Building towards a Smooth Exit for Owner Managed Businesses

The Corporate Finance Network

About The Corporate Finance Network

The CFN was formed in 2007. We are the national brand leader in SME corporate finance in the UK and our member firms are recognised as the experts in smaller company transactions, typically for owner -managed business clients.

The member firms of The CFN assist SMEs to grow a well-capitalised business, organically or by acquisition, and encourage business owners to plan for their eventual exit, so they are more sellable and more valuable when the time is right for them to sell their business.

Thanks to those firms which contributed to the findings which support this report.

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A fact of life

It's inevitable that every founder needs to exit their company at some point. Yet, despite another fact, that it could be the most valuable asset they will ever own in their lives, only the most astute business owners take time to plan for that exit.

Understanding the market in their own sector and what purchasers are looking for is crucial, if the exit is going to be smooth, with a successful conclusion and happy buyers and sellers.

A recent survey of corporate finance professionals provided useful indicators. When considering the current market and future outlook, advisers noted that:

- Owner Managed Business sellers need to be more prepared for sale, so they shine out in a competitive market
- Buyers are increasingly nervous of higher funding costs so the deal structure needs to accommodate this
- The political uncertainty will have some impact over the next year, but sensible transactions will still complete

Fail to plan, then plan to fail

Owners which prepare for the sale of the business, like anything in life, tend to have a more predictable and successful outcome.

Those who do not plan ahead of time will have to take their chances about whether the market finds their business attractive and at the same value which they are hoping for.

Many business owners go through the sales process for the first time, which is quite stressful in its own right, and then find that they do not reach the outcome they want.

Some don't attempt to sell at all and instead drift on with their current life.

Unfortunately, and eventually for everyone, a founder's health may take an unexpected downturn and the business becomes less important. It is then potentially left to relatives to manage and either sell or wind-up. Terribly stressful for all concerned.

The best approach

Every business should be sellable, whether you intend to sell in the short-term or not.

Receiving that offer 'out of the blue' can be enticing, but owners should always take the business to market and attempt to find competitive offers, so you can take back control of the process at that point.

Whatever your plans now, ensure that committing to make your business sellable is one of them. Your business, and you, will be healthier for it.

The member firms of The Corporate Finance Network (www.TheCFN.org.uk) will be able to advise what steps you need to take to plan for your exit and support you throughout, until your sale transaction is eventually completed.

Good luck and enjoy the process!

Kirsty McGregor

Chairman, The Corporate Finance Network

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1. The UK Market for Business Sales

1.1 According to Experian MarketIQ, there were 6,426 deals with a UK participant (over £500k consideration value) in 2023. This represented a decrease of 12% on the volume of deals in 2022.

1.2 Total deal value in 2023 was £194bn, a decrease of 21% since 2022's figures and the lowest recorded value on Experian record since 2003.

1.3 Now these have been unusual times, both from a macro and geopolitical point of view. And the number of transactions across the whole market doesn't always reflect what's happening in the owner-managed business segment or for any particular sector.

1.4 At The Corporate Finance Network, we've seen increased appetite for acquisitions of businesses in certain sectors which are still experiencing consolidation.

1.5 Professional services, estate agents, day nurseries and niche areas of manufacturing are some examples which have all seen good deal volumes and continue to do so.

1.6 In 2023 the member firms of The CFN acted on over 200 deals and 74 of those were full lead advisory purchases or sales for their clients.

1.7 However, the volume of deals in the UK is incredibly small when compared to the number of trading businesses in this country. According to UK Government Business Population Statistics, there were 1.445m employers at 1st January 2023.

1.8 Therefore 2023's company sales represent only 0.4% of businesses. Given that there is an aging population of business owners, this figure is unusually low.

1.9 In reality, many companies will not attract a buyer and will have to wind up when the founder chooses to stop trading, unless they take steps to make it more attractive before they put the business on the market.

2. The Future Outlook for Business Sales

2.1 In January 2024 a report by The CFN found that:

- 53.3% of advisers thought it was a buyer's market – good news for those companies with potential 'buy and build' strategies.

- Due diligence is taking longer as purchasers are making sure that the risks are known and can be minimised as much as possible.

- 26.7% of advisers mentioned unrealistic expectations of deal valuation from vendors, so understanding the drivers for increasing market value is a key part of exit planning for any business owners looking to sell in the next few years.

- Tech, software, AI, ecommerce, telecoms, professional services and insurance were all sectors where consolidation activity was expected to be high.

- However, many advisers commented that they expected further sectors would experience an increase in deal activity. They are seeing clients become increasingly tired of running their business and buyers who are looking for growth and steady income.

2.2 In late 2023, a similar view of trends was reported by corporate financiers at a Mark to Market Round Table.

- The consensus was that the year-on-year drop in deal activity is due to a more cautious approach from buyers.

- The money is still there but it is more expensive.

- This, coupled with less competitive tension, means that deal cycles are taking longer and due diligence processes are often extended.

3. What are Purchasers Looking for?

3.1 A buyer can simply be looking for a financial return or they can be more concerned about achieving a strategic acquisition. Both types of buyers will have different criteria when looking for a suitable target, and will value companies according to their priorities.

3.2 Trade buyers in the same sector, those in related sectors, equity investors, management buy-in or management buy-out candidates, and even family, will all place a different value on the business they are assessing.

3.3 Therefore, there is no single value which you can put on a company. Business owners who ask for such a valuation are missing the point. There could be many values, and the market, at that time, will determine what the value is. A business is only worth what someone is prepared to pay for it.

3.4 Generally all purchasers will want a return on their investment and will want to minimise risk. Risks may be financial, (such as not achieving sales or profits targets), operational (such as managing the staff efficiently) or legal (such as risk of litigation).

3.5 Most founders want to achieve 2 things when they exit their business:

- A fair value for their business
- An easy sales process

3.6 To achieve either or both, takes planning. The value is in the eye of the beholder, so minimising all the potential buyers' perceptions of future risks is key.

3.7 Astute business owners put the time into building their company always with an eye on their eventual exit. These aren't quick tasks which can be thrown together when it's time to sell. The aim has to be to appeal to the most number of potential purchasers and this will help to achieve the best value.

4. Why didn't these Companies Sell?

4.1 The CFN is proud to have access to some of the best research analytics and corporate intelligence in the whole UK market. The volume of successfully completed transactions in 2023 ranked The CFN as number 11.

4.2 However, as much as our member firms' advisers stress the importance of exit planning to their clients, well in advance of the eventual disposal process, there will always be unprepared businesses which choose to go ahead with marketing their company for sale without doing it. Unfortunately many of these don't achieve a sale.

4.3 In all but one of these cases, our initial marketing generated significant interest, but as potential purchasers investigated further, they decided not to progress for a variety of reasons. These are documented and have been summarised below.

4.4 The spread of reasons shows that whilst there can be many different factors, a good level of profitability is usually key to enticing potential buyers. Exit planning will review the risks in all these areas but a key part of the exercise is often profit improvement.

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	Total
Not profitable enough, even if good size turnover	y		y	y	y			y			y	y	y	y	9
Not big enough	y			y	y			y					y		5
Too big							y			y		y			3
Autocratic management	y			y	y	y	y								5
Poor systems – operational, financial, strategic	y				y					y				y	4
Too soon – opportunity not yet proven						y				y					2
Growth opportunity has passed									y						1
Sector specific or market conditions									y	y	y				3
Buyer personally not ready to exit		y	y			y	y								4

5. Working with your Accountant

5.1 Research of over 50,000 businesses has found that an average business would receive offers of 3.5 times pre-tax profit if they placed the business on the market without carrying out steps to make it ready for sale. However, those who plan for their exit to appeal to more potential buyers, receive offers of 7.1 times pre-tax profit.

5.2 In addition, they are also more than twice as likely to have received a written acquisition offer in the last 12 months compared to the average business.

5.3 By working with a member firm of The Corporate Finance Network, businesses can understand what potential risks may be perceived by purchasers and how to make their business as attractive, and as valuable, to as many buyers as possible.

5.4 This process takes many months but can be completed at the founder's own pace. Actions will be timetabled according to the timescale necessary to reach the objective of the business being as sellable as possible. Your accountant can explain this to you during the work.

5.5 The exit planning process begins with reviews of:

- Your business – to determine how best to give potential buyers the view of the greatest opportunity with the lowest risk
- Your sector and the market – to assess what buy/sell activity is currently taking place and the best time to consider going to market
- Your personal drivers – when will you be ready to move on?

5.6 The work then continues to review all areas and make changes as necessary to:

- Profitability and growth potential
- Systems and operations
- Company structure incl a tax review
- Managing cashflow and working capital
- Readiness for the sales process and due diligence

If you work alongside a member firm of The CFN, who use some of the best exit planning tools available in the UK, you can be sure that when you are ready to go to market, your business will be too.

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