Selling your Guernsey business

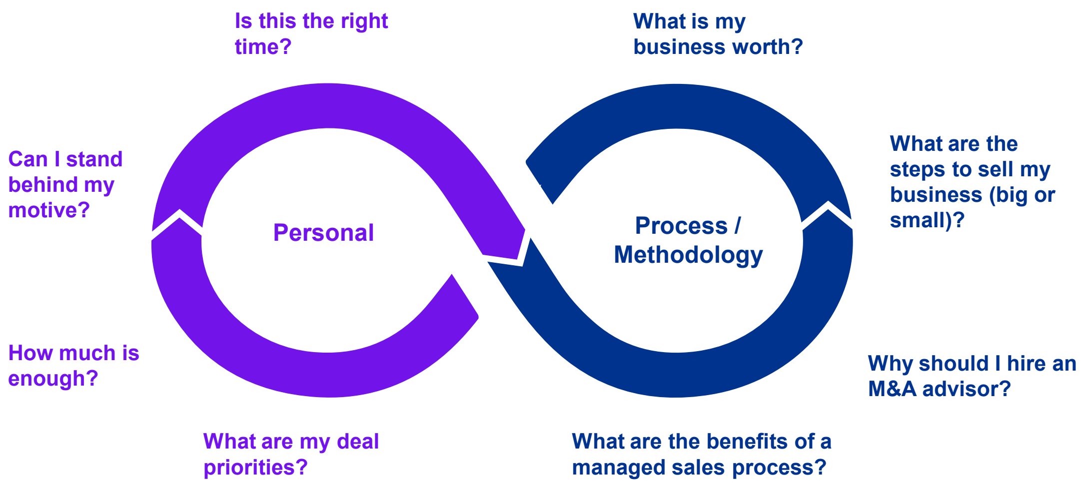
Overview

Introduction

For many business owners, their first business sale is their only business sale, representing a unique challenge many can be ill-prepared and under-resourced for:

- **Significance**: For many business owners this will represent the most significant financial event in their lifetime and has the potential to have a major impact on both their, and their families' lives.
- **Strain**: Maintaining business as usual ("BAU") whilst simultaneously running a sales process can be physically and emotionally demanding.
- **Risk**: A failed transaction can create reputational damage, cause financial burden and disrupt BAU (particularly for the vendors, clients and employees).

The KPMG Guernsey Deal Advisory team have produced this informative guide to help business owners better understand the key sale considerations and manage expectations with respect to process, timing and valuation.



Sector Activity

Guernsey's M&A activity is not limited to the financial services industry. Transactions are regularly occurring across a wide range of sectors, with recent activity in the following industries:

Automotive	Banking & Financial Services	Consumer, Retail & Leisure
Business Services	Food & Beverage	Healthcare
Real Estate and Facilities Management	Technology	Transport & Infrastructure

Is this the right time?

Timing

Whether or not it is the right time to sell is a personal decision and will be different for every business owner. Considerations will likely include:

Purpose and motive

- Why am I selling? Potential acquirers may be sceptical of the motives of a seller, and will seek to identify any indications of distress.
- Do my personal circumstances impact my ability to run the business in the near/medium term (e.g. illness or retirement plans)?
- Do I have other commercial interests or passion projects I'd like to focus my time on?

Key person / succession planning

- Do I have a solid succession plan for when I need to step away from the business?
- If the business can't perform without me, am I prepared to support new ownership until such a time I can step away?
- How long will I be prepared to support new ownership for?

Attractiveness

- Can I evidence growth potential and scalability to a potential acquirer?
- Are there material uncertainties surrounding the business that would make marketing for sale at this point in time a risk?
- How are current M&A market conditions in my sector and is there a strong pool of active buyers? Is this expected to change?

Leaving value on the table

- What is the outlook for my business over the next few years? Will holding out be significantly more lucrative and how certain is it that this is the case?
- Are there improvements in the business I can make in the short/medium-term that will materially improve the value I can extract?
- Do I have all the information in order to demonstrate the value story? What are the KPIs and how are they tracking?
- Is it preferable to sell the entire business or a partial sale (i.e. a business line or a client-book)?

Will it be enough?

- Is my view on the valuation of the business realistic? An independent view on valuation can help set expectations and assist with deal strategy and timing.
- Will the anticipated sale price satisfy my professional and personal plans post sale? If not, am I willing to compromise on either?

Disruption

- Do I and the management team have enough bandwidth to ensure momentum is maintained in a sale process even with the support of an advisor?
- Would a potential sale process be too disruptive to current operations/trading? Are there any key business projects that will require significant attention in the short term?

What are my deal priorities and who are the potential buyers?

Your deal priorities

Assessing deal priorities will help a seller focus on the most attractive buyers and their key considerations. Certain priorities may not be compatible, for instance a rapid deal timeline may create more risk for a buyer and reduce their offer value.

Value I wish to maximise the consideration I receive from the sale and/or prefer a higher percentage paid upfront.

Client It is important to me that clients continue to receive high-quality service and that the acquirer is considered a 'safe pair of hands'.

Staff I want to make sure the staff are taken care of and have assurances regarding their future.

Reputation I have worked hard to develop a reputation that is well respected locally, it matters to me that this is maintained.

Exit speed I want to exit rapidly.

Buyer profiles

Who the relevant potential buyers are will depend on multiple factors, including the type and size of the business that is being sold and the priorities of the seller. For larger businesses, potential acquirers can be separated into three broad pools, private equity, trade buyers and HNWIs/family offices.

	Private Equity	Trade Buyers	HNWIs / Family Offices
Focus	Private equity firms typically want standalone assets with competent management teams that they can support. They will aim to deliver substantial return in a 3 to 5 year period through: i) bolting on similar businesses; ii) operational optimisation; iii) and/or revenue growth.	A trade buyer may be focused on the Target's clients, the ability to enter new geographies and expand technology or product lines.	This typically consists of locally linked high net worth individuals (HNWIs) and/or family offices. Such individuals have often enjoyed success from previous business ventures and are passionate about using their skills and knowledge to develop businesses on the island.
Pros	• Commitment to success • Breadth of connections and expertise • Future investment in the business • Greater potential for equity retention / future upside realisation • Incentives for staff	• Good industry understanding • Service synergies and cross-sell potential • Increased opportunity to exit post transaction (due to existing acquiring management team) • Potentially lighter DD process	• Competent business professionals • Well connected, both locally and in the wider business landscape • Potentially lighter DD process • Ability to act quickly
Cons	• Rigorous DD process • Greater expectation for continued involvement • Potentially aggressive cost saving targets which can impact client service and retention • High leverage may result in cash flow pressures	• Potential for brand loss • Likely cost base duplication which could lead to redundancies • The lack of dedicated M&A/corporate development professionals may result in a comparatively slower sale process	• Harder to identify, particularly without insight from local M&A advisors* • May not have immediate in-depth sector knowledge • May have to balance time with other ventures

Buyers of smaller businesses on the island are likely to be local trade businesses and local individuals. The former may be interested in accelerating the growth of their business via an acquisition, and in time, look to develop a combined business that could be of interest to more sophisticated acquirers, such as private equity firms. Further, dependent on deal priorities, management buy-outs (MBOs) may also be an attractive exit for vendors, leaving the business in the hands of the current team.

*The KPMG team have developed a strong network of locally-linked HNWIs interested in local M&A activity and opportunities across various industries on the island.

How much is my business worth?

Three typical approaches

Most common

1. Asset approach

A balance sheet-focused approach which adjusts assets and liabilities from book-value to fair market value

2. Market approach

Use of market comparables such as similar publicly traded companies or previous transactions to derive a 'market' price

3. Income approach

Use of projected future cashflows and present value techniques to establish a valuation

Market approach

The market approach utilises peers' trading and transaction multiples, to establish a valuation range. EBITDA multiples are most commonly used, however specific circumstances and industries can lead to the use of others. For example, revenue multiples may be utilised in the sale of a book of business, whilst EBIT multiples may be more appropriate in capital intensive industries. EBITDA is a common operating profit metric, calculated as earnings before interest, tax, depreciation and amortisation.

EBITDA	Adj. EBITDA	×	EBITDA multiple	=	Value (EV)
e.g. £250k	£300k		4x-12x		£1.2m – £3.6m*

Value determinants and maximising value

4.0x	6.0x	8.0x	10.0x	12.0x
£1.2m	£1.8m	£2.4m	£3.0m	£3.6m

The EBITDA multiple will be impacted by a number of factors, some of which can be managed by the business owner and as such, represent value maximisation opportunities:

- Business size
- Industry/sector
- Historic organic growth rate
- Clear market and business growth potential
- Regulatory and legal record
- Revenue predictability (recurring vs non-recurring)
- Barriers to entry
- Sensitivity to economic cycles

EBITDA is normalised (Adjusted EBITDA) to understand the true financial performance and cash flow generation of the business. Adjusted EBITDA considers exceptional items, other non-trading items and other, often subjective, adjustments.

**It is typical that a portion of the total consideration is deferred ("deferred consideration") and payable a period of time post completion. The payment and/or value of this deferred consideration can also be tied to performance conditions ("contingent consideration") over a defined period post transaction. Typically, up to 30% is deferred for up to 2 years.*

For businesses that fall into the smaller category, a helpful source of information for valuation benchmarking may be business brokerage websites. These sites often provide turnover and basic profitability metrics alongside the asking price, providing opportunities for small business owners to identify comparable businesses and the respective listing prices.

What are the steps to sell my business? (Large)

Process steps

The below presentation explores the key steps for what would be considered a larger business i.e. any business that generates in excess of **either £250k EBITDA, £500k gross profit or £3m revenue**.

Large

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Consider the personal / positional questions referred to on pages 2 to 4.

Prepare the business for sale by removing / isolating personal expenses and assets (e.g. personal vehicle leases, property etc.).

1 PREPARATION AND PRE-MARKETING

Assess the level of support you require and appoint an M&A advisor accordingly.

Confirm the transaction perimeter, including:

- Service/product lines included;
- Operating and legal entities included; and
- Staff.

Appoint tax advisors and legal advisors*.

**the timing and appointment of legal and tax advisors will largely be dictated by size and complexity – international transactions often require earlier input.*

Assess value expectations and identify the buyer pool.

Consider engaging vendor due diligence providers to produce independent reports (financial, tax, legal, regulatory etc.).

Identify and prepare the necessary management information, which may include:

- Detailed historical financial information
- Client/service/product level revenue and trading analysis
- KPI tracking
- New business pipeline information
- Sophisticated 3/5 year financial forecast and business plan

Strategically approach prospective buyers and issue a teaser document.

Start populating a virtual dataroom with relevant management information and related documents.

2 EVALUATING INTEREST

Receive indications of interest and request the execution of non-disclosure agreements ("NDA"s).

Advising staff: Each case needs to be carefully considered, however staff holding important information may need to be made aware earlier in the process (e.g. a Finance Director). Senior management are typically informed once acquirers are established and DD commences. Remaining staff are typically advised prior to the deal announcement.

3 ROUND ONE: INITIAL OFFERS

Issue an Information Memorandum to the interested parties detailing key aspects of the business and the acquisition opportunity.

Restricted Q&A sessions to be offered between the seller and the interested parties.

Receive and analyse first round bids, establish selected parties and open a virtual dataroom for the advancing bidders.

4 ROUND TWO: DD AND FINAL OFFERS

Detailed due diligence to be undertaken by the buy-side (often including due diligence experts (financial, legal, tax etc.)) which may involve a number of Q&A sessions with management.

Analyse final bids, negotiate and select a preferred bidder.

5 EXCLUSIVITY, SIGNING AND COMPLETION

Final discussions to be held with the preferred party, often in a period of exclusivity. Lawyers are to be engaged to draft and negotiate a Share Purchase Agreement ("SPA"). Consider whether run-off and W&I insurance policies are necessary.

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SPA to be executed and regulatory approval sought. For example, the Guernsey Competition & Regulatory Authority ("GCRA") or Guernsey Financial Services Commission ("GFSC") may require notification, and/or approval.

Month — # of potential buyers that remain in the process

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What are the steps to sell my business? (Small)

Process steps

The below presentation explores the key steps for what would be considered a smaller business i.e. any business that generates less than **£250k EBITDA, £500k gross profit and £3m revenue**.

Small

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Consider the personal / positional questions referred to on pages 2 to 4.

1 PREPARATION AND PRE-MARKETING

Confirm the transaction perimeter. The considerations are likely to primarily revolve around property/lease arrangements, which can often have a material impact on valuation.

Consider what value you can realistically achieve for the business (refer to page 5).

2 MARKETING

Should the sale involve owned property or other significant infrastructure, consider seeking a specialist valuation on the basis this could represent the most significant component of the sale price.

Ensure management information is in order, including basic historical financial information and tax returns.

Establish the headline figures for marketing purposes, including annual revenue and EBITDA (operating profit metric).

Subject to the level of confidentiality that is wished to be maintained, market the business via:

- Online business brokers
- Estate agents (should the business include premises, e.g. retail)
- Social media

Receive indications of interest and consider appointing a legal advisor* to have an NDA put in place.

the timing and appointment of a legal advisor will largely be dictated by complexity and confidentiality concerns

3 NEGOTIATION

Identify the serious candidates and look to provide them with any further information they may require to make an assessment.

Negotiate with the remaining parties and identify a preferred buyer, establishing Heads of Terms.

4 COMPLETION

Engage a legal advisor to draft up a standard SPA (note: we recommend the extent to which this cost is shared should be discussed during Heads of Terms negotiations).

Negotiate the final points of the SPA and execute. Consider the need to seek competition and regulatory approval.

Month

The steps presented above and on the previous page are illustrative only. The individual steps, sequencing and expected timelines will vary from transaction to transaction, albeit the key milestones in the deal process are likely to be similar.

Why should I consider hiring an M&A advisor?

Experience and support

An M&A advisor will be able to support and guide a business owner through all of the steps discussed in the illustrative process timeline, from preparation and pre-marketing through to completion. Further to the potential outcome benefits of a managed sales process, the experience and expertise of an M&A advisor will be valuable in:

Network:

Providing access to a wider buyer pool, benefitting from existing connections and being aware of current active buyers and their preferences, for example the KPMG team have developed a strong network of locally-linked HNWIs interested in local M&A activity and opportunities across various industries on the island

Preparation for sale:

Supporting in preparing the business for sale to maximise value, ensuring management information is fit for purpose and aligned to potential acquirers' expectations

Deal Strategy:

Formulating the most appropriate exit strategy

Objective Support:

Selling a business can be an emotional time for a vendor. An advisor can provide an objective view on key vendor decisions and also act as an intermediary during tense negotiations to ensure relationships with all parties are maintained.

Negotiation:

Negotiating enhanced commercial terms and evaluating offers received, being well positioned to advise on market/industry norms to help set realistic value expectations.

Expertise:

Providing advice on complex deal concepts, such as working capital benchmarking and completion accounts mechanics, which can have a significant impact on the ultimate purchase price.

Managed sales process

Hiring an M&A advisor to run a managed sale process has a significant number of benefits, ranging from minimising business disruption to maximising value:

Managed sales process
A key benefit to running a managed sale process is maintaining control, including the ability to set timelines, dictate the offer letter format, manage information access, restrict Q&A/contact time to align to management bandwidth and run simultaneous negotiations, all improving the likelihood of a desirable outcome for the vendor.

Bidder Tension:
Unlike waiting for an approach from an interested suitor, the advantage of running a sell-side process is that bidder tension can be created, which can increase consideration by creating an auction effect, and reduce single counterparty risk.

Dictating options to meet shareholder needs:
Running a managed sale process allows for clear communication of what is on offer and shareholder preferences, which may be particularly important when shareholders have differing intentions, i.e. one shareholder may be looking to cash-in and end their involvement with the business, whilst another may wish to stay on to crystallise future upside value.

Clearly communicated timelines:
Clearly communicating expectations from the outset with a single process timeline will help maintain deal momentum and reduce time-wasters. Processes without a clear timeline often result in taking up too much management time, often to the detriment of both transaction likelihood and ongoing business operations.

Managed information flow:
Ensuring that commercially sensitive data is only shared at the right time, to the right people (bidders that are considered serious potential acquirers) and under the right restrictions (NDAs). This is particularly relevant to Guernsey where competitors are largely known in both a professional and personal capacity.

Hiring a strong M&A advisor can often lead to a net saving (i.e. maximising the purchase price), with the value arising from their deal expertise outweighing the cost.

Jargon buster

Terms	Short-form	Description
Adjusted EBITDA	-	EBITDA (see below) adjusted for exceptional items and other atypical revenue/expenses. This adjusted earnings metric is intended to more accurately reflect financial robustness.
Due Diligence	DD	The formal process by which an acquirer investigates a target company, including but not limited to the following areas: legal, financial, tax, regulatory, IT and operational.
Deferred consideration	-	Consideration that does not become payable until a later point in time. This is typically an element of total consideration.
Contingent consideration / earn-out	-	Consideration that is contingent or variable based on the future performance of the business acquired, typically tied to revenue or EBITDA and achievement of forecasts/budgets.
Earnings Before Interest and Tax	EBIT	Another (see EBITDA below) commonly used operating profit metric which is more relevant for industries that are fixed asset/infrastructure intensive.
Earnings Before Interest, Tax, Depreciation and Amortisation	EBITDA	A commonly used operating profit metric by investors. Whilst closer reflecting cash generation (by excluding typical non-cash accounting entries), EBITDA allows for greater comparability between businesses as it is agnostic to capital structures (by excluding interest costs) and tax rates/jurisdictions (by excluding tax expenses).
Enterprise Value	EV	The total value of a company, inclusive of debt. In the typical EBITDA multiple valuation, the resulting value post application of a multiple to adjusted EBITDA, would reflect Enterprise Value.
Equity Value	-	Value of a company after deducting debt and adding cash from the Enterprise Value. This, post adjustments for net working capital levels, reflects the value ‘held’ by the vendor.
Heads of Terms	HoT	A document that sets out the main acquisition terms between parties but is not legally binding.
Joint Venture	JV	Company owned jointly by at least two cooperative parties. The JV is normally legally independent with the partners holding equal shares.
Key Performance Indicators	KPIs	Defined measures, often of a financial nature, that align with key drivers for business success/growth. These are commonly used as measures of performance and to determine whether targets have been met.
Letter of Intent	LoI	A document, typically not legally binding, in which the interested party identifies the key points of the deal and express their willingness to conduct further negotiations.
Management buy-out	MBO	The acquisition of the business by current management.
Multiple	-	A ratio, usually presented as [ ]x (e.g. 4x, 8x, 12x), that reflects estimated value divided by a particular financial metric.
Non-Disclosure Agreement	NDA	A legal agreement regarding confidentiality that aims to protect sensitive information. *Note: Despite being a legally binding contract, enforcement can be both costly and demanding, with breaches difficult to detect, prove or quantify.*
Process letter	-	A document that outlines the intended process and timeline. This is prepared at the start of a transaction and is provided to potential acquirers and their advisors. The document typically includes bid deadlines, Q&A/DD periods etc.
Run-off insurance	-	An insurance policy which covers claims against an acquired company and/or its directors/officers, relating to the pre-acquisition period.
Share Purchase Agreement	SPA	A legal contract governing the sale of shares between the buyer and seller, including consideration, basis of exchange, warranties and indemnities.
Target	-	The firm that is being acquired.
Warranty and indemnity insurance	W&I	An insurance policy for coverage against breach of the warranties and indemnities detailed in the SPA.

Contacts and services

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Services

Buy-side services

- Due diligence (financial, regulatory, tax, IT and ESG)
- Financial modelling
- Evaluation of buy side options

Sell-side services

- Pre-sale DD and preparation
- Execution of a full sales process
- Financial modelling
- Vendor due diligence

Valuations services

- Public or private valuations
- Shareholder dispute resolution
- Contentious matters

Financing support services

- Debt or equity capital advisory
- Cash flow modelling
- Refinancing DD
- Strategic planning

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Some or all of the services described herein may not be permissible for KPMG audit clients and their affiliates or related entities.