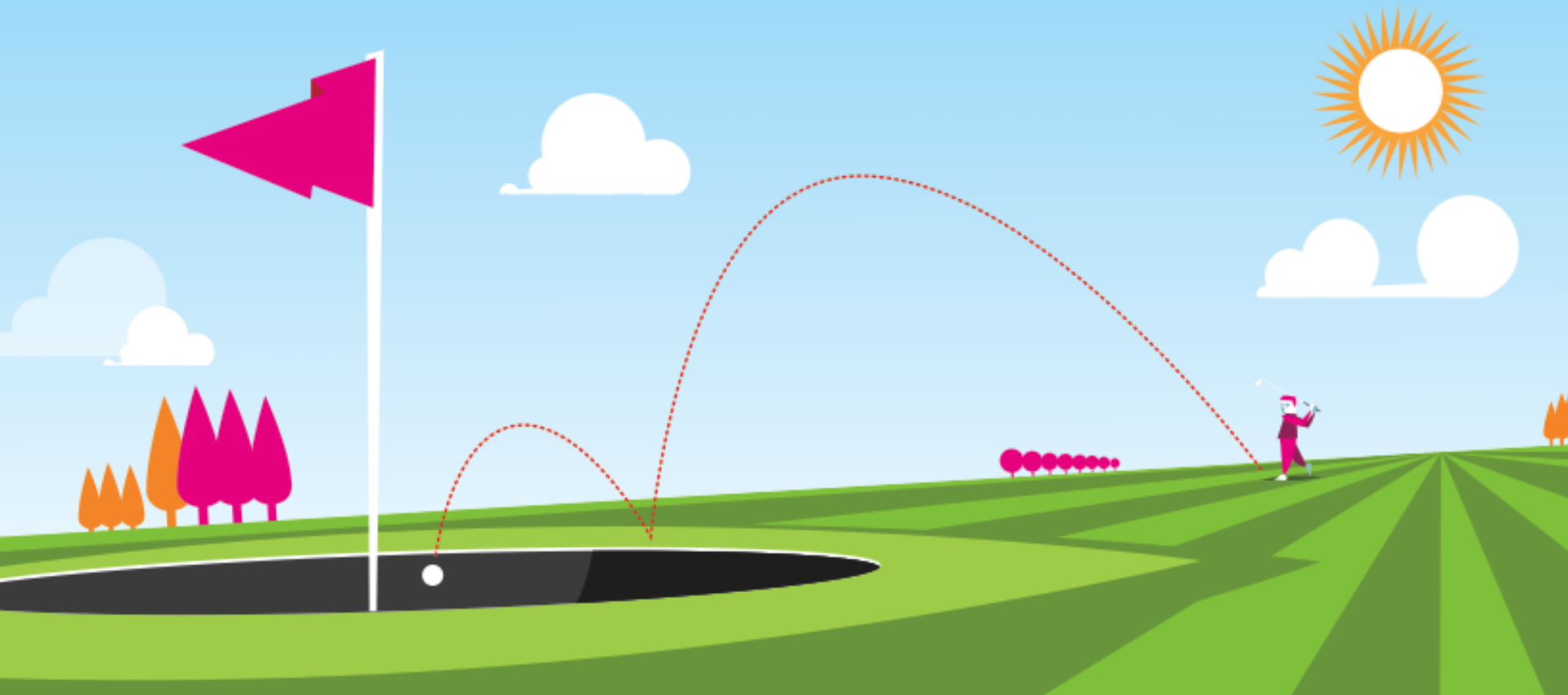


Welcome



**Give your business
an unfair advantage**

HURST
CORPORATE
FINANCE

Is now the right time to sell your business?

November 2010

**Give your business
an unfair advantage**



Welcome



Nigel Barratt



Nigel Moss



Tim Scott

**Give your business
an unfair advantage**



Agenda

- Introduction
- Alternative seminar titles
- Current environment
- Changes in Capital Gains Tax
- Exit options
- Trade sale
- MBO/cash out
- So what should I do?

**Give your business
an unfair advantage**



Now is the right time to sell your business

- Favourable tax environment – 10% Capital Gains Tax Band covers first £5m of gains for each qualifying shareholder.
- Large corporates have cash and are seeking growth.
- Weakness of sterling has reduced the relative valuation of UK assets.
- Do you face retirement/lack of management succession?
- Organic growth is tough – will valuations get better?
- Is your business facing long-term challenges?
- Pressure on Private equity funds to release substantial uninvested funds
- Asset rich business – banks will lend you money.

**Give your business
an unfair advantage**



Now is the wrong time to sell your business

- You have not properly considered your personal future.
- Still differences between value expectations.
- Potential buyers constrained by availability of funds and cost of credit and increased focus on due diligence.
- Your business needs to be 'turned round'
- Your business has strong growth prospects.

**Give your business
an unfair advantage**



Current Environment

Stobart Group



antler[®]

Enterprise



The **co-operative**

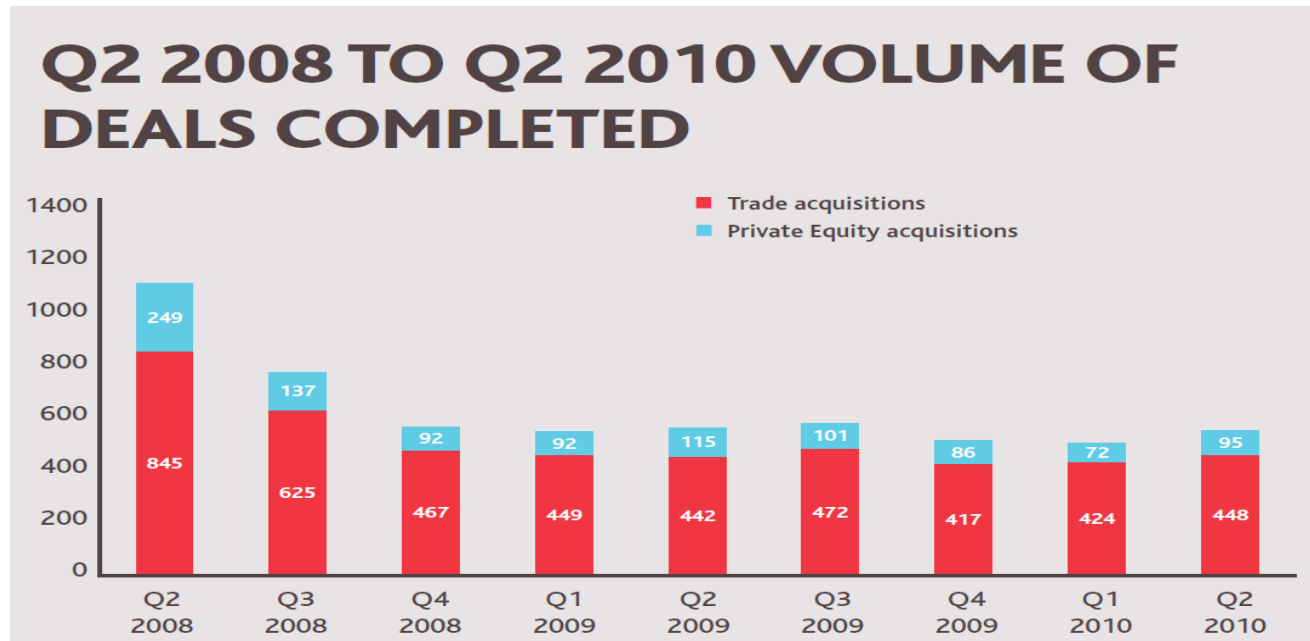


Give your business
an unfair advantage



Current Environment

- Volume of UK transactions in October 2010 of 292 deals was the lowest month since January 2008.
- A comparison of completed deals between Q2 2008 and Q2 2010 is set out below:

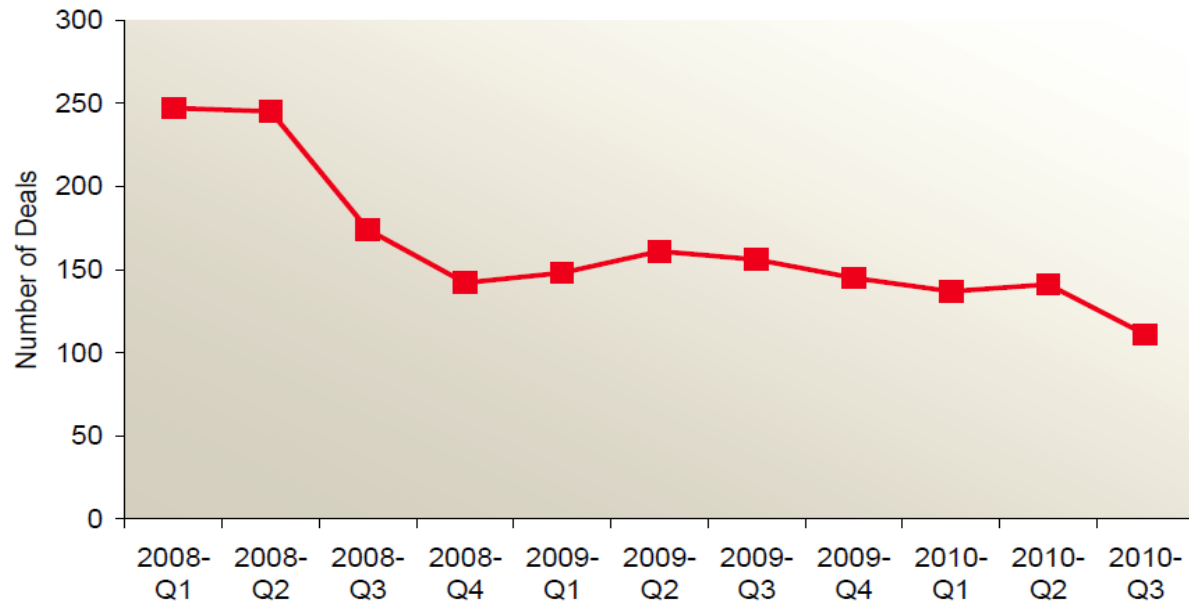


**Give your business
an unfair advantage**



Current Environment

- In the North West marketplace there were 111 transactions announced in Q3 2010 showing a drop of 28.9% against Q3 2009.



**Give your business
an unfair advantage**



Current Environment

- Downturn in volumes in Q3 2010 is not unexpected given the caution over the Government Spending Review.
- Reasons to be optimistic although concern over rate of UK economic recovery.
- Pricing index is now at its lowest since Q1 2009 which highlights the economic uncertainty, funding constraints and suggests that vendors price expectations are falling.
- While advisors and investors are starting to see an upturn in opportunities this is not coming through in the number of completed deals.
- Concerns over the rate of the UK economic recovery are still prevalent.

**Give your business
an unfair advantage**



Changes in Capital Gains Tax

- For the first time in years we have stability in the Capital Gains Tax ('CGT') regime i.e. we can plan.
- Entrepreneur's Relief at 10% on first £5 million of gain (on business assets).
- Moving of shares to spouse could increase the level of Entrepreneur's Relief if:
 - Over 5%;
 - Hold shares over 12 months; and
 - New holder must be a company officer/employee.

- Sale of business for £10m
CGT

10% on first £5 million	500,000
28% on next £5 million	<u>1,400,000</u>
	<u>1,900,000</u>

- If share stake can be divided between 2, CGT would be £1 million.
- Significant saving but 12 month delay.
- Contrast to Income Tax at up to 50%.

**Give your business
an unfair advantage**



Trade Sale

- Should maximise proceeds (if there are buyers).
- Approach purchasers with strategic interest and financial resources.
- Present the business to highlight:
 - True profitability;
 - Synergy benefits; and
 - Growth opportunities.
- Identifying key issues early will ensure the business is optimally positioned for sale, with attention given to:
 - Historical and forecast underlying profits;
 - Strength and structure of the management team;
 - Customer relationships;
 - Extracting surplus assets;
 - Tax planning; and
 - Potential value destroyers i.e. unresolved legal issues.
- Better to plan than react.
- Be realistic about valuation.

**Give your business
an unfair advantage**



Management buy out ('MBO')/cash out

- May be appropriate if no obvious buyers.
- You may be able to retain a smaller equity stake.
- Value – driven by ability to fund the deal not strategic attributes of the business.
- Management team – completeness and 'backability'.
- Fund-raising
 - Availability of funding
 - security
 - resilience of operating cash flow to service debt finance
 - working capital requirements/seasonality
 - capital expenditure requirements
 - Choosing the right funder
 - can the management team work alongside the funder?
 - cost
 - level of personal investment by management team
 - future exit opportunities – for management team and funder to realise their investment.

**Give your business
an unfair advantage**



Management Buy-Out/cash out

- Banks still lending but security is key to any funding proposition.
- Cash flow lending multiples in the mid market significantly lower than previous levels
- Private equity investors have funds but with a limited investment horizon (i.e. need growth).
- Deals allowing owners to take cash out of businesses whilst remaining in control are becoming more unusual in the current marketplace.
- In our view Businesses need to have a valuation of at least £5m with the ability to grow to a value of £10m to be attractive to a mainstream private equity investor.
- For all investor types the business must have a strong management team.

**Give your business
an unfair advantage**



So what should I do?

- It depends!!
- There are differences in sectors
 - ‘Green’/renewables
 - Healthcare
 - E-commerceor
 - Construction
 - Property
- Has your value peaked or is there growth?
- Can you improve your net realisation through tax planning.
- Are there cash rich buyers to whom you can offer significant synergies.
- Is there an overseas acquirer?
- What do you want to do next?

**Give your business
an unfair advantage**



10 reasons to consider selling

1. You are offered more than the business is worth (stupid buyers).
2. You are in a sector which is 'hot'.
3. There is market consolidation.
4. You have insufficient capital to keep pace with the competition.
5. You have no succession and want to retire.
6. The business is low growth and your net return will decline.
7. You are fed up.
8. Ill-health.
9. You have fallen out with your fellow shareholders.
10. You are financially better off (i.e. net return CGT vs Income Tax).

**Give your business
an unfair advantage**



Contact Us

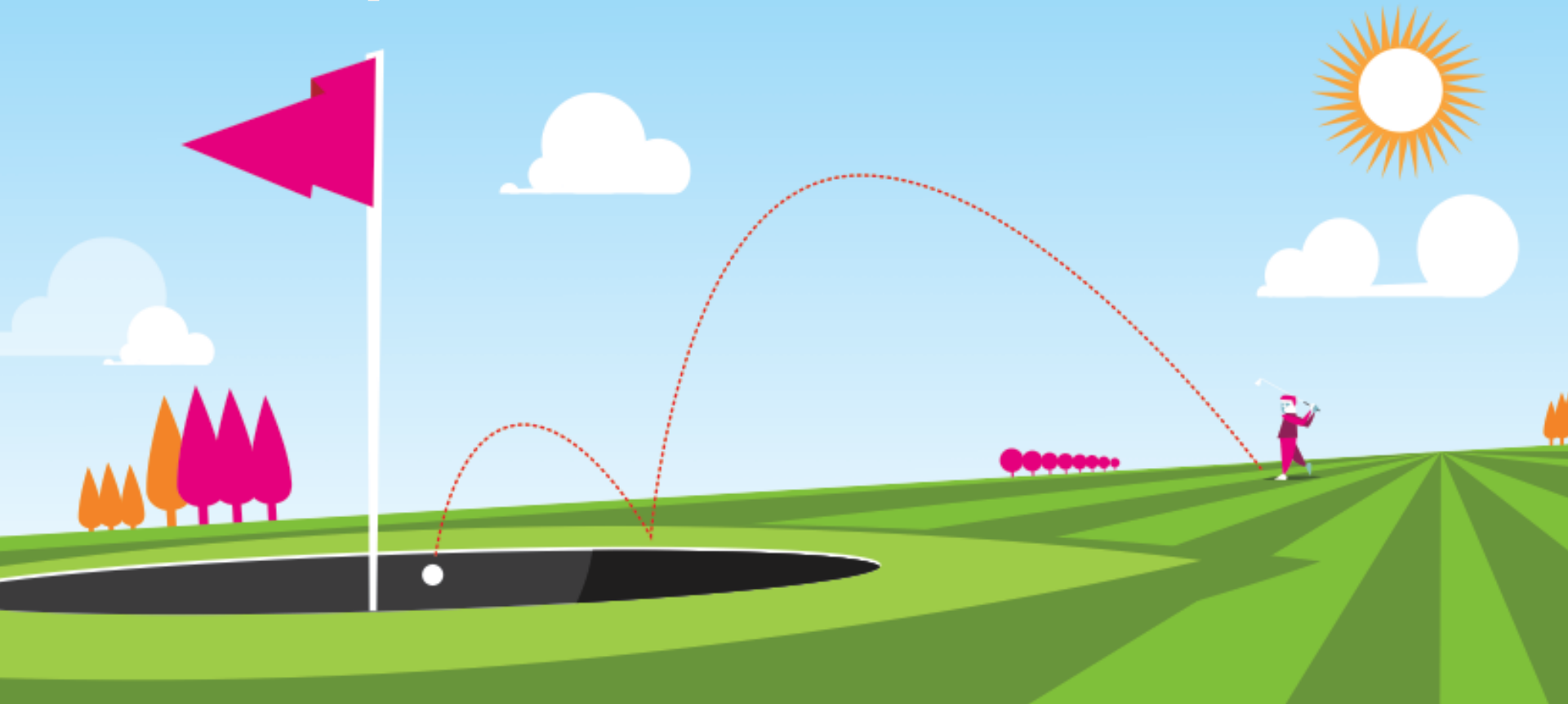
- www.hurst.co.uk
- 0161 477 2474



**Give your business
an unfair advantage**



Thank you



Give your business
an unfair advantage

