



Market Insider: 8 compelling reasons why now is the ideal time to consider selling a business

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Executive summary

During economically turbulent times it is inevitable that many people view the sale of high value items, such as businesses, as destined to result in a failure to maximise inherent value. However the market for business sales in 2011 did not conform to this view and this is widely forecast to continue during 2012.

This White Paper explores the eight reasons why now may be one of the best times to consider selling a business and achieving maximum value – contrary to ‘perceived wisdom’.

8 reasons to sell a business in 2012

1. Acquisition demand is increasing

The UK retained its position as Europe's most active acquisition market during 2011 and this bullish appetite for UK companies is set to remain strong in 2012.

In a recent survey, 14% of UK business leaders confirmed plans to increase their investment activity over the course of 2012 and circa 60% intend to press ahead with strategic investment plans, including acquisitions, despite economic uncertainty.

There can be no doubt that large UK and multi-national companies will aim to use their significant cash reserves for company acquisitions. It is estimated that very large US and European companies currently hold circa \$2 trillion in cash which is surplus to working capital requirements and waiting to be deployed.

Private Equity companies will also be seeking acquisitions to maximise their return on capital employed. Acquiring and investing in companies not only offers a prime opportunity to do this but also ensures greater control over the investment.

2. Financial motivators

Low bank interest rates have meant that many investors seeking greater returns are actively looking for alternative investment opportunities. This combined with favourable UK government policy decisions on matters such as tax and de-regulation, has fuelled investors appetite for UK acquisitions.

Small to medium sized businesses with considerable potential remain prime targets for acquisitive companies and capital investors. The total reported deal value during 2011 reflected this, rising from £40bn in quarter 1 to circa £80bn at the end of the year.



The favourable Entrepreneur's Relief regime is also prompting many owners to choose a sale of their business sooner rather than later. Capital Gains Tax on selling a company remains at 10% (down from 18% since April 2011), as long as the sale proceeds are within the lifetime allowance permitted.

As a result, shareholders choosing to sell now can retain a much greater proportion of the sale proceeds. How long such generous tax relief will remain in place is unknown.

¹ Mergermarket M&A report on Europe Sept 2011

² Ipsos MORI survey of 100 UK Business Leaders on behalf of the CBI, Nov 2011

³ McKinsey & Company report, quoted in the Financial Times 4th January 2012

⁴ Experian CorpFin KU M&A and ECM levels, Sept 2011

3. The increased desirability of strong companies

A positive effect of the economic challenges we have seen is that the most efficient, well managed and professionally run businesses have not only resisted these challenges but, in many cases, have benefited from them. This is particularly evident in sectors which have seen an unusually high number of business closures.

For acquirers, the ability to locate businesses which are performing strongly is increasingly challenging. When such businesses are located there is, predictably, an increased desire to acquire them and, with other competing potential acquirers, offers for the businesses are at a premium.

4. The media and the M&A marketplace

The marketplace for selling privately owned companies has strengthened in recent months: an effect both driven, and optimised by, the economic crisis.

The fact that such positive company acquisition activity can co-exist with economic turbulence has been largely ignored by the mainstream business



media. There are many sectors and indeed businesses which continue to operate positively, profitably and with robust trading results. For example, the Financial Services market saw a marked increase in deal values during 2011 of some 157% (its highest level since the crisis).

It is understandable that many owners and shareholders believe that now may not be the ideal time to sell any business if the mainstream media are to be believed. The fact is that the marketplace for privately owned businesses is at a tipping point and for owners and shareholders there may never be a better time to sell.

5. Sale proceeds – bank or invest?

In light of unreliable pension schemes and poorly performing stock market investments, many company owners are keen to provide enhanced future security for themselves and their families.

One solution to this conundrum is a partial sale and this can work particularly well where the owner sells a majority stake in their business to new co-owner, who will almost certainly be a successful synergistic trading company, which can aggressively grow the business by introducing new resources, new finances, new clients and new markets.

With the fresh impetus provided by an acquirer, the former owners' retained stake could eventually be worth as much as the majority shareholding had been a few years previously.

A substantial cash amount, post-sale, will also enable the owner to make better investment decisions to secure their future, or even to initiate other business ventures to deliver a more durable retirement plan.



6. Supply & demand is working in favour of a sale – but for how much longer?

The well-documented ‘Baby Boomer’ phenomenon is finally coming full circle. In a recent calculation it has been estimated that 972,000 UK private companies are owned by baby boomers, who also hold 80% of UK wealth.

The first of the baby boomer generation reaches retirement age this year.

The prediction is that, over the next nine years, as the majority of these Baby Boomers reach retirement, there will be a surfeit of companies for sale. This surfeit could quite conceivably making it increasingly harder, in future years, to achieve maximised sales prices for businesses.

7. Future trading conditions set to be even more challenging

Many UK companies should quite rightly congratulate themselves, having survived the ‘Credit Crunch’ that ensued post the Lehman Brothers collapse and the general economic turmoil that has followed since.

Whilst small to medium sized business owners long for signs of sustained recovery, many still face an uncertain future, fraught with difficult trading conditions. Maintaining past performance, let alone contemplating and achieving solid future growth continues to be increasingly challenging.

In the months ahead, many business owners will reflect on how hard they have worked over many years to build the business to its current levels in spite of the difficulties. Choosing to sell now and reap the rewards of your efforts can protect owners from future uncertainty.



8. Good news that speaks for itself

For any owner, it is incredibly reassuring that the facts support the key reasons above and provides compelling evidence that now is the right time to pursue an exit. In the final weeks of 2011, BCMS Corporate successfully sold 7 companies and over 30 clients had accepted offers for their businesses at the same point. During 2011 the overall volume of offers accepted by BCMS clients increased by some 130% compared to 2009 levels.

Moreover, the last 12 months clients saw an increasing gap between lowest to highest offers. An example of this is shown below:

⁶ *The Age of inheritance in the UK, HSBC Report, Sept.2011*

BCMS Corporate's last deal of 2011 completed on the 27th December: our experienced team managed serious and qualified interest from eighteen potential acquirers and achieved a final deal value 3.5 times higher than the initial offer received. This allowed the shareholders to walk away with tens of millions of pounds more in consideration. What this underscores is the reality that now really is a good time to consider selling.



If you found this White Paper useful and would like to find out more about selling your business, please call us on 01635 296 193 or email confidential@bcmscorporate.com

About us

BCMS Corporate has attained the position of UK market leader in the sale of privately owned companies as a result of a refreshingly different approach. Clients choose us because, by thinking differently, we are able to achieve significantly higher sales values than are typically achieved by traditional routes to market.

For the past 20 years, we've built up a reputation based on trust, integrity and mutual respect, and we are honoured to be recipients of the coveted Coutts Family Business of the Year award.