ISC VENTURES

the Company Sale guide

Introduction

As a business owner the sale of your business will often represent the most significant milestone in your career and the culmination of a lifetime's work.

Even experienced and successful business owners find the sale process complex, time consuming and emotionally demanding, particularly as in most cases they have not sold a business before.

This guide summarises the key steps to maximising value, outlines the sale process and timetable and explains the role of a corporate finance adviser.

Experience has shown us that business owners who approach the sale process in a controlled and structured way are far more likely to realise their objectives.

> "Selling your business can be a life-changing decision and you may only have one chance to get it right"

Key ingredients for success

Choosing the Right Exit Route

The choice of exit route can affect the value you receive as vendor. It also has varying implications for other stakeholders in your business and for the complexity of the process and predictability of outcome. The most common exit routes are outlined below:

- **Trade Sale** – where the business is sold to another business, with potential trade purchasers including competitors, existing customers and suppliers, as well as businesses looking to diversify operations from related or complementary sectors.
- **Management Buy-Out** – where management acquires a significant equity stake with funding typically provided by a venture capitalist and/or a bank.
- **Institutional Purchase** – where a venture capital investor acquires a substantial majority stake and management is incentivised to grow the business via share options or bonus arrangements.
- **IPO** – an initial public offering on a recognised stock exchange.

Although plans can change, identifying your likely exit route(s) will help your exit planning strategy.

Selling at the Right Time

Picking the right time to sell your business is important and the choice will be influenced by a variety of external and internal factors, for instance:

- **External factors:** market conditions, M&A activity, sector valuation multiples, the taxation environment and political influences.
- **Internal factors:** shareholder objectives, trading performance, financial year-end proximity, financial projections, future prospects and growth plan, seasonaility within the business, critical mass, management team succession and key customer contracts.

Addressing matters that lie within your control through management and planning should mean you are ready to move when the market conditions are right. Selling a well-managed business on an upward growth curve into a buoyant market is likely to produce the best result.

> "Early and thorough preparation drives deliverability and value"

Right Purchaser

The ideal purchaser is one who offers the best chance of meeting your valuation and process objectives. Specifically, the ideal purchaser will pay a premium price for the business, add value to the business, be acceptable to management, have a good understanding of the business and be in a position to complete the transaction on a timely basis. You may well already have an idea of who this purchaser may be and your corporate finance adviser will identify others.

Your corporate finance adviser can also make discreet enquiries of potential purchasers on a no-names basis before any formal approach is made. This will help you gain a better understanding of their requirements so that you can position your business accordingly whilst maintaining confidentiality.

Right Valuation

The true value of your business is unlikely to be known until it is sold. However an understanding of valuation methodology will help you focus on areas that influence value. The most common method of deriving the debt free/cash free value or 'Enterprise Value' of a business is by applying a multiple to underlying earnings.

Underlying Earnings X **Multiple** = **Enterprise Value**

The selection of a suitable multiple will be based on an assessment of the sector, growth potential and risk. A low risk business with good growth prospects will sell on a higher multiple than a high risk business in a shrinking market.

Having arrived at an Enterprise Value the value of your shares, known as 'Equity Value', is arrived at by deducting any debt and adding the value of any non-business assets.

Enterprise Value + **Non Business Assets (e.g. surplus cash)** - **Debt** = **Equity Value**

An early focus on the constituent parts of the valuation methodology will build value and the price achievable on sale.

"When its time to sell, time spent planning is seldom wasted"

Right Process

In a trade sale scenario, the choice of process will be influenced by the nature of your business, the market in which it operates and the shape of the potential buyer pool . Choosing the right process to conduct is also essential to generating a valuation premium and increasing the deliverability of any company sale process, with the two most common processes being as follows:

- **Competitive Process** – where a number of parties are approached simultaneously within a controlled auction process to harness competitive tension between purchasers and so drive up the price.
- **Preferred Bidder Process** – where the business is marketed to just a few, or even one business, with the aim of securing an 'off-market' premium from those parties approached.

Your corporate finance adviser will ensure an early focus on areas that influence value, proactively work with the business to ensure it is presented in the best light to potential purchasers and suggest the most appropriate process to both deliver and maximise value.

> A well-run process can add significantly to the sales price achieved on exit

The Sale Process

There is no 'one size fits all' company sale process and significant thought should be given to craft a strategy that maximises the prospect of meeting the shareholder's objectives. Most company sales include the following steps:

1 Exit Strategy	2 Process Preparation	3 Marketing	4 Due Diligence	5 Legal Completion
• Shareholder Objectives	• Final Purchasers List	• Competitive Process	• Financial DD	• Tax Clearances
• Timing of Process	• Information Memorandum	• Preferred Bidder Process	• Commercial DD	• Legal Disclosure
• Taxation Matters	• Financial Projections	• Indicative Offers	• Legal DD	• Sale & Purchase Agreement
• Value Drivers	• Confidentiality Agreement	• Management Presentations	• Operational DD	• Warranties & Indemnities
• Potential Purchasers	• Process & Timetable	• Negotiation/Final Offers	• Online Dataroom	• Consultancy Agreements

1. Exit Strategy

An early focus on those areas important to a potential purchaser will build value in any exit process. Those areas that have the most influence are summarised below:

Competitive Position	Customer Relationships	Recurring Revenue
Stakeholder Influence	Potential Purchasers	Management Team
Growth Potential	Financial Performance	Working Capital/Debt

During the exit planning process your corporate finance adviser will bring focus to each of these areas and help you build a strategy to achieve your objectives including preferred exit route and timing. Many business owners commence exit planning a number of years in advance of any anticipated process.

2. Process Preparation

Your corporate finance advisor should be heavily involved from the start to ensure that your business is presented to the right audience in the best possible light.

An important element of this stage is the preparation of the information provided to potential purchasers. This is usually presented as an Information Memorandum which your corporate finance adviser will help you prepare. The principal objectives of the Information Memoradum are as follows:

- Provide the potential purchaser with sufficient information to make an offer to purchase your business.
- Present your business as an attractive acquisition opportunity for the potential purchaser.
- Ensure that the information provided is sufficiently robust to withstand the scrutiny of the due diligence process.

An Information Memorandum would only be released to a potential purchaser after an appropriate confidentiality agreement had been put in place.

> With the right preparation due diligence can be a straightforward process

3. Marketing

Contact with potential purchasers is the point at which the sales process picks up momentum. The level of interest and enthusiasm encountered will provide an early indication of the likelihood of success. Part of the role of your corporate finance adviser will be to ensure that the opportunity is presented to the right person in the purchaser's organisation.

The active marketing of any company to a short list of potential purchasers is a highly sensitive process. Maintaining confidentiality within and outside the company is of acute concern to all parties involved in the process.

The aim of the marketing stage is to secure indicative offers from the potential purchasers approached, with such offers typically making reference to the level and form of consideration, method of funding the transaction, approach to due diligence, timetable to completion and any further conditions attaching to the offer.

Certain parties that have submitted compliant indicative offers will then likely be invited to receive a business owner or management presentation, which would include further information to enable a final offer to be put forward for the business. Your corporate finance adviser will also likely commence negotiations with the potential purchasers at this stage, with a focus on negotiating key terms, creating competitive tension between those parties remaining in the process and furnishing you with enough information to make an informed decision at to the selection of a preferred purchaser.

After a preferred purchaser has been selected then is it is usual for Heads of Agreement to be entered into between the purchaser and the vendor, with such terms covering the agreed transaction, exclusivity, confidentiality provisions, warranties and indemnities, any conditions precedent, adviser details and timetable.

4. Due Diligence

The purchaser's offer will usually be accompanied or followed by a detailed information request for due diligence purposes. Due diligence is, in essence, an investigation by the purchaser of both the business and the market in which the business operates. This process is designed to verify that assumptions underlying the purchaser's offer are reasonable. Whilst the scope of any due diligence exercise will depend on the purchaser the financial, commercial and legal due diligence tend to be the main focus.

Vendors often fear the due diligence process, but provided you have properly prepared and not withheld any crucial information concerning the business, it should be a relatively straightforward process.

Your corporate finance adviser will coordinate the due diligence process to ensure that it runs as smoothly as possible and involves a minimal amount of management time and effort. This will involve the establishment of a secure online dataroom that contains the required financial, commercial and legal information on the business. The major advantages of an online dataroom are that it negates the need for numerous site visits, allows immediate and simultaneous access of information to authorised users and enables the due diligence process to be more efficient, particularly where overseas purchasers are involved.

5. Legal Completion

The drafting of legal documents generally starts during the due diligence process as confidence in the likelihood of a successfully completed transaction increases.

The Sale & Purchase Agreement ('SPA') is the principal agreement between you and the purchaser. The SPA will include the key terms agreed in the Heads of Agreement. It will also include standard representations from you as a vendor that any purchaser would expect, together with further specific representations which the vendor deems necessary as a result of the due diligence process. You may be required to provide warranties and indemnities in support of such representations so that the purchaser has a route to financial redress in the event that they prove to be inaccurate.

The Disclosure Letter is a legal document that provides you with the opportunity to disclose any matter you are aware of which might give the purchaser grounds for a warranty or indemnity claim. Typically the purchaser will have no grounds for action where matters are fully disclosed and, therefore, a well-prepared disclosure letter can protect you from any such claim. Warranty & Indemnity insurance may also be available to provide you with additional protection.

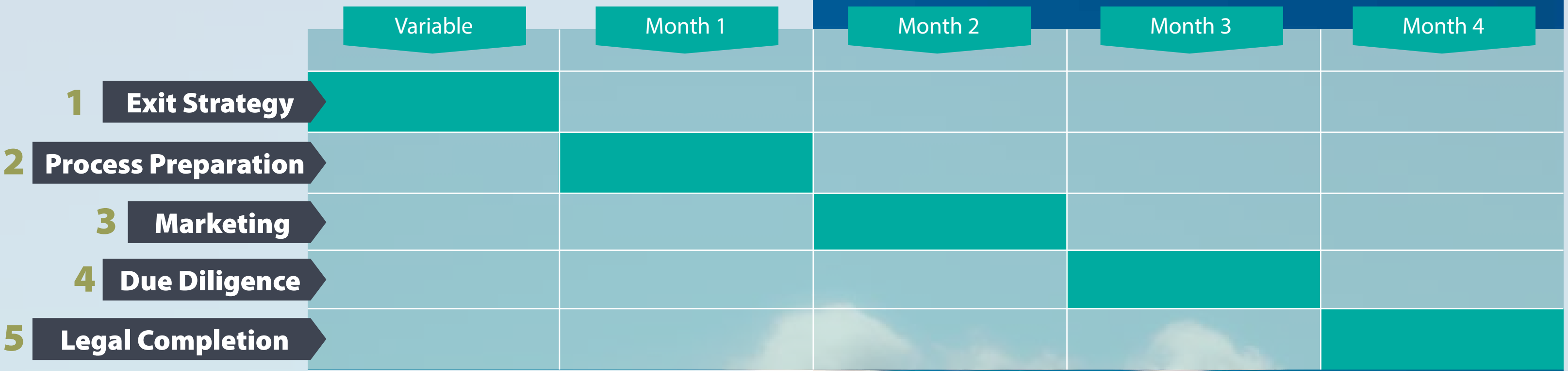
The reasonableness of warranties and indemnities and the contents of your disclosure letter are key areas where your legal, taxation and corporate finance advisers will play an important role in advising you.

Legal completion cannot come soon enough for many vendors. Thorough and well negotiated Heads of Agreement and early preparation for the legal disclosure exercise can contribute to a swift conclusion of the legal completion process.

Timetable and Costs

Timetable

A company sale process usually takes between three to five months to complete, depending on the complexity of the transaction and the position taken by the various parties within the transaction. An illustrative timetable is outlined below:



Transaction Costs

The purchaser is responsible for any fees they may incur, such as their lawyer, external due diligence providers, finance raising costs and Stamp Duty.

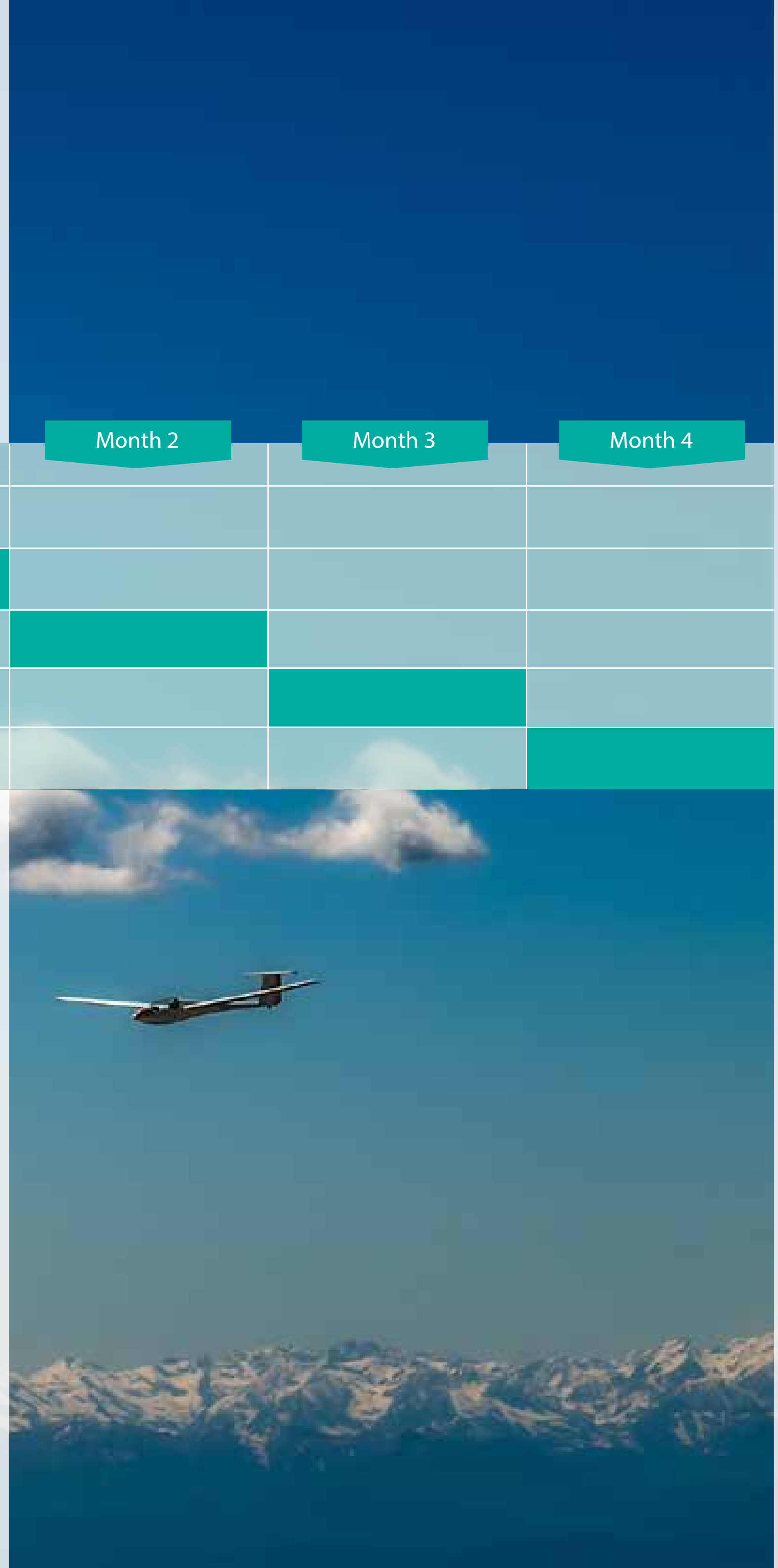
The vendor is responsible for the fees they may incur, typically including those of their corporate finance adviser and corporate lawyer.

The vendor's corporate finance adviser would typically charge an initial retainer and then a contingent success fee based on the purchase price achieved for the business. Such a mechanism ensures that the corporate finance adviser is incentivised to meet the vendor's objectives and maximise value.

The vendor's lawyers are generally engaged towards the latter stages of the sale process and tend to charge a more timecost based fee, usually with a reduced fee if a transaction were to abort for whatever reason.

Your corporate finance adviser can provide you with a tailored fee estimate for all transaction costs during the Exit Strategy stage.

"A company sale process typically takes three to five months to complete"

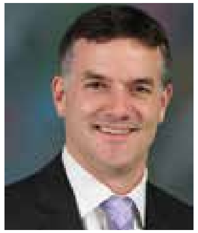


Role of Isca Ventures

Isca Ventures is a specialist firm of corporate finance advisers with a successful track record in company sales. Our attributes include:

- We are entrepreneurs and have exited businesses in our own right and are therefore commercial in our approach.
- As a specialist independent firm we rarely suffer from conflicts of interest and are well placed to manage confidentiality.
- We have long-standing relationships with a range of potential acquirers, including publically listed companies, institutional investors and international companies looking to acquire in the UK.
- We provide Partner-led advice throughout.
- We have a professional in-house market research function, with access to leading research tools and international Merger & Acquisition databases.
- Our success-orientated transaction costs ensure that our interests are aligned with yours.

For additional advice relating to your business, we would be delighted to meet on a no-obligation basis to discuss your circumstances in a more personal manner. Please don't hesitate to contact our Partner team.



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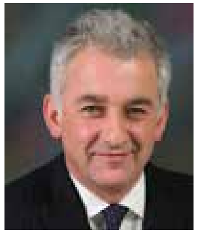

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"We understand the steps required to complete a successful company sale and our approach is built around being in for the journey"

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