



BUYING A BUSINESS

**WHAT SHOULD YOU CONSIDER
IN YOUR ACQUISITION JOURNEY?**

INTRODUCTION

Acquiring another business is often a strategic move to achieve various business goals; such as expanding your geographical reach, increasing market share, accelerating the growth of an existing revenue stream, increasing market share, acquiring new technology, or diversifying your business.

However, before pursuing an acquisition, it is important for business owners to carefully consider a number of factors to ensure success. These factors may include the financial health and stability of the target company, the compatibility of cultures and values between the two businesses, the potential impact on current employees and customers, as well as any regulatory or legal considerations.

By thoroughly evaluating these factors, and developing a well-planned integration strategy, business owners can increase their chances of a successful acquisition and achieve their desired outcomes.



STEP ONE: ARE YOU READY TO MAKE AN ACQUISITION?

Before making any business acquisition, it is important for business owners to carefully evaluate various factors that may affect the success of the acquisition. Areas to think about when considering whether now is the right time to make an acquisition include:

- Have you conducted a review of your own business and identified its strengths and weaknesses together with opportunities and threats? How may an acquisition enhance or address these areas?
- What is the rationale for making the acquisition and do you have a clear acquisition strategy? E.g. to enter a new market, diversify product offering etc. How will the acquisition add value to your existing business?
- Have you conducted a full competitor analysis of your industry to understand your position within the market?
- How much capital are you willing to spend, and what options/combinations for financing your acquisition strategy have you considered, be it retained cash reserves, bank borrowing and/or private equity?
- Do you have adequate financial and human resources in place for any integration plans to succeed or to manage the acquired business if you envisage it will be operated on a standalone basis?
- Have you considered tax structuring and the impact of an acquisition on your existing tax regime (e.g. small to large company corporation tax regime)?
- Have you instructed suitable advisors that have the relevant experience of advising on acquisitions? Accountants, including tax specialists, and lawyers are critical in any acquisition, as well as appointing someone, whether that be internal or external, to oversee the entire transaction on your behalf.

STEP TWO: FINDING THE RIGHT TARGET TO ACQUIRE

When considering a business acquisition, finding the right target is crucial for the success of the venture. It is important to thoroughly research potential targets and ensure they align with your business goals and values. Factors such as industry, size, location, and financial stability should all be taken into account when evaluating potential targets. Additionally, it may be beneficial to seek the advice of a professional in the field to ensure you are making a well-informed decision.

PROFITABILITY

Establishing the underlying, and more critically, future sustainable profitability of the target business is likely to factor into whether you are interested in acquiring the target business. Are you able to determine in the value of the target business to your business? For example, would your business be able to realise additional synergies (discussed below) that could further increase the combined profitability of both your business and the target business, beyond the sum of each entities standalone profitability.

BUSINESS VALUES

Ensuring that the strategic goals of the target business support your own businesses core values will help a business combination be successful. Considering cultural compatibility, core values and management goals will help to integrate the target business effectively with your own, as well as hopefully avoid any potential damage to your businesses brand or reputation.

MARKET ALIGNMENT

A key goal of acquisitions can be to gain a competitive advantage in the current market. It is therefore important to assess how the target company's products or services fit within your current market or if they open up new market opportunities, new geographical markets, access to new technology, intellectual property, or a larger customer base to your current business. Any overlap between your customer base and that of the target company may be beneficial in identifying potential cross-selling and upselling opportunities.

SYNERGIES

When the strategies of your business and the target's business are aligned, there is a greater potential to recognise synergies in an acquisition. Synergies can lead to revenue growth, cost savings and increased efficiencies for the combined businesses. The below diagram outlines some areas where synergies may arise in a business combination:



Area	Synergy opportunity
Customer satisfaction	Strengthen customer relationships with broader product and service offerings
Supply chain	Reduce costs through economies of scale and economies of scope
Operations	Employee costs and overheads can often be streamlined post-acquisition. Typical areas of synergy savings include: ▶ Reduce employee costs through role combinations and efficient use of employee expertise ▶ Reduce finance and administration costs by leveraging resources over a larger business ▶ Reduce human resource costs through streamlining and integrating systems ▶ Reduce IT costs by consolidating IT systems ▶ Save in property costs through optimising real estate usage across the businesses
Taxation	Tax savings from group tax schemes and group structuring



STEP THREE: MAKING AN OFFER

Once you have identified the right target(s) for your business you need to determine the value of the target and the broad structure of the transaction (although these only need to be indicative at this stage) before making an offer.

Some key areas to think about when deciding on the deal mechanics of an acquisition include:

DEAL VALUE

There are a number of valuation methods to determine the value of a business. Typically, transactions are valued based on a multiple of trading metrics such as revenue and cash profits (before interest, tax and depreciation). The multiples can be determined based on past transactions and multiples achieved by comparable businesses. Other valuation methods include asset based valuations and discounted cash flows.

DEAL STRUCTURE

The two most common deal structures to decide between are a share purchase and an asset purchase. The deal structure you use will impact where the transactions consideration is paid to and is therefore likely to have a tax impact on the sellers. The deal structure may also impact the tax treatment in the target business including the availability of any tax losses and the capital allowance treatment of assets, along with other tax considerations. Notably, when you acquire the shares of a business you inherit the target company's tax liabilities whereas with a trade and assets deal you do not inherit the tax liabilities as they remain with the target company.

CONSIDERATION

Thought will need to be given as to how the deal will be financed. There is generally a choice between cash consideration and equity consideration to be made. Additionally, what level of consideration will be deferred or form part of an earn out for the sellers? If the deal will include an earn out, you will need to consider what metrics this will be based on and how the earn out is structured. An amount of the consideration may be held back for a period of time at completion to cover warranties and indemnities, this hold back is often held in an escrow account.

COMPLETION MECHANISM

Typically deals are completed using either a Completion Accounts or Locked Box mechanism. Each mechanism has their own advantages and disadvantages that need to be considered when determining whether to use Completion Accounts or Locked Box for the proposed acquisition. For example, if accounting records are poor and you have restricted access to financial information then a Locked Box mechanism may not be appropriate.

MAKING AN OFFER

When presenting your interest to a target business, whether outside of an auction process or as a bidder, it is important to specify what assumptions your indicative offer to acquire the company is based on. Have you clearly stated the metrics your offer is predicated on and that any change in your assumptions may impact your offer price? For example, the offer assumes a certain level of revenue and that profit is sustainable the the price will be impacted.

STEP FOUR: DEAL EXECUTION

DUE DILIGENCE

Now that you have agreed a deal in principle with the target, you may think you know what you're buying but how do you know for sure? This is where the importance of due diligence comes into play. A good due diligence provider will work to understand both the target and the key drivers behind the acquisition and undertake and guide you through the due diligence process from start to finish. They will generally focus on the quality of earnings of the target business; understanding the working capital cycle of the target; identifying any key risks, including risks arising from the target's tax position and other areas which are specific to your proposed transaction. Your due diligence providers should keep you updated with their findings throughout the process. The early identification of areas of concern and risk, together with recommendations and advice, is an essential part of the acquisition process. Financial and tax due diligence is critical to avoid any unpleasant surprises post-acquisition.

Considerations you should take into account when appointing your due diligence providers include:

CREDIBILITY



- ▶ What is the track record of the team?
- ▶ Are they a well-established company?
- ▶ What is their past experience?

SUPPORT



- ▶ Does the team have the capacity to undertake the due diligence work?
- ▶ How are they intending to work?
- ▶ Do they intend to provide other transaction support services such as reviewing the Sale and Purchase Agreement (SPA) or assisting with Completion Accounts or Locked Box accounts?
- ▶ Will they work alongside your business' lawyers?

SKILL MATCH



- ▶ Have they previously undertaken due diligence on a target of a similar size?
- ▶ Do they have cross-border experience, if needed?
- ▶ Do they have access to the right specialists if needed, such as a dedicated tax due diligence team?
- ▶ Do they have sector specific knowledge, if this is valuable?

In the majority of cases, an astute team of due diligence providers with experience of similar sized, or owner-managed, companies will be able to provide you with excellent, well-rounded advice.

Your due diligence advisors can provide thorough analysis on the following key areas:

QUALITY OF EARNINGS

- ▶ Assessment of historical and current performance, including the target's Key Performance Indicators
- ▶ Review of quality and sustainability of underlying profits, including identification of non-recurring or one-off items
- ▶ Customer or supplier dependencies
- ▶ Cash generation and identification of any trapped cash
- ▶ Review of related party transactions

QUALITY OF NET WORKING CAPITAL AND NET DEBT/CASH

- ▶ Analysis of underlying net working capital requirements
- ▶ Assessment of off-balance sheet financing
- ▶ Review of the level of free cash or debt to be added or deducted from the agreed Enterprise Value in determining what is paid to the selling shareholders

FORECASTS

- ▶ Review of the robustness of the financial projections and how they compare to historical and current result (if available)

ACCOUNTING FUNCTION AND MANAGEMENT SYSTEMS

- ▶ Evaluation of the quality of financial information
- ▶ Robustness of the financial projections and how they compare to historical and current results (if available)
- ▶ Review of budgeting accuracy

TAXATION

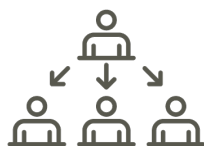
- ▶ Review of the tax risks in the business
- ▶ Assessment of employee benefits

STEP FIVE: DEAL COMPLETION

The final contract of sale is termed the Share Purchase Agreement or the Sale and Purchase Agreement (SPA). The SPA is typically prepared by your solicitors as the acquiror. The SPA aims to cover all eventualities and is subject to a process of negotiation between your solicitors and the seller's solicitors. Ensuring that your financial and tax advisors work closely with your legal team is critical to achieving an SPA which effectively translates the intentions of both parties.

The SPA will include warranties and indemnities, usually including some general warranties along with any specific indemnities identified during the due diligence process.

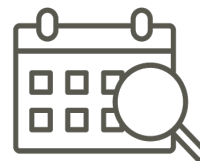
The date when the transaction completes needs to be thoroughly contemplated. You will need to consider:



Are management available to make decisions in case of any last-minute negotiations that might arise?



Will your management team need to be available to attend the target's business to introduce themselves to the employees of the acquired business soon after completion?



Does the completion date matter from an accounting perspective? Does completion need to fall on a month or quarter end to ease operations and reporting requirements?

STEP SIX: POST ACQUISITION

Ensuring a smooth integration immediately following completion is critical for maximising the success of an acquisition and having a formal '100-day plan' can greatly assist. So, what key items should form the framework of this 100-day plan?

- ▶ Setting out the team members responsible for different areas of the 100-day plan along with clear deliverables and time frames.
- ▶ Detailing how and when the key issues or opportunities from the due diligence findings are going to be actioned.
- ▶ Employee onboarding (communication of what is happening and what is in it for them is critical to get across from day one).
- ▶ What is the vision? Communication to all key stakeholders is critical here, primarily being the employees, the customers and the key suppliers.
- ▶ Integrating systems.
- ▶ Ensuring key performance indicators following the acquisition are monitored and acted upon.



LET'S TALK ABOUT YOUR PLANS

Wherever you are in your acquisition journey, it can be useful to have a team of advisors in place to help you through the process.

Our deal advisory team has in-depth experience in advising and supporting clients in the planning, negotiation, and completion of acquisitions. We can help you to decide if growth by acquisition is the best route for your business; providing you with practical and insightful guidance throughout the entire process to help achieve your desired outcome.

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“It has been a true pleasure working with the teams at Cripps and Menzies again. Their expertise and seamless project management across multiple jurisdictions was invaluable in getting this deal over the line. Their pragmatic and solutions-focused approach meant we could navigate the complexities of this transaction with confidence. We look forward to working together on future opportunities.”

Per Lindblad, Head of M&A at KAMIC Group

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