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M&A and Succession: Knowing the Game as well as your business

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Key Points

- Now is a good time in the market to sell or grow your business
- Getting your business ready for sale at a maximum value starts with due diligence
- You need to think about the information a buyer will require to purchase your business
- Proactively preparing your business for sale will ensure you receive the best valuation

Introduction

When you're a business owner and operator, you are 'in' your business, running it and growing it; which can make it hard to step away and think about selling it or your future succession plans. However, with various indicators suggesting increased action in the Mergers and Acquisitions (M&A) market, now could be the perfect time to plan the future of your business. The most successful sales are those with well-planned strategies including due diligence materials and an M&A strategy that can allow you to benchmark any offers you receive against previous deals and your long-term personal and business goals.

Why is there increased interest in M&A?

The public M&A market (involving publically listed and traded companies) is often a good indicator of the level of private buying and selling of businesses. 2014 was a good year for the public market with the largest Initial Public Offering (**IPO**) value generated since 1994 with 74 IPOs valued at a total of $26 billion. This amounted to more money publically raised than in the combined 2011-2013 IPO period. Cash rates were also at a 50 year low making it easier to raise capital to invest or purchase businesses. This is good news for those who want to sell and also for those who want to grow their business. Private equity firms have been busy, purchasing 17 entities at a combined value of $11.5 billion and they continue to look for new opportunities having divested many of their assets in the previous years.

M&A activity is predicted to be even stronger in 2015, particularly given the infrastructure and real estate growth and a weaker Australian dollar.[1] These all point to positive growth in Australia's M&A market, already the second biggest in volume and value in Asia-Pacific behind China.[2]

However, it's not just the big, publically listed companies set to benefit from the increased activity in the M&A space. As already stated, public M&A rates are a good indication of what is happening in the private market, which often includes off-market purchases of smaller or more speculative assets. As there are no disclosure requirements for such deals they can be harder to estimate, however signs indicate that private equity funds are clearly moving back into the market. In addition, the middle market (approx. AUD$12 million to AUD$300 million) accounted for more than half of the mergers and acquisitions in 2014.

The point of all of this for you is that it is not enough for the market conditions to be right, your business also needs to be prepared to provide the necessary detail to be able to move quickly if the right buyer (or better yet buyers) approach you. The best thing you can do is to get your business sale ready and we say it again and again but this starts with due diligence.

Why should you pre-prepare due diligence material?

Due diligence is a health check for your business through a comprehensive appraisal of the key assets and liabilities through collecting and reporting on vital business statistics and information. Preparation of due diligence is especially important to a potential seller as trends fluctuate, and inadequate preparation may mean that the opportunity to sell at the top of the market will be missed.

The faster the business can be prepared for due diligence, the more ability you have to maximise the value of the business. It also allows you to focus on other parts of the sale process such as demonstrating value, growth or strategic importance of your business and objectively assessing each value and the structure of the deal (which can vary greatly).

Even if you don’t ultimately move to sell your business, the due diligence process can be useful in identifying your core assets and strengths and redesigning a business strategy. Being deal-ready gives you an opportunity to mitigate any key risk areas and build a stronger business.

How is due diligence conducted?

In order to determine what information should be collected, a key question to be asked is “what information should a buyer of my business require?” This includes critical information such as company history, your business processes and key systems, important financial information such as financial statements and tax returns, important legal information such as key contracts, regulatory requirements of the business, any intellectual property and information regarding human resources.

For some companies, depending upon the current record keeping, it can take two years to thoroughly source the detail for a solid due diligence package; in other circumstances this can be much quicker. Due diligence also assists you to recognise and mitigate potential risks in your business, for example, protecting intellectual property, ensuring strict legal compliance or improving your business procedures to best-practice.

While collecting all relevant information is a key aspect of due diligence, an often overlooked facet is ensuring that all key employees become familiar with the information potential buyers will request, and ensure that they are fully prepared to meet these. Again, this is about being proactive, rather than reactive. It's about ensuring that requests can be met in a timely manner and that deal fatigue does not ensue.

Proactively selling your business

If you decide to start actively selling your business, understanding the current market (including movements in the M&A space) is fundamental to ensuring you receive the best valuation for your business. If you are looking to grow your business through bank refinancing or an acquisition, this is also vital market knowledge.

Additionally, it is useful to think about your preferences and priorities for receiving the equity in your business, including equitable or cash payments, upfront or deferred receipt and the possibility of earn-outs based on the post-sale performance of your business.

A high-quality virtual data room (VDR) should be used and implemented prior to going to market in order to create an accessible and central document repository. A VDR would allow you to present all the information in a secure, centralised and easy-to-use format. Such a well-organised repository of documents helps to present a favourable impression of the business to the buyer.

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How can PLN Australia assist you?

PLN Australia can assist you and your business with preparing a due diligence strategy and document system.

[1]http://www.smh.com.au/business/markets/intralinks-ubs-tip-2015-as-bigger-year-for-ma-than-2014-20150424-1mpu7g.html

[2] http://www.pitcher.com.au/sites/default/files/downloads/Midmarket_M%26A_Australia_Report_150305_0.pdf

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