

Selling & buying businesses in the current market



**BUSINESS DIVESTMENTS
MERGERS & ACQUISITIONS**

This is a good time for many sellers and buyers, as explained below.

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Is Now a Good Time to Sell?

If you are planning to sell within the next 2 years here are some factors you should consider.

Supertrac operates specifically in the environment where businesses are bought and sold. We are continually assessing businesses for their saleability and value, and advise clients on either divesting or acquiring target businesses.

We are therefore well placed to assess market conditions, the industries affected, who's buying and who's not, and who should sell and who should wait.

Why sell at all?

Given that the majority of Supertrac's clients are business owners seeking to retire from day to day responsibilities, this section will focus on them.

For business owners, selling is the point in time when they value their time more highly than making more money. This has been termed the 'Economics of Enough'. As successful business owners mature, time becomes the scarcer commodity, with money usually in abundance. When you have 'enough' money, working longer to earn even more money isn't as important as how you spend your time.

The best way to transition out of a business post sale is to progress from the day-to-day process activity to taking on a series of projects, each with a defined beginning, purpose and end. Some will be related to the business and others will follow personal pursuits.

Supertrac has written many articles on this subject. These can be emailed to recipients of this bulletin free on request or can be purchased by others via supertrac.com.

Ways to choose your own time

The biggest single factor affecting value is profit. If your profit has dipped in say the last 12 months and you've owned your business for a long time and can choose

the time to sell, why would you sell at a lower price than your business warrants? You don't have to, despite the recent performance of your business.

Most businesses are valued on a future maintainable earnings basis (FME). Therefore, even if your business' FY09 results are abnormally low, provided your forecast for FY10 is more along the lines of historical levels, purchasers will factor these in. In some cases, payments may be structured, with up front payments in line with recent activity and progressive payments built in as normal profit levels return.

Accepting this method may allow you to retire sooner and to effectively straddle any short term dip in performance, rather than wait for it to work its way out of your 3 year trading history. Many buyers propose this model regardless of market conditions, as it can usually result in a WIN-WIN outcome, where the buyer has reduced early risk and the seller has the potential to receive a higher ultimate price. This is sometimes more acceptable to sellers who expect to stay on for some time after settlement to assist with a smooth handover.

Forecasts and forward order books are therefore critical components of current marketing information.

Are there buyers now?

Most businesses sold are acquired by larger players in the same or related industries.

Public companies had their wings clipped as their share prices plummeted. Most were in no position to borrow or raise capital for acquisitions. This has changed, and the strongest and most highly motivated are now out of the blocks and running hard to regain lost time and momentum.

Private equity backed buyers are also active in the market with funding in place for strategic bolt-ons to consolidation processes that were under way before the GFC and for which there is a timeline.

Keen buyers are looking for good businesses before the market becomes over-crowded with buyers again. While some are bargain hunters looking for weak

Welcome to the Supertrac Bulletin!

Supertrac is a corporate advisory firm specialising in business divestments, mergers and acquisitions to medium and large organisations. Supertrac has provided advice on clients' businesses totalling more than \$550M.

In the 6 months to September 09 Supertrac has achieved its highest 6 monthly sales ever recorded.

We look forward to hearing from you when in need of our services.

businesses forced onto the market, the majority Supertrac liaises with are looking to make strategic acquisitions of quality businesses.

Therefore, from a seller's point of view, the players on the field are the right ones; they are disciplined, focussed, well organised and have their funding in place. They make their decisions according to long term strategic criteria and not the prevailing market conditions, so price is often secondary. Most are keen to catch up after losing the last 12 months, so they can keep to their agenda.

Buyers appreciate sellers being equally well placed to get on with business. We work with clients to prepare them well so the process is smooth and trouble free.

Will it take longer or shorter to sell now?

Supertrac's experience is that businesses going to market now are selling more quickly than a year ago. Overall, the current market for businesses is now more efficient, with high quality buyers and sellers who are serious about their decisions and reasons. This means the sale process should be quicker, less costly and much smoother.

Depending on the industry, there may also be fewer other high quality businesses for sale in the same space, making your business more sought after by the right buyers.

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Any effect on pricing?

For a short time public company buyers reasoned that, because the price/earnings multiples (PE Ratios) on listed companies had plummeted, so too should price/earnings on private companies fall. However, this only applied to stressed businesses in forced sales, where sellers faced the combined effects of lower profits and lower multiples. No-one would sell on those terms unless they were forced to. These public company buyers effectively left the market anyway, but are now starting to return as their share prices increase, along with their ability to fund acquisitions.

Supertrac's clients are not in the category of forced sales. The profile of a typical Supertrac client is a stable, longstanding and profitable business where the owners have decided to retire. Why would they choose to sell in a suppressed market? The answer is 'they wouldn't'. However, the good news is that the market is not suppressed. After a quieter start to this calendar year, in the 6 months to September 09 Supertrac has achieved its highest 6 monthly sales ever recorded.

Structuring Transactions

In some instances to achieve the maximum outcome a transaction may need to be structured.

Supertrac calls on its extensive experience to help structure transactions that will work for both parties. Understanding the motivations and needs of both the buyer and seller is critical, so that these needs can be taken into account when designing the structure to optimise the outcome. For example, the seller may want to remove labour before capital, capital before labour, sell out completely, or in stages over time. The seller may also be prepared to sell down, to say 50%, stay working in the business for a few years and sell the balance on a pre-arranged basis on ultimate exit.

This may suit particular categories of buyers. For example, private equity backed consolidators usually have a plan to acquire and integrate a number of private companies in a particular industry, and that will result in an ultimate 'liquidity event' in 3 to 5 years, being either an IPO (share float) or sale to an industry major, at a higher price earnings multiple than would be achievable if sold as individual private companies.

Public companies may have a similar plan, except without the back end exit strategy, instead holding on and optimising shareholder value through acquisition and integration.

Other industry players may be acquiring bolt-on businesses to build a critical mass and leverage off each operations' customers gaining operational efficiencies and synergies, plus saving back-end administration costs.

Supertrac work with the parties' respective legal and accounting advisers on selection of an appropriate entity structure, and whether an acquisition is to be an assets or shares sale. Other areas considered are the structure, security and conditions of payments, including up-front component vs subsequent payments, whether payments are fixed and conditional on ongoing vendor support, linked to future sales or profits, employee retention or other milestones and what is the appropriate level/s of security for the seller in case of default by the buyer.

Market Update

Global Financial Crisis (GFC)

The global liquidity crisis ended a short time after it started, as governments poured billions into the financial system to keep it flowing. However the GFC quickly evolved into a crisis of confidence, with plummeting share markets becoming the general indicator of market sentiment. The market has since rebounded from its lows of March 2009, with most economists predicting the worst is over and a return to more tempered growth.

Who has been affected?

There are about 20,000 different categories of businesses. IBISWorld has reported that approximately 51% have been adversely affected; 18% slightly adversely affected, 27% unaffected and 4% favourably affected by the GFC.

- Property developers have been negatively impacted by falling property values, particularly in the commercial sector, which has also coincided with more difficulty securing funding for new developments.
- Consumer discretionary spending is down – luxury items, discretionary travel, and capital replacements such as cars.
- Businesses whose revenue is derived from clients' operating expenditure (maintenance, recurring etc) are less affected than those whose clients are engaged in capital projects. Purchasers are closely scrutinising the quality of revenue streams between capital and maintenance, with many purchasers favouring businesses with the latter.
- Capital expenditure dependent businesses have generally been adversely affected, although some major projects have been announced. This includes mining exploration, machinery retailers and mining services dependent businesses.
- Agribusiness – more influenced by the weather than the general economy.

Bank Finance

Availability of finance is one of the most significant factors for merger and acquisition transactions. Although

governments dropped interest rates and pumped cash into the economy via the banking system, the banks held onto most of it to strengthen their own balance sheets and restore their lending ratios to more conservative levels.

Businesses depending on bank finance for general liquidity, major projects and acquisitions found finance was more difficult to obtain.

The major banks have subsequently resumed lending across most industry categories.

Banks are generally adverse to lending on property development projects, as these are seen to be in the relatively high risk speculative category where the value of the underlying security cannot be easily determined, and therefore the regulatory ratios are stacked against lending for this purpose.

Is Now a Good Time to Buy?

Businesses are for sale for many reasons. The ideal businesses to buy are either those from retiring owners or non-core large private or public company divisions. Money is cheap and it is also more accessible than 12 months ago.

Apart from stressed businesses, typical businesses on the market are trading relatively strongly, confirming their underlying strength across a full range of market conditions. Although some may have reduced profit in FY09, the underlying strength and resilience of these businesses has been proven and overall maintainable earnings remain.

Anyone can make money in the good times. It is now easier for buyers to pick the quality businesses on the market. With the market so polarised between the strong and weak, strategic buyers are more readily able to identify quality targets and engage them.

Well prepared buyers will make acquisitions now and have these bedded down in time to take full advantage of inevitable market upturns.

Business Partnering

Now you can become more involved in the sale or acquisition process, or in preparing your clients' business for sale. By becoming a Supertrac Business Partner, you can:

- Build another revenue stream from your existing client base
- Be more involved in the sale of a client's business
- Be more involved in acquisitions by your clients
- Assist clients prepare their business for sale

Please call or complete and return the attached Response Form.