

# SELLING & BUYING

Ensuring your business puts the right foot forward





**In the first half of 2020, as the pandemic took hold, the level of mergers and acquisitions activity across the globe fell to levels not seen since 2017. But the slowdown in M&A activity in printing and packaging was only temporary.**

As we started moving back towards relatively 'normal' business conditions in early 2021, the market saw a pickup in deals activity. A recent study showed that over 60% of respondents believe M&A activity will bounce back to pre-COVID-19 levels by the end of 2021.

This optimistic view might be slightly dampened with the current outbreak affecting most of Australia. The core message would remain the same though; the buyers have not gone away. A shrinking of end markets points to rapid consolidation among commercial and traditional print companies. Some businesses are still cashed up and their motivation to scan the print and packaging sector for opportunities remains high.

**In 2020 Australia experienced a 20% drop in reported M&A transactions.**

Whilst there are a lot of uncertainties in the market due to COVID-19, mergers and acquisitions remain an important vehicle for businesses to reach their strategic ambitions. Acquisitions can be the most effective way for businesses to grow market share, expand their geographic footprint or add new products and services.

# BECOMING GAME READY



## **Most business owners will at some points consider exiting their business.**

Circumstances change and sometimes these opportunities or disruptions in our lives come sudden and unexpected. It is prudent to prepare your business to always be ready to sell and take full advantage of opportunities that arise.

Getting a business GAME READY means you will maximise the chance of success and the value you realise for your business.

Results of a survey of 2,000 business owners:

- > 79% identified getting the full value for their business as their top priority.
- > Less than 30% had a formal valuation done in the last 5 years.
- > 83% do not know what income they need to support their lifestyle.
- > 73% have given little to no attention to their transition plan, even though 75% were aged 52 or over...

# HOW GAME READY IS YOUR BUSINESS?

Preparation is key and it is essential to take the time and invest the resources to getting the business GAME READY.

**Do you have a vision of what you want to achieve for your business?**

- Yes, well defined and documented
- Yes, but not documented
- No

**Do you have a growth strategy in place?**

- Yes
- No

**Who runs and advises your business?**

- Business owner/s
- Business owner/s with a management team
- Management team with an advisory board
- Unsure

**Has your business been profitable in the past three years?**

- Yes
- Mostly
- No

**Have you normalised your business' historic profitability to exclude one-off and non-operating expenses?**

- Yes
- No
- Unsure

**Do you understand what makes up all the values on your balance sheet?**

- Yes
- No

**Is your business' revenue growing year on year?**

- Yes
- For most years
- No

**Do you have signed contracts with all key customers, suppliers and landlords?**

- Yes
- With most of them
- No
- Unsure

**Do you have signed contracts with all key employees?**

- Yes
- With most of them
- No
- Unsure

**Do you know what your business is worth today?**

- Yes
- No

**Do you know what your business could be worth?**

- Yes
- No

**Do you analyse your financial performance at least once every year?**

- Yes
- No

**Do you know why someone would want to purchase your business?**

- Yes
- I believe so
- No

**Do you know who could be interested in buying your business?**

- Yes
- I believe so
- No

**Do you have all the information a prospective buyer will require from you?**

- Yes, all up to date and in an organised folder structure
- Mostly, with a plan to complete the information
- No, but I know what is required
- No, and I do not know what is required

**Do you know how the negotiation process is undertaken during a sale?**

- Yes
- No

**Are you willing to assist with the transition of the business to the new owner?**

- Yes
- No
- Unsure

**Do you have a tax advisor?**

- Yes
- No

**Do you have a legal advisor with M&A experience?**

- Yes
- No

**When do you intend to sell your business?**

- Immediately
- In 6 - 12 months
- In 1 - 3 years
- In 3 - 5 years
- Unsure
- Not interested in selling

# THE VALUE OF A BUSINESS



The value of a business and what a potential buyer is willing to pay for it will depend on quantitative and the qualitative aspects of the business.

Could you leave the business with no notice for 3 months and both the strategic plan and budget be achieved?

## QUANTITY OF A BUSINESS

A potential buyer of the business will be looking at historical financial information and, more importantly at future cashflow. This will provide insights into sustainable earnings.

## QUALITY OF A BUSINESS

The quality of a business will define the multiple someone is willing to pay for the business. And it is the multiple which will define if a business of \$3M EBITDA is sold for \$9M or \$18M.

The key points which will impact the quality of a business include the following:

- > Industry attractiveness and positioning
- > USP
- > Products and services
- > Clients (quality, mix, consistency, retention, acquisition)
- > Team and management
- > Profit margins
- > Growth - past, present and future
- > Asset quality (machinery, IP)
- > Internal processes (reporting, resourcing, marketing & BD)

# SELLING A BUSINESS

**Selling a business is a huge achievement and only a few of the businesses marketed for sale actually sell. In 2020, Australia reported 963 deals (20% less than 2019).**

- > 49% of all businesses sales fail
- > 75% of owners believe they can sell their business within 6 months
- > On average, it takes 11 months (!) to sell a business
- > Businesses that go 'straight to market' sell for 55 - 75% or the original asking price
- > Over 88% of business owners trying to sell their business alone fail

NEGOTIATION

DUE DILIGENCE

LEGALS

CLIENT PROFILE

COMPANY ATTRACTIVENESS

DOCUMENTATION

REVENUE PROFILE

INTELLECTUAL PROPERTY

CONTRACTED REVENUE

FINANCIAL STRENGTH  
QUALITY OF EARNINGS

SALES PIPELINE

PEOPLE STRENGTH & RISK

RETAINED REVENUE VS. PROJECTS

BUSINESS MATURITY

COMPETITIVE ADVANTAGE

BUSINESS DEVELOPMENT

MARKET SECTOR

MARKETING & PROMOTIONS

POSITIONING OF THE BUSINESS

IT, BUSINESS SYSTEMS, PROCESSES

INTERNATIONAL OR DOMESTIC SALE

# 10 REASONS WHY M&A FAILS

1. OVERPAYING

---
2. OVERESTIMATING SYNERGIES

---
3. INSUFFICIENT DUE DILIGENCE

---
4. MISUNDERSTANDING THE TARGET COMPANY

---
5. LACK OF A STRATEGIC PLAN

---
6. LACK OF CULTURAL FIT

---
7. OVEREXTENDING RESOURCES

---
8. WRONG TIME IN INDUSTRY CYCLE

---
9. EXTERNAL FACTORS

---
10. LACK OF MANAGEMENT INVOLVEMENT

# THE SALES PROCESS

## 1. Creating the sale information:

- a) Teaser
- b) Information Memorandum, Confidentiality Agreements
- c) Marketing material

## 2. Finding prospective purchasers

## 3. Prepare a Data Room

## 4. Negotiation and selection

(to go into due diligence)

## 5. Due Diligence

- a) Platform
- b) Questions

## 6. Documentation and Settlement

## 7. Post Sale

- a) Earn-outs
- b) Employment
- c) Constraints

## Key points to remember when buying a business

- > Why are you buying (this business)?
- > Due Diligence
  - o Integration Plan
  - o Soft and Hard
- > Culture
- > Revenue and Risk Management Plan
- > Key employee retention plan
- > Managing ex Owners
- > Watch the cashflow
- > Communications

# Q&A

## I am planning to sell my business, but don't want to stay after I've sold it. Will this affect how much I am being paid?

It really comes down to that point of succession. If your business can continue to operate without you, not just with maintaining profit but also with strategic decision making, etc, with a great team beneath the owner, then there is no real reason why the owner needs to stay, so in this regard, it shouldn't affect how much you are paid. The buyer is looking for surety of cash flow, so provided the buyer believes the business will deliver this without the owner, then they should be able to release you. But if you're still working 60hrs a week as the key rainmaker of sales, then don't be surprised that they want you stay for a year, and possibly defer part of the payment, dependant on that revenue continuing to flow.

## How do I know if my business is game ready?

This is often when you need help, there are many legal and financial matters to get ready. Whether you're speaking to an advisor, an accountant or a lawyer, they will be able to give you a checklist of things you need to do. However, in the absence of advice, if you were buying, what things would you want to know about, and then think about how you can prepare all of those things. For example, have you prepared a 3yr Strategic Plan outlining future cash flow, sales projections. Some could argue this may not be necessary, however, this may mean you are paid less because some of those things are missing. It can be difficult to prepare for a business sale, to know what is required to get game ready, so you will need some advice, but using common sense, you can begin to prepare.

## In your opinion, why do a lot of acquisitions fail?

The main reason is because of lack of integration. About 75% fail, mostly because people know what they need to do post completion, the problem is that they don't follow that up, expecting the business to continue doing what it should. The successful mergers and acquisition see the buyer spending a lot of time integrating the business they have acquired into their own. They either decide to keep the business set alone, or integrate, and they work very hard on this.

## Should I prepare a budget to fund the preparation of my business for sale, and if so, what sort of budget do I need to set aside?

The short answer is yes, it's a bit like the old adage, building a house takes twice as long and costs twice as much as you would expect. Absolutely you need to set a budget aside for it, however, there is no one number that fits all. First of all, work out, are you going to sell it on your own or are you going to get some help and support. Go and talk to those people, you accountant or lawyer or business broker or advisor, get them to estimate how much this process will cost, and apart from their own fees, they can help you understand what other fees might be there, the range can be quite large depending on how complicated the task is.

# BEGIN TO PREPARE

PARTNERS



KONICA MINOLTA



the-real-media-collective

+61 3 9421 2206  
hello@thermc.com.au

Suite 6, 151 Barkly Avenue  
Richmond VIC 3121 Australia  
therealmediacollective.com.au  
therealmediacollective.co.nz



# Graham Morgan

Managing Director  
MORGAN SHAW ADVISORY (MSA)

MSA works with companies to both maximise their value and be 'Game Ready'. Graham has been involved in numerous transactions and in many cases sat on the buyer's side of the table. He knows what a potential buyer will look for and will share his knowledge and valuable lessons to ensure you achieve the best outcome for your business.