, partner at Plural Strategy.

Buyers typically perform CDD in order to validate the short and mid-term growth prospects of the business. This typically involves a mix of primary and secondary research together with an analysis of the financials and KPIs. Primary research involves speaking to exhibitors and is often one of the areas that sellers find most stressful, particularly if they are not prepared for it. Secondary research would include an analysis of market positioning and the competitive landscape.

In the majority of cases the CDD is successful and, in our experience, most management teams find the output of the work highly valuable. However, a substantial proportion of M&A processes do not complete, primarily in our experience due to insufficient seller preparation.

In order to maximise the chance of success, there are a few key steps worth considering to prepare for CDD:

Prepare for customer diligence: Primary independent customer research is increasingly seen as a non-negotiable element of the CDD process: few buyers are willing to acquire a business without ensuring they have understood its customers, what their needs are, and how well the business delivers on these.

A quick win is to start running regular customer surveys yourself. This will make the customer diligence process far less daunting (since you are less likely to be blindsided by the outcome) as well as helping to reassure the buyer that you are close to your customers.

Prepare KPIs: Ensure you understand the KPIs that will be scrutinised during the CDD process along with the P&L performance. Some examples include

- Customer and revenue retention

- Trends in Average Spend per customer
- Customer satisfaction metrics

A broker with events sector experience will help you draw up a full list, and it is a good idea to start tracking the metrics yourself, well in advance of a sales process. In this way you can ensure they are pointing in the right direction when you come to sell.

Prepare customer data: Poorly maintained customer data can be a significant obstacle during diligence; while a robust and up-to-date customer data set allows you to tell a clear story to prospective buyers about who your customers – their future customers – are. The more granular and accurate the data, the more compelling the story.

In summary: the best preparation for CDD is to initiate the DD workstreams on the business yourself well before you start the sale process. This way you can ensure the business is “match fit” when you come to sell.

It’s often hard for entrepreneurs to understand how arduous the M&A process is and how life changes when their business is no longer independent. Toby Walters, co-founder of Elite Exhibitions, who organise Cruise Ship Interior Design Expo and sold a majority stake in their business to CloserStill Media earlier this year, shares his journey.

The entrepreneurs’ experience: Toby Walters, co-founder of Elite Exhibitions

We definitely made some mistakes at the beginning of our process before finally selling to CloserStill Media earlier this year. The main one was trying to sell too early in our life cycle and this was triggered by a valuation we received which was much higher than we had been thinking. Looking back, the business was too small at the time – we had only been trading for two years – and we should have validated the valuation with someone who actually values businesses for a living.

It’s fair to say that we were flattered by approaches from larger organisers asking for our numbers. Don't hand this information out until you're ready to sell. We also thought that we could get an offer by just delivering a spreadsheet and quickly realised that there is so much more that goes into valuing a business. We learnt that we needed to explain our journey based around exhibitor growth and especially retention rates which becomes crucial during Commercial Due Diligence, as well as articulating the future growth potential.

I would strongly advise anyone who is considering selling to do their own due diligence on their potential buyers, especially by talking to other founders who have sold their businesses to them.

It's important to understand their experience of life after sale. It's tempting to focus on the buyer that has the most synergy with your show and this blinds you to other considerations such as quality of working life post-acquisition. We went through the sale process twice, which was very expensive in terms of legal fees

Life After the Sale: Adjusting to Change. We are six months into the first year of our earnout and life has changed in every way possible. Entrepreneurs have a toxic positivity, and we just think everything is always going to be great. Having a lot of money is very good but there is a trade off and it's a big adjustment to work for someone else, to have to attend meetings where you're not the boss. However, being part of a bigger company with greater resources and negotiating power is really helpful as we are no longer on our own when making the big decisions.

In this series we have heard from four people who play a critical role in the sale of a business – the founder, the broker, the buyer and the due diligence provider.

Ultimately, patience, preparation and customer focus are the cornerstones of a successful acquisition. Entrepreneurs should avoid rushing into deals, focus on business growth and create a great business that someone wants to buy.