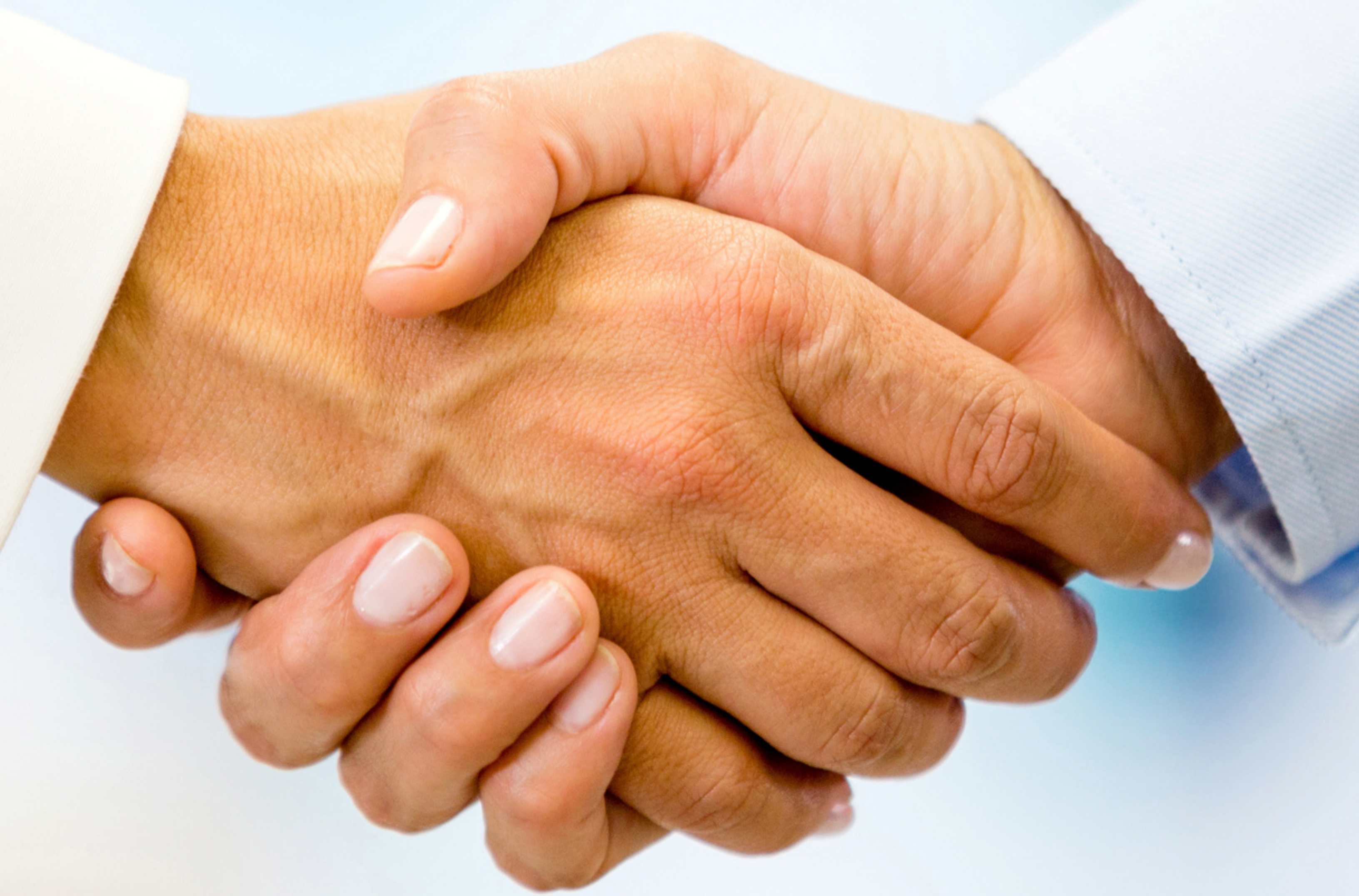
March, 2023

PREPARING YOUR BUSINESS FOR SALE

7 Tips to Get Your Business M&A Ready by Owen Hackett



FOCUS Capital Partners understands how to execute a successful transaction process and deliver maximum value to our clients as a leading provider of sell-side advisory services. However, owners may be ready to transact before their business is, and this lack of readiness can result in the desired outcome not being achieved.

If an entrepreneur is building a business with the intention of exiting at a future date through a successful M&A process, it is essential to ensure that the business is market ready when the time comes to exit. There are many reasons why an acquiror or investor would be interested in acquiring a business including market position, scalability, customer base, service offering, people, technology, etc. However, despite a company being an attractive acquisition target there may be issues within the business that can prevent a seller from achieving their desired outcome from an M&A process. I have outlined seven key areas that founders should consider when building their business with a successful M&A process in mind.

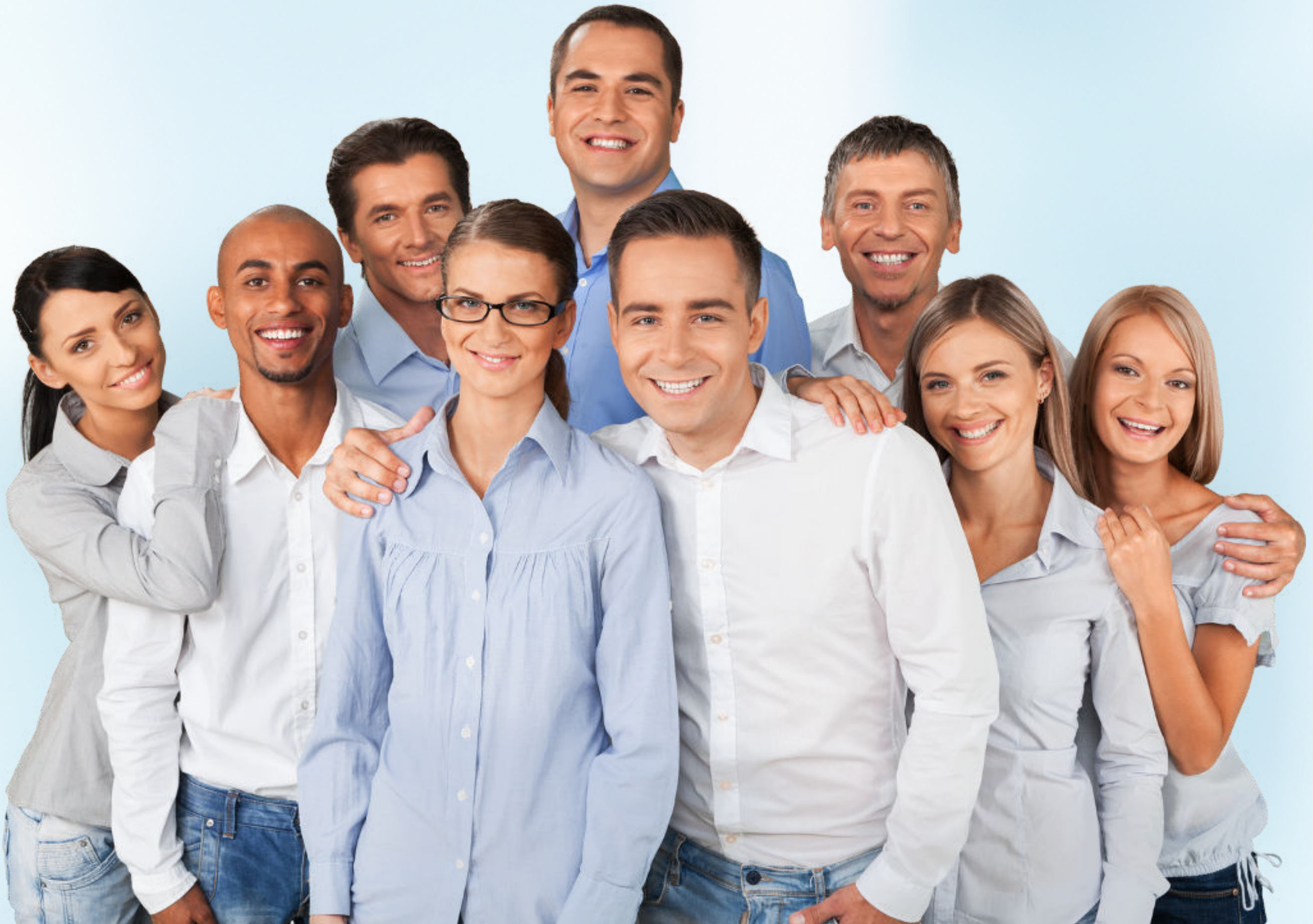
1 Build your Team

It is often the case that the founder of a company is the Chief Executive Officer. They are the driving force behind the company's success and they maintain critical relationships with customers, suppliers, employees, and other stakeholders. While this may suit the business operationally, it will not be appealing to potential investors or acquirors as they will likely view cashing out a founder who is responsible for the company's continued success as high-risk. This often prevents potential acquirors from making offers for a company that they otherwise would be very interested in acquiring. To make a business attractive to potential acquirors and investors, the company should have a robust senior management team in place.

This team should be able to operate without the founders' assistance so that the business can continue running smoothly after the founder's departure post-transaction. This will show any potential acquirors that the company has what it takes to survive without the founder’s support and will make the enterprise more attractive to them. We recently sold a company for a founder who had built a very strong team around him while still maintaining his position as CEO of the business. In his own words, he described the offer received as "A great advertisement for hiring people that are better than you!"

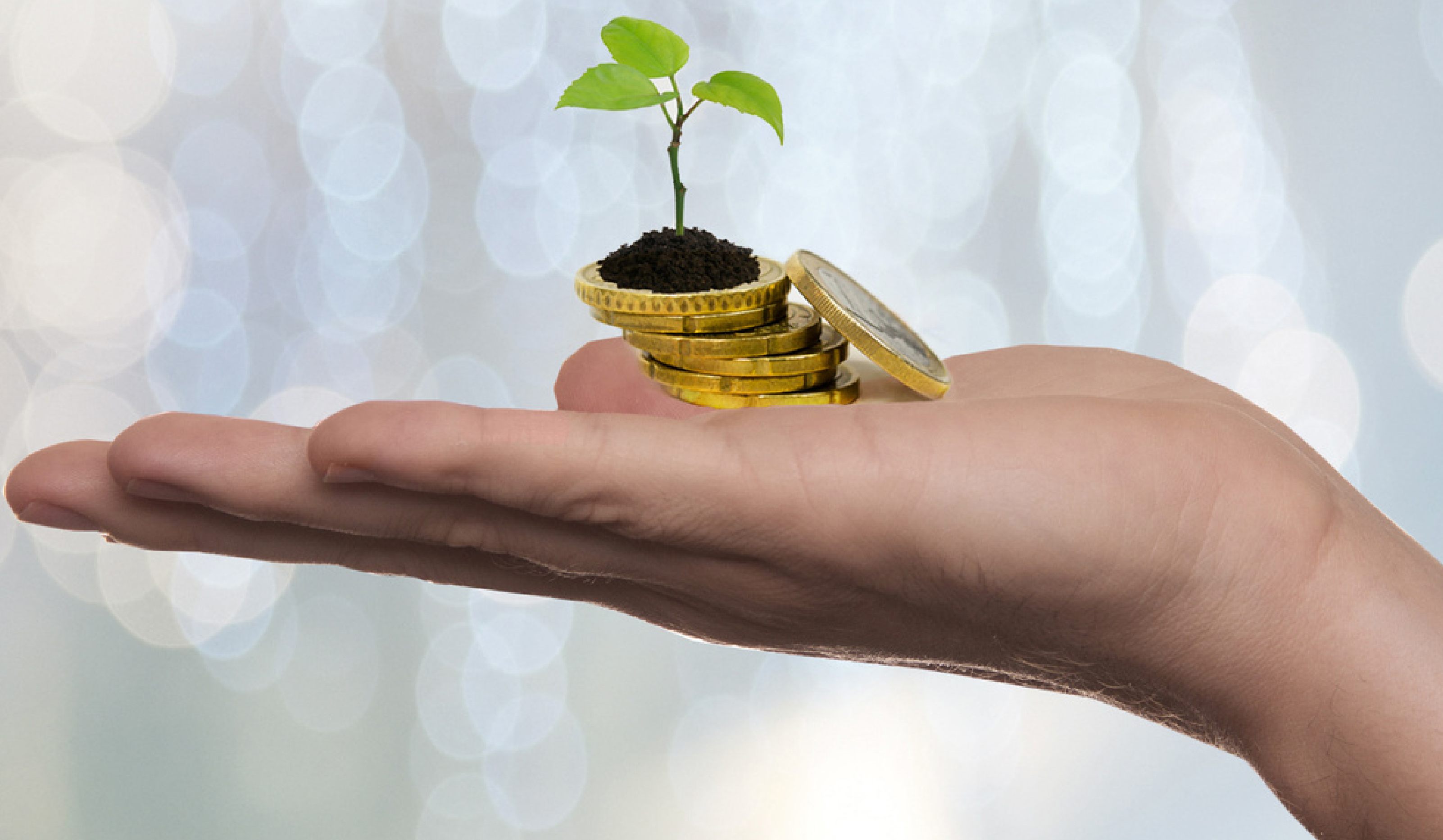
2 Retain your Team

Given the competitive landscape, it can be challenging to ensure that key employees remain with the company until the desired point of exit. Ideally, key employees will also be willing to continue working for the company post-acquisition. To ensure their commitment, the founders may need to incentivise them in the form of an Employee Stock Ownership Plan (ESOP). This incentive gives the key staff "skin in the game" and encourages them to stay in the business during and after the acquisition. When these structures are in place, an acquiror or investor's offer can be more flexible in terms of how much of the senior management team's share options are paid out, how much of their equity is rolled into the new company and the size of any post-transaction ESOP pool for the existing management team. This can provide an exciting transition into the post-transaction structure for everyone involved while also ensuring that the founder has a smooth exit from the business post-transaction. Additionally, to mitigate risk for both the founder and the ultimate acquiror, non-compete agreements and sufficient notice periods should be considered when drafting key employee contracts. A company is more appealing to a potential acquiror when it has a strong management team in place that is dedicated to the future growth of the business.



3 Invest in the Finance Function & KPI Reporting

Many businesses undervalue the importance of having a strong finance function as it is frequently viewed as a cost to the business rather than a department that can offer value. A strong finance function can provide management with a deeper understanding of which activities are driving revenue growth and profitability, while also ensuring that the company's cost structure is optimised - all of which contribute to driving value. A strong finance function will also track, maintain and analyse key data that provides insight into the operational performance of the company. This allows management to make more informed decisions about the business. A solid budgeting and forecasting system will be developed for the company as a result of having precise and updated financial records. Accurate budgeting can be utilised to demonstrate to prospective acquirors or investors the strength and value of the company. Having a strong finance function will ultimately help to ensure the company's long term performance, making it a more appealing investment for potential acquirors or investors. It will also help defend against potential price chips during acquisition negotiations.

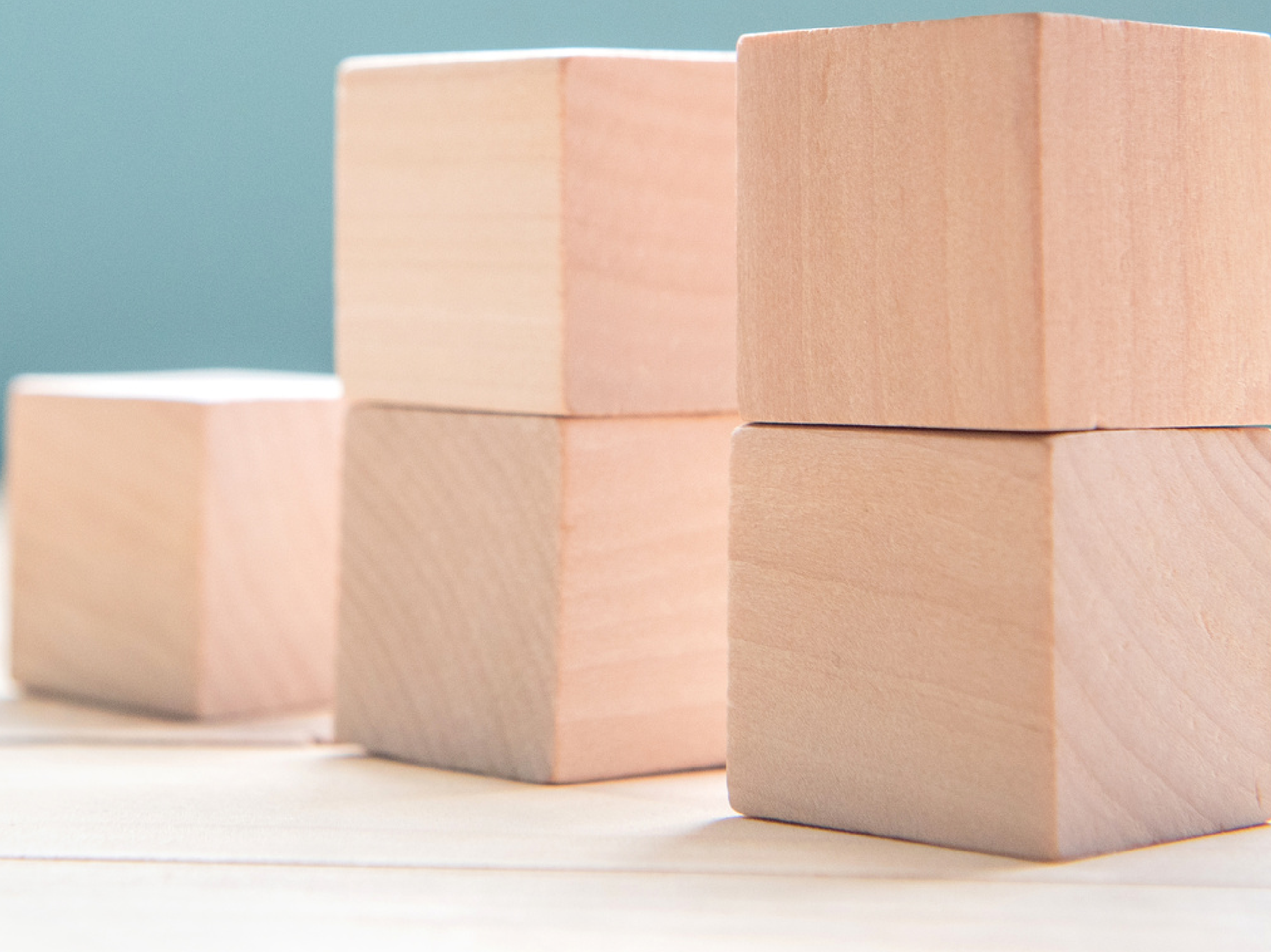


4 Consider your Growth Timeline

Timing can play a critical role in the outcome of an M&A process. An ideal situation is that the business has achieved year-on-year revenue and EBITDA growth over the past 2-3 years. This is a positive indicator of the business's potential and can make the business more appealing to investors and acquirors. Additionally, having the potential for growth in the next 2-3 years, whether this is through acquiring new customers, developing new products, expanding into new geographies, or acquiring other businesses, will also determine the optimal time for the M&A process to take place. Exciting and achievable growth opportunities in the short to medium term will be attractive to potential investors and acquirors and will likely contribute to a successful result for a seller.

5 Get your House in Order

When going through an M&A process, ensuring that a company and its documentation is well organised will help the process run smoothly. Accurate records and the documentation of key processes provide investors and acquirors with a better understanding of the running of the business. As a result, properly organised corporate information, documents, and records can aid in the success of an M&A transaction. Before beginning the process, business owners should take the necessary steps to ensure that all corporate information is gathered, organised, complete and accurate.



6 Review your Risk Management Plan

Acquirors and investors typically purchase ROI Vs risk. They will consider potential risks associated with an acquisition and this will determine whether an offer is made. As a result, continuous risk management is a good business practice that helps mitigate issues that may arise when selling a company. An analysis of legal, people, financial, market, technology, and/or operational risks should be regularly conducted. Examples of risks to monitor include ensuring that intellectual property is adequately documented and protected, monitoring supplier and customer agreements for expiration/renewal dates, and ensuring that customer contracts can be transferred to an acquiror. It is also important to ensure insurance coverage is adequate and up to date. Keeping risk in mind will ultimately lead to a company being better prepared for acquisition or investment when time comes.

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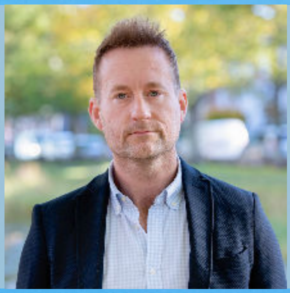
7 Tax & Tax Structuring

When it comes to selling the business, owners should consider whether they have a structure in place that helps to minimise the tax implications of the transaction. The type of structure that an owner will need will be determined by their own personal circumstances and what they ultimately want to achieve from their exit. It is also important to ensure that the company's tax compliance is up-to-date and complete, as any historical non-compliance or tax risks may have an impact on negotiating position with the buyer and, ultimately, the proceeds received.

As mentioned above, there are many reasons as to why a business may be an interesting acquisition target for an acquiror or an investor. Ensuring that the business is acquisition-ready will help to ensure that initial interest from potential acquirors leads to a successful M&A process. FOCUS Capital's experienced M&A advisory team works with clients to identify key issues and execute on practical, measurable, and high impact activities to ensure that businesses are acquisition ready. If you are considering selling your business in the near future, please reach out to us for an initial conversation.



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About FOCUS Capital Partners:

FOCUS Capital Partners offers a broad suite of corporate finance advisory and capital raising services, with a focus on Debt Funding, Equity Fundraising, Mergers & Acquisitions, Renewables & Infrastructure, and Tax. FOCUS has expanded into the United States by combining with Washington D.C.-based FOCUS Investment Banking to form FOCUS International, an international M&A services platform. The transatlantic firm provides sell-side, buy-side, and capital raising services to companies in Ireland, United Kingdom and the United States. We are a highly committed, outcome focused team of professionals who bring to each project a powerful combination of technical and financial expertise, extensive commercial experience, strong networks, and an entrepreneurial mindset. We deliver value by working in partnership with our clients and prioritising their needs.
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