



Attracting a Buyer for Your Business

Craig West – Business Exit & Strategic Succession planning.

We have previously provided several different strategies to improve the value of the business and next month will talk about our unique 5 x 5 x 5 model to increase financial performance, but the key issue here is who is the best bowler had we find them and what is it that will attract them and encourage them to pay maximum dollars. Many people talk about a strategic buyer for businesses but what exactly does that mean where do we find how we attract them and what makes them strategic in the first place?

In my experience there are three key factors to consider when preparing a business the sale in terms of attracting buyers. If we examine some of the latest transactions in Australia we can see some very good examples of strategic acquisitions where the buyer paid far more than most pop as would consider.

Recently Archer Capital paid \$1.2 billion for software company MYOB (see case study on this page), and already several commentators have asked why anyone would pay 11.3 times earnings for this business -the simple answer is in the last line of the case study - the company services more than 1 million Australian small to medium businesses.

Case Study - \$1.2b for MYOB

A late twist in the bidding war for the accounting software provider MYOB has led to the US private equity fund Bain Capital prevailing in a \$1.2 billion deal. A competitor, the British-listed software provider Sage Group, had been leading a pack of rival bidders – including private equity giants Kohlberg Kravis & Roberts and Hellman & Friedman – with a \$1.35 billion offer.

It is understood Sage's bid fell through late last week after falls in its share price – hammered by the broad share will market selloff in Europe – meant the value of the MYOB transaction would now exceed 25 per cent of Sage's market capitalisation. The deal would have required the lengthy and uncertain process of a shareholder vote, which prompted MYOB's owner, Archer Capital, to look elsewhere and accept a bid worth 10 per cent less.

It is still a hugely profitable deal for Archer. The acquisitive private equity fund bought MYOB in February 2009 for about \$500 million, and then boosted earnings by stripping out costs, raising prices and aggressively growing its customer base. "We doubled the profitability. We basically achieved the three or four things we set ourselves before we acquired it ... and we had a lot of inquiry from potential buyers," an Archer partner, Peter Wiggs, said, explaining the rationale for the sale.

The deal is understood to have been valued at a multiple of 11.3 times earnings before interest, tax, depreciation and amortisation. MYOB is used by more than 1 million small- to medium-sized enterprises in Australia and New Zealand.

Given that the vast majority of businesses in Australia sell for far less than this multiple as you can see from this graph the vast majority sell for a multiple of between 2 and 3 as at June 2011:

Business value as multiple of EBIT



Price is what you pay... Value is what you get! Warren Buffett

The key then is to find a buyer for whom 1 + 1 = 3, someone who can use some aspect of your business strategically to justify paying more than the average buyer would pay.

So for example does your business have some intellectual property that a business with a customer base and distribution network could leverage and sell quickly and easily to maximise the value of that IP?

Does your business have a unique product that could easily be sold to my existing network of customers who already buy other

products in similar areas to yours – and if so does that warrant me paying more to purchase your business ?

Listed companies as buyers

Many of my clients have had significant success in attracting listed companies as buyers and as a result achieving much higher sales multiples - how and why this work ?

It is simply the case of private to public arbitrage at work.:

Private to public arbitrage

Public company valuation = PE/EBIT ratio- Average per Industry



Historical ASX average 9.6 x

Private companies average 2.5 x

The value gap is called "private to public arbitrage"

As this illustration shows, most listed company's trade at much higher multiples than privately owned businesses - in fact the historical average on the ASX is approximately 9.6. If we are aware of this fact and can use it to our advantage, we can create a significant win-win scenario whereby the listed company purchases our

business (let say for a multiple of five or six) then they instantly receive an uplift because the market is valuing their earnings at the higher multiple.

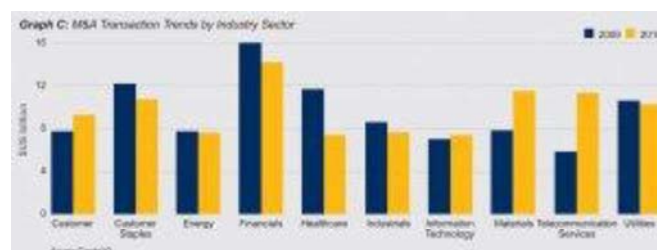
When we can create a win-win scenario such as this we will normally achieve higher prices!

Listed companies in Australia are currently sitting on large amounts of cash and many are on the acquisition trail.

Offshore buyers

In a similar way we may be able to find significant uplift by targeting offshore buyers - there are many examples of companies trading overseas at much higher multiples than they might enjoy in Australia. This also provides an opportunity as many are looking to expand into the Asia-Pacific region which historically has shown good growth.

The following graph provides an example of how we can enjoy a significant arbitrage opportunity as many offshore deals are completed at much higher multiples - whilst there is some variation based on industry differences the overall average of these offshore deals with 8.8 times earnings:



Interestingly given the current economic climate internationally many buyers see Australia as a safe haven given the limited effect that the GFC had a private capital markets.

Summary

As the ideal, ultimate, home-run sale we would look to attract an offshore listed company with a strategic reason to buy our business based on product, distribution, geography or intellectual property.

Whilst this ideal scenario might not be always possible for all business owners, any one of these factors can significantly increase the sales value of your business the combination of more than one will only further improve the result.

Craig West