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BUSINESS

Selling your business, Part 1: maximizing value on both sides of the deal

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The relatively young and fragmented composites industry continues to attract particular attention from three discrete investment communities: mid-market financial investors seeking strong growth opportunities in manufacturing; trade buyers who want to diversify into a higher growth market; and industry players looking to expand into new markets, broaden their product portfolio or consolidate.

Positive investor perceptions of the composites industry are driven by growth opportunities across many sectors – aerospace, automotive, wind energy, pressure vessels, oil & gas, rail and mass transport. Overall, margins and return on investment are attractive for manufacturing. Diverse composites business models, with different mixes of capital and margin intensities throughout the supply chain, offer plenty of choice for their investment strategies and portfolios.

However, owners and shareholders who are looking to sell to one of these groups must not neglect the following all-important preparation tasks if they are to be successful. With planning and timing key, FMG have developed a comprehensive four-step process:

1) Effective positioning and presentation;
2) Intelligent research;
3) Identification, selection and approach to the right buyers;
4) Creation and management of a competitive process.

There are always requirements for diligence with your planning, awareness of your timing of each action, and an overall approach that focuses on the end result.

Effective positioning and presentation

Define your goals. First, clarify your commercial and personal objectives and your time frame. Who will run the business going forward? Will you really leave entirely or seek further involvement?
This scenario assumes an owner-founder type enterprise, or a majority shareholding, with others willing and able to proceed. If the business has a raft of active, and not-so-active, shareholders, with slightly less aligned thinking, this lack of coordination makes the business difficult to sell, and certainly hinders external investment.

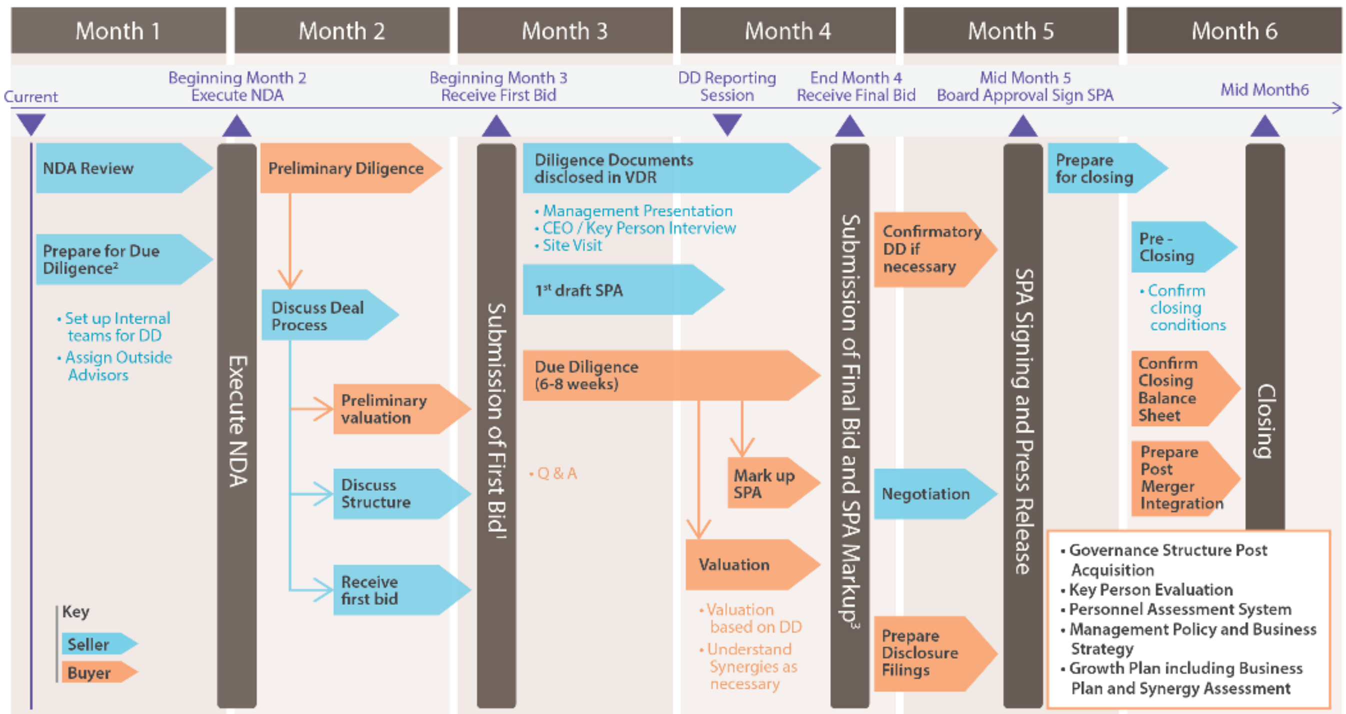
When a business starts up, the funding, the shareholding and shareholder agreements are often informal, varying in their terms and conditions, and may include other considerations, promises and assurances. The priority at start-up is to raise cash. FMG often finds a lack of commonality results from a mix of investor goals and personal agendas.

Shareholder alignment is essential but can be elusive. Nevertheless, it must be in place before any exit option is considered or planned. Then a number of questions must be answered:

Who is your likely buyer?

For most medium-sized businesses, a buyer comes in two guises:
• ***A financial investor.*** Usually a private equity group or potentially a "family office", their fundamental interest is the financial return on their investment from a proven and scalable commercial concept. Any large investment in capacity makes the acquisition less attractive for them.

Example Acquisition Schedule: Advisory and management teams must be aligned on a time scale and agree to a set of milestones, with stated times and purposes. An example schedule is shown here. (Note: DD = due diligence; SPA = share purchase agreement; VDR = virtual data room.) Source | Future Materials Group



1: Non binding first bid, may include potential acquirer's overview (including financial wherewithal), strategic rationale for transaction, preliminary valuation range and internal approval process.
2: Business, accounting, and legal diligence of target by potential acquirer and its advisors after reaching basic agreement with seller and before signing SPA.
3: Final binding offer.

Acquisition schedule

• ***A strategic or trade buyer.*** Typically, a large business buying up a smaller business, a trade buyer looks for strong synergy benefits for their business, as well as the all-important return on investment. A large trade buyer often brings an operational capability that can add and efficiently manage capacity.

A financial investor typically wants to partner with existing management over an agreed timeframe. With a trade buyer, there might be an agreement that you continue in management, but that's less certain.

What is your company's actual worth?

This is the time to formulate some idea of the company's value. Composite industry valuations can vary widely, but there are commonalities. Multiples of revenues, profits, gross profits and more can all be explored and tested with the help of advisors who have up-to-date knowledge of the present and future market indicators and the likely buyers.

What will your buyer actually be buying?

Define exactly what your business is: its technology, its markets and its customers. Demonstrate a complete and thorough understanding of your target markets, and why you are competitive in those sectors.

Be prepared to show the realistic growth opportunities for the business – validated, assessed and with evidence. If your assessment forecasts growth that exceeds the expected market growth, be ready to explain it.

Fast growth is limited. In manufacturing, you are part of a supply chain. Investment and time are required for new composite technologies, materials and processes to prove their utility, quality, and robustness of delivery. Growth rates and profitability levels will be more modest than say the IT sector, where firms can launch and attain high valuations in months. On the plus side, if you have established a strong niche, with customers who use your products having fewer options, you can command a higher valuation.

Where do you sit in the value chain?

Your position here, and the dynamics of your supply chain, are a core piece of your business model. We see numerous business models with serious flaws because the company does not fully understand how its supply chain works, and its position in that value flow.

How much must I invest to get that sale?

A properly funded and professionally executed campaign and engagement with buyers (to be covered in Part 2 of this article) and its planning process, including the research outlined above, is expensive. If you anticipate selling your company for around US$20 million, this process could cost you about 10% of that or US$2 million, but you will have closed your biggest deal ever. □

More information:
http://.futurematerialsgroup.com