Selling your island business

KPMG Islands Group

Introduction

KPMG have advised and supported business owners in navigating the sale of their business across our island jurisdictions for many years, covering a wide range of sectors and deal values ranging from £1m ($1.26m*) to over £1bn ($1.26bn).

We have extensive experience working with owner managers and understand the challenges you face in balancing the desire for maximising value in a transaction, whilst ensuring a good home for your clients and staff – this is amplified in our island jurisdictions which are typically close-knit communities.

Utilising this experience, we have developed this informative guide to help business owners better understand the key sale considerations and manage expectations with respect to process, timing and valuation.

We would be delighted to support you if you are considering the sale of your business or thinking about next stages of succession. Please contact myself or any of the local island leads outlined on the final page to arrange a preliminary discussion.

Antony Prynn

Head of KPMG Islands Group M&A

About KPMG Islands Group:

KPMG Islands Group is a regional member firm within KPMG.

There are over 3,000 outstanding professionals, providing Audit, Tax and Advisory services in **The Bahamas**, **Barbados and the Eastern Caribbean**, **Bermuda**, the **British Virgin Islands**, the **Cayman Islands**, **Guernsey**, **Jamaica**, **Jersey**, the **Isle of Man**, **Malta**, and **Trinidad and Tobago**.

Together we have regional expertise, locally delivered.

*USD

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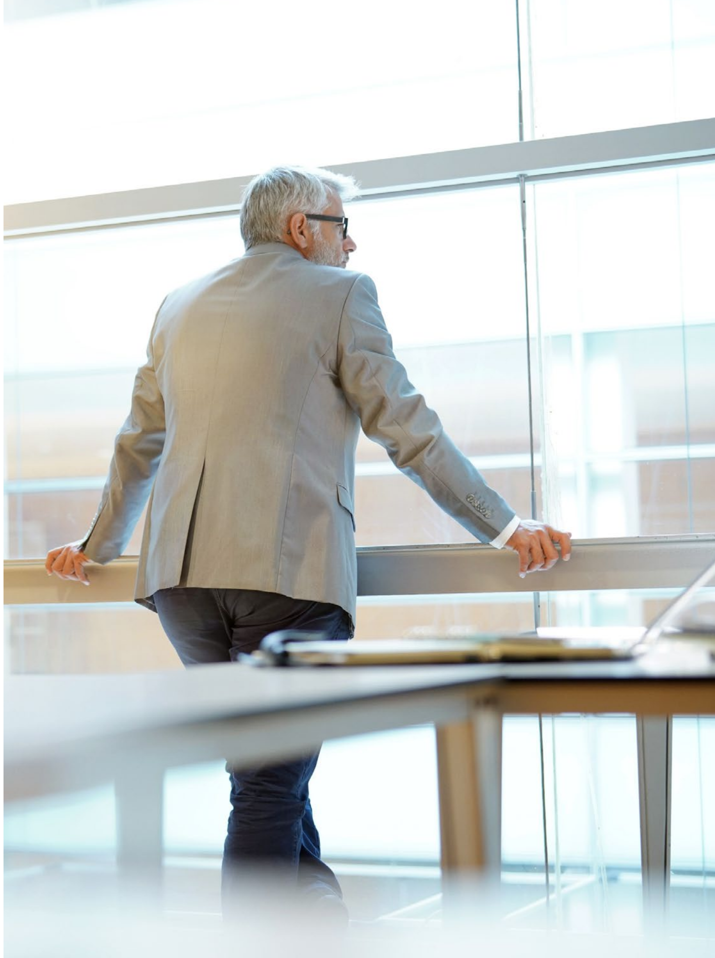
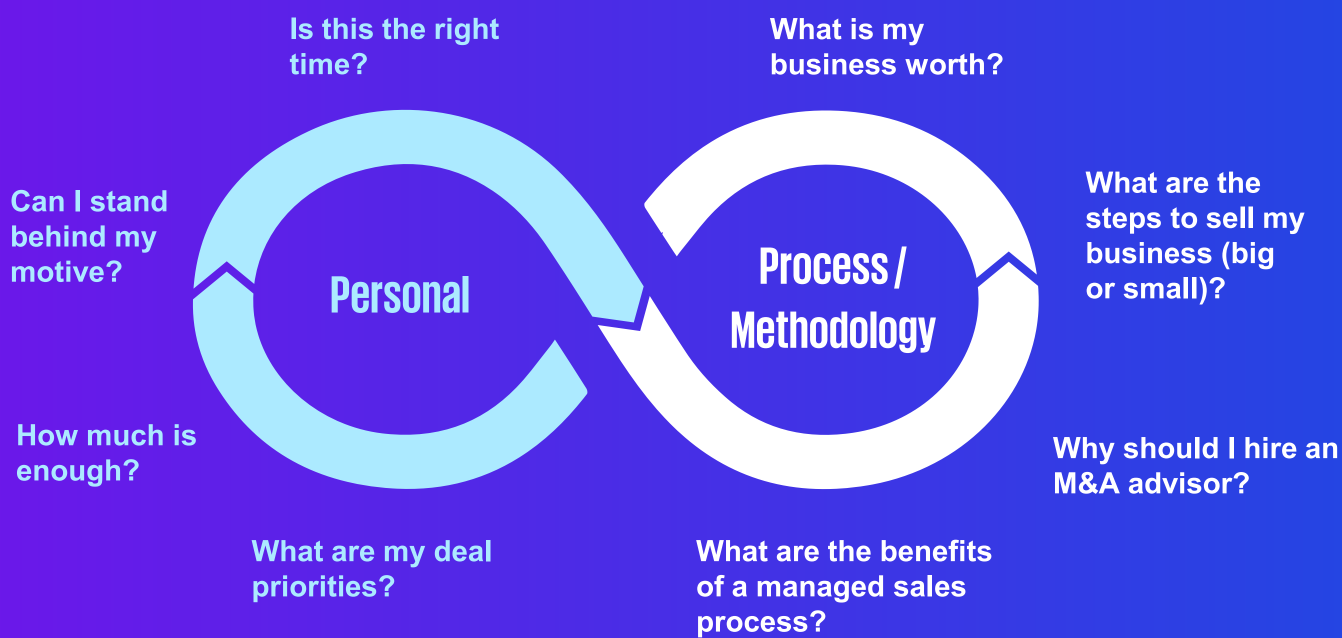


Introduction

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

- **Significance:**
  Typically, this will represent the most significant financial event in a business owner's 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 and confidentiality**:
  A failed transaction can create reputational damage, cause financial burden and disrupt BAU (especially for vendors, clients and employees). For island markets in particular, confidentiality is of upmost importance, both from a staff and competitor standpoint.

The KPMG Islands Group Deal Advisory team have developed an informative guide to help business owners understand and assess key sale considerations:



Overview

Sector Activity

Transactions are regularly occurring across a wide range of sectors, with recent activity in the following industries:

Automotive	**Banking & Financial Services** *(incl. Asset Management, TCSPs & Insurance)*	**Consumer, Retail & Leisure**
Business Services	**Food & Beverage**	**Healthcare**
Real Estate and Facilities Management	**Technology**	**Transport & Infrastructure**
Oil, Gas & Alternative Energy	**Hospitality and Tourism**	**Wholesale Distribution**

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

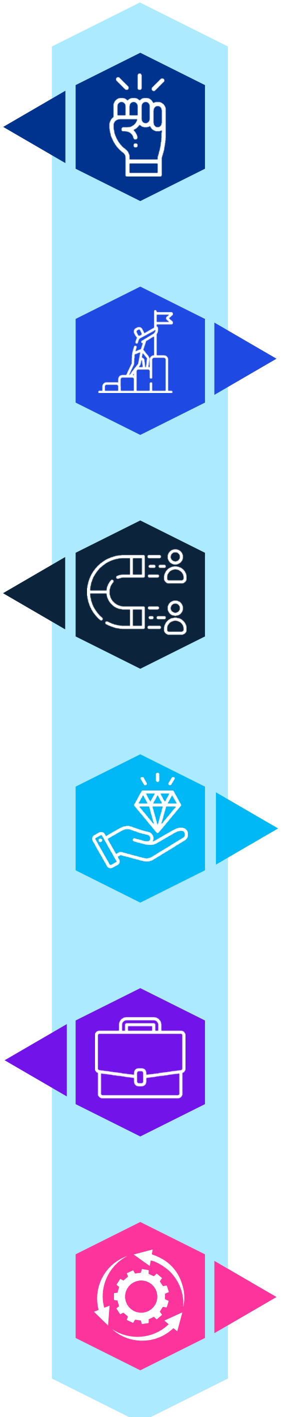
- Why am I selling? Potential acquirers may be sceptical of the motives of a seller and will seek to identify any indications of distress.
- Do my personal circumstances impact my ability to run the business in the near/medium term (e.g. illness or retirement plans)?
- Do I have other commercial interests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

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?

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?



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?
- Have I started the process of transitioning key relationships to other senior members of staff?
- How long will I be prepared to support new ownership for?

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 to demonstrate the value story? Are the books and records in order? 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)?

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?

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 maximize 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.

Who are the potential buyers?

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 or market share, 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 Islands Group Deal Advisory team have developed a strong network of locally-linked HNWIs interested in local M&A activity and opportunities across various industries across the islands.

How much is my business worth?

There are three typical approaches considered when valuing a business:

1. Market approach

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

2. Income approach

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

3. Asset approach

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

Market approach

The market approach utilises peers' trading and transaction multiples, to establish a valuation range. Earnings before interest, tax, depreciation and amortisation ("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, book value multiples may be used for some financial services, whilst earnings before interest and tax ("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 (Enterprise value)
e.g.	£250k ($315k)	£300k ($378k)		4x-12x 4x-12x		£1.2m – £3.6m* ($1.5m - $4.5m*)

Value determinants and maximising value

4.0x	6.0x	8.0x	10.0x	12.0x
£1.2m / $1.5m	£1.8m / $2.3m	£2.4m / $3m	£3.0m / $3.8m	£3.6m / $4.5m

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 normalized (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.

** In some transactions, a portion of the total consideration is deferred ("deferred consideration") and payable over 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 and depending on jurisdiction, a helpful source of information for valuation benchmarking in some markets 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.

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Income approach

The income approach provides a forward-looking perspective, enabling potential buyers or investors assess the long-term profitability of the business and estimate value based on what they expect to earn post-transaction.

A commonly used technique within the income approach is the Discounted Cash Flow ("DCF") method. This method estimates the value of the business based on its expected future cash flows, adjusted to their present value. When applying the DCF method, the following factors are considered:

- Revenue and growth prospects: What is the company's projected future revenue, and how quickly is it expected to grow?
- Profitability: How consistently and efficiently does the company convert revenue into earnings?
- Reinvestment: What portion of profits or cash flow must be reinvested to sustain or accelerate growth and profitability?
- Terminal value: What is the value of future cash flows beyond the explicit forecast period?
- Discount rate: What is the required rate of return that investors expect to earn on their investment, given type, quality, and risk?

$$\text{Value} = \frac{CF_1}{(1+r)^1} + \frac{CF_2}{(1+r)^2} + \dots\dots\dots + \frac{CF_n}{(1+r)^n}$$

CF = free cash flow r = discount rate n = period of time

Asset approach

The asset-based approach, while less commonly used for valuing trading companies, estimates the value of the business based on its net asset value. It provides an asset-driven snapshot of what the business is worth today. It's generally used (a) when the value of the business is directly related to its underlying asset holdings such as real estate, portfolio investments, etc., or (b) when the business is yet to achieve stable cash flows. Under the asset-based approach, all assets and liabilities are adjusted to reflect their current market values, ensuring an accurate representation of the business' current net worth.

* KPMG Islands Group Valuation experts, equipped with industry knowledge and local insights, are here to help you determine the true value of your business.

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

Process steps

Large

The below presentation explores the key steps for what would be considered a larger business (depending on market and industry, this could be a business that generates in excess of either £250k ($315k) EBITDA, £500k ($630k) gross profit or £3m ($3.8m revenue).

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Consider the personal / positional questions referred to on page 6.

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 potential 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 (“NDAs).

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 due diligence 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 offered between the seller and interested parties.

Receive and analyse first round bids, establish selected parties and open a virtual data room 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 warranty & indemnity insurance policies are necessary.

6

SPA to be executed and regulatory approval sought. In certain instances, local competition authorities or financial regulators may require notification, and/or approval.

Month   # of potential buyers that remain in the process

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

Small

Process steps

The below presentation explores the key steps for what would be considered a smaller business (depending on market and industry, this could be a business that generates less than £250k ($315k) EBITDA, £500k ($630k) gross profit or £3m ($3.8m revenue).

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Consider the personal / positional questions referred to on page 6.

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 the valuation.

Consider what value you can realistically achieve for the business.

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 space)
- Social media

2 MARKETING

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.

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).

4 COMPLETION

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

Month

# of potential buyers that remain in the process

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 hire 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 investors interested in local M&A activity and opportunities across various industries on the islands.

Preparation for sale

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

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.

Deal strategy

Formulating the most appropriate exit strategy.

Why should I hire an M&A advisor?

Managed sales process

Hiring an M&A advisor to run a managed sale process has a significant number of benefits, ranging from minimizing business disruption to maximizing 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 crystallize 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 islands 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.

Workshop offering

One to one workshop

The KPMG Islands Group Deal Advisory team offers one-to-one workshops to support potential vendors in assessing all factors of exit readiness. Considering exit readiness eases the buyer's due diligence process, minimizing business disruption and maintaining value. We recommend holding the workshop well in advance of any potential sale process.

Typically, the focus of the workshop is largely dictated by the vendor's deal priorities, the vendor's level of understanding of a potential deal process, and the maturity of the business. The workshops can, therefore, range from simply walking through the steps to a transaction, or discussing potential earnings adjustments that can have a meaningful impact on value.

Examples of common topics covered in the workshop are as follows (non-exhaustive):

Wider services

How we can support you

The KPMG Islands Group Deal Advisory team has supported clients achieve favorable deal outcomes across a wide-range of industries. Services provided by the team include:

01 Buy-side services

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

02 Valuation services

- Public or private valuations
- Shareholder dispute resolution
- Fairness opinions
- Purchase price allocation support

03 Sell-side services

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

04 Financing support services

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

Glossary

Terms	Short-form	Description
Adjusted EBITDA	-	EBITDA (see below) adjusted for exceptional items and other atypical or non-recurring revenue/expenses. This adjusted earnings metric is intended to more accurately reflect financial robustness on a normalized basis.
Business as usual	BAU	An umbrella term that covers all standard, day-to-day business operations.
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, commercial 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.
Discounted Cash Flow	DCF	A method to estimate the value of a business based on its expected future cash flows, adjusted to their present value.
Earnings Before Interest and Tax	EBIT	Another commonly used operating profit metric which is more relevant for industries that are fixed asset/infrastructure intensive (see EBITDA below).
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/shareholders.
Heads of Terms	HoT	A document that sets out the main acquisition terms between parties but is not legally binding.
High net worth individual	HNWI	A person with considerable liquid assets.
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), which 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 business 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.

Get in touch

Our People

The KPMG Islands Group is a regional network of KPMG member firms providing audit, tax and advisory services with more than 3,000 professionals working together to deliver value across the network.

KPMG Islands Group is uniquely structured across island jurisdictions, having worked together for over 20 years, with common clients and industry sectors. The KPMG Islands Group Deal Advisory team is well placed to support you in the sale of your island business.

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