Crowe | Leadership Hub

Michael Holland speaking at our 2018 Pinnacle Programme on

Uncovering potential and realising value when buying and selling a business

Addressing this Pinnacle session was Michael Holland, a leading Dublin businessman with interests in a wide range of sectors including hotels and leisure, food and retail and property. He owns The Fitzwilliam Hotel Group with hotels in Dublin and Belfast and the Four Star pizza chain of 57 outlets. In 2017 he sold Irish Welcome Tours, one of the country's leading inbound tourism operators.

Michael was also joined by Aiden Murphy, a partner with Crowe's corporate finance department. Aiden opened the session by providing a brief overview and context around the opportunities for Irish business owners in buying and selling businesses.

Ireland is at a two-year high in terms of business confidence according to data from the Chartered Accountants of Ireland. Our economy is the fastest growing in the EU with GDP growing at three times the EU average. As a result, this is an opportune time to buy and sell businesses.

Key reasons why businesses are bought and sold

Aiden Murphy outlined a number of reasons why owners look to buy or sell businesses:

- The right point of the business cycle and a strong economy will create an opportune time to sell. When the economy is performing well selling becomes an enticing prospect for both parties. "If you're the owner of a business, you're seeing value and if you're a buyer you can see a roadway of three or four years of strong growth," explains Aiden.
- Personal reasons such as retirement or health concerns. With less businesses being passed on to the next generation, owners are selling up and distributing the funds to family members. Also ill heath can often prompt a business sale.
- Divesting of non-core businesses. A seller may want to focus on certain divisions of the business and might see an opportunity to sell off non-core businesses to realise assets and bring investment back into growing the main sections of the business.
- Consolidation within business sector. Many sectors face trends toward consolidation – such as we have seen in the retail pharmacy and motor sectors – and, as a result, a business owner may choose to merge with or buy a competitor.
- Increased investment. Industries can face requirements for capex investment in order to maintain momentum. As a result, smaller businesses may be unable to meet that reinvestment requirement and exit.
- Financial distress. Strongly performing businesses can still be pushed towards a sale as legacy financial problems cause challenges to ongoing viability. Other economic shocks like Brexit-related currency fluctuations can result in a significant impact on margins.

Building business value prior to sale

Crowe is often asked to advise businesses who have been approached about being bought and what they need to do to maximise their sale price. When advising businesses on how to build value in their business, Crowe focuses on eight key drivers of building business value. These are: financial performance, growth prospects, dependence on either customers, suppliers or employees, cash generative vs. cash absorption, recurring revenue models, control of your market share, customer satisfaction and if the business is dependent on the owner.

Value of an external advisor

When looking to buy or sell a business an external advisor can bring a lot of added value, especially if management are responsible for the day-to-day running of the business and need to maintain their focus during the buy or sale process

Experienced external advisors can help buyers and sellers plan, identify suitable targets, prepare the presentation of the business, conduct due diligence, coordinate the process and complete the necessary paperwork with the transaction. In short, through their experience and expertise, they ensure the smooth running of the buy or sale process and maximise value for whichever side they are acting for.

According to US research 79% of business owners want to exit their businesses within the next 10 years, but only 17% have created a formal exit plan*. In the next section successful businessman Michael Holland shares his personal insights from a long career which has seen him buy and sell a number of different businesses.

Michael Holland sharing his personal insights from a long career buying and selling businesses

Buying and selling businesses – a personal perspective

On the topic of buying and selling business, Michael Holland outlined that smaller businesses tend to sell for a EBITDA multiple of roughly 5 times, whereas larger businesses command a larger multiple. So, on the basis of that logic, larger is better when it comes to maximising your sales price.

Michael believes that the fastest way to grow the business is through acquisitions. "It usually improves your overhead ratio to turnover, thereby growing profitability. It can provide great synergies when the new acquisition is bedded in. And often it can improve your margins and provide you with access to new markets. It also has the hidden benefit of getting new management into your business." explains Michael. He highlighted this fact when mentioning that three of the top executives currently in his organisation have come from acquisitions.

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Although you might buy a business for a five times multiple, after it has been bedded down usually it is a lot less when you take into account the synergies and the overhead savings. Often this can drop to a three times multiple – which is a 33% return or a three-year payback on your investment. This represents in itself a compelling reason for going down the acquisition route to build your business in advance of a possible exit.

When is a good time to buy or sell a business?

When you are looking to buy a business your own business needs to be in sustainable profit as it will help you ensure you have the resources available to take on and bed down a new business.

You need to have an efficient system of management and control in place as acquisitions are a time-consuming process. You need to ensure that your management are not distracted from the day-to-day running of your business.

A good time to buy is when your sector is in growth phase and you have a strong business plan. These factors will ensure you can find the funding you need, which can be challenging – especially when purcahsing trading, non-asset companies, as banks will often be slow to lend.

So when is a good time to consider selling? It might be worth considering a sale based on the economic or business cycle you find yourself in. For example, after several years of sustained growth in you sector and with the economic cycle at a high point it could be a good time to sell. There will an appetite in the market for acquisition and funding should be readily available.

Also if your company has just had one of its best trading years it can also be a good time to put a business on the market. By demonstrating strong trading results your business will appear attractive to purchasers and you can maximise your sale price.

Or perhaps you have identified a strategic purchaser who might be interested in your business. By understanding the benefits your business might bring to a potential purchaser it puts you in the driving seat ensuring you have a strong negotiating position.

*BEI 2016 Business Owner Survey

Crowe partner Andrew Whitty (left) and managing partner Naoise Cosgrove (right) with Michael Holland at the Pinnacle Programme

How to identify a possible purchase target?

Michael stresses the importance of doing your homework and researching the market fully. You are looking for a strategic target that shows strong possible synergies with your business, where you can create or unearth hidden value – which is the key. That involves spending time properly analysing their business.

A lot of information can be found out about your competitors that could open opportunities for them to be a possible target. Information such as their ownership structure, owners' ages and the financial status of a business could point to an opportunity and can be easily found through desktop research. Also word of mouth can uncover further detail about possible succession plans or other potential trigger points for a sale.

Advance planning is key if looking to buy or sell

Whether buying or selling you should begin preparing at least 12 months out, as it can often take that long to close a deal. "By being ready to do business, you are more likely to be successful and strike a deal," says Michael, "You don't know when an opportunity will appear, so it's important to be prepared."

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If you are looking for a business to buy, try and identify a target before its made sale-ready. "If you are able to get in early before they have appointed external advisors and stay with them through the process you often end up as the purchaser – and often at a more advantageous price."

Michael outlined the need for strong external business advisors, including corporate finance specialists, corporate lawyers, accountants and tax advisors. "You will need to take on special advisors in corporate finance to get yourself through to buyers and be able to present through them," advises Michael. "Also I can't emphasise also how important a good corporate lawyer is – they are key to whether a transaction will run or not." However, Michael also warns that as the principal so you need to take control of the process and drive your professional team, not the other way around.

When selling your business, you should cut down on operating costs. "Reduce every single overhead to a minimum, as every euro you save could be worth five times that on a sales price." For example, make yourself a non-essential operating person – you are too expensive to be selling with the business. In doing so you can exclude your salary from the EBITDA calculation, which will form the basis of the sale price multiple.

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Michael Holland successfully sold leading Incoming tour operator Irish Welcome Tours in late 2017

Michael's final piece of advice to this Pinnacle group was not to be afraid and to go for it. "Fortune favours the brave" he encouraged.

Dos and don’ts of the process

Do:

- Do prepare well in advance for either a sale or acquisition of a business. By being ready to do business you are likely to be more successful and strike a better deal. Opportunities can suddenly appear so you must be ready.
- Analyse in depth your target’s business. Understanding where value can be created will lead to a much more fruitful purchase or sale. Synergies are the icing on the cake.
- Identify your own company’s strengths and weaknesses. Celebrate the strengths and have a plan in place to tackle the weaknesses – showing that you can turn them into a potential opportunity for the future.
- Focus on your Heads of Terms document. It sets out the terms of the commercial transaction agreed between two parties in the course of negotiations. Make it extremely tight and uncompromising to avoid any issues during the process. This is extremely important and a common pitfall for many sellers.
- Do take control over the sale process. Attend every meeting personally, it is your business so do not let your professional advisors become the principals.
- Ensure that all information that goes out to a potential buyer is vetted beforehand to ensure you are on top of each piece of data that is released.
- Do limit your fees in the event of an unsuccessful purchase or disposal of the business. Negotiate a no foal no fee if possible – this is an expensive process.
- Take good tax advice.

Don’t:

- Do not warrant your future trading figures – you can never predict the future.
- Avoid earn outs if you see a lot of synergies – they usually lead to disappointments and disputes. If buying, the old owner will be reluctant to change the business model and take the risk of not making his target. If selling, the new owner will be in control of the business and may frustrate your ability to reach target.
- Don’t keep the owner of an acquired business for long. Look to put your financial officer in charge of acquired business ASAP.
- Don’t disclose sensitive financial and operational information to a wide list of potential buyers – you should only be releasing full information once you have worked with your advisors in narrowing the list to only a couple of very serious buyer potentials.

About Us

Established in 1941, Crowe is a leading accountancy and business advisory firm in Ireland. Throughout our 75-year history, we have developed an unrivalled understanding of the Irish business environment and built a national reputation in auditing, tax and business consultancy.

We work with a variety of clients across commercial and public sectors. Our services include Audit & Assurance, Tax, Corporate Insolvency & Recovery, Corporate Finance, Consultancy, and Outsourcing.

We are also independent members of the eighth-largest accountancy network in the world, with colleagues in over 750 offices across 130 countries. Through this global reach we are able to offer clients a seamless service when trading internationally.

Our success is the result of our exceptional client service. Together with our clients, we work to optimise the present and maximise the future, tirelessly exploring all possibilities until we find the right solution. We help clients make smarter decisions today that create lasting value for tomorrow.

Smart decisions. Lasting value.

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