Who Will Buy Your Technology Reseller Business in 2022?

Trade, private equity or management?

For business owners in the ICT & Digital sector, there are likely to be 3 types of buyers for your business - trade, institutional investors (i.e. private equity), or the management team; but before considering who will buy your business it is sensible to look at what it is that buyers or investors will want from an acquisition.

Every buyer or investor has different requirements, but key criteria will include the following:

- Scale (i.e., minimum size by revenue and/or EBITDA)
- Services and solutions provided
- Potential cross-selling opportunities
- Potential cost synergies available
- Growth potential
- Profile of customers (e.g., small, medium, enterprise, direct or indirect)
- Expertise in technology or vertical markets
- Strategic rationale

Every buyer or investor will have certain prime investment criteria that if not met will mean that they are not interested. They may also have some 'softer' requirements that are more 'nice to haves' but not essential. As an example, most trade buyers will have a minimum deal size, although this may be less of a key criteria if the target business delivers some compelling strategic rationale to the buyer Institutional investors however will have a very strict minimum size level before they would invest and anything outside of their criteria would be a 'red flag'.

Trade buyers are more likely to be focused on services & solutions provided, customer profile, potential cost synergies, and technology etc. For example, a trade buyer who operates an indirect wholesale model is unlikely to want to buy a direct sales-focused business. However, if there was a good fit generally but with a small proportion of customers that fall outside their criteria they would still be likely to bid, but perhaps factor this into their pricing.

Business owners are increasingly aware of the numerous trade buyers who are looking to acquire in the sector. With many trade buyers pro-actively seeking acquisition opportunities, selling to one of the sector consolidators is likely to be the first option considered. As an alternative, if a business owner wanted to sell to the management team, or only partially sell his or her business and remain working, then private equity is an option. If a business is to be sold to management, they would need to be supported by either private equity, a bank, or the present owners through vendor loans, unless they had the funds to acquire the business themselves.

Knowing who will buy your business is much harder to predict than business owners often appreciate, even in a sector like ICT where there are numerous trade buyers and investors looking for targets. Whilst in every sector there are established trade buyers that most people will be familiar with, what is probably less well understood is that buyers tend to operate in cycles and, depending on where certain buyers are in their own strategic cycle will influence their view of a particular target at a particular time. This stands for both trade buyers and investors.

The current most active buyers

Looking at trade buyers first, the table below highlights the most active acquirers in the ICT & Digital sector over the last 1 and 3 years (up to 30th September 2021) Of the 17 companies listed, 14 are private equity backed, with the other 3 being publicly listed. This is a clear demonstration of the impact private equity is having on the sector, and the focus it has on growth through acquisition. It also demonstrates that the chances of your business being acquired by a privately owned company is less common than business owners appreciate, and whilst there are a lot of independently owned businesses looking for acquisitions, they do tend to be outbid by the private equity backed or publicly listed 'buy & build' companies.

Key: Activity likely Activity possible Activity unlikely

Consolidator	Peer Group	Sub peer groups of interest	Deals in last 3 years	Deals in last 12 months	Net debt/LTM EBITDA	Multiples paid (EV/EBITDA)	12 month activity outlook	
							Curr.	- 3mths
Babble Cloud	Telecoms Services	Comms resellers	12	8	8.5x	5.2x	Activity likely	Activity likely
Focus Group	Telecoms Services	Comms / IT resellers	11	4	-	10.9x	Activity likely	Activity likely
The Panoply Group	IT Consulting	Digital services	9	2	2.8x	6.1x	Activity likely	Activity likely
Arrow Business Comms	Telecoms Services	Public sector IT consultancies	8	3	12.8x	6.1x	Activity likely	Activity likely
Air IT	IT Managed Services	Comms / IT resellers	8	8	-	-	Activity likely	Activity likely
Southern Communications	Telecoms Services	Comms / IT; specialist tech	8	4	7.6x	17.0x	Activity likely	Activity likely
Wireless Logic Group	Telecoms Services	M2M service providers	8	5	6.2x	11.5x	Activity likely	Activity likely
Sabio (ADDED)	IT Managed Services	Contact centre capabilities	8	3	1.9x	7.6x	Activity possible	
Daisy Group	Telecoms Services	Unified comms resellers	5	2	9.7x	10.6x	Activity likely	Activity likely
Charterhouse Voice and Data	Telecoms Services	Scale resellers	5	3	2.8x	5.7x	Activity likely	Activity likely
Sapphire Systems	IT Consulting	Digital operating platforms	4	4	5.0x	6.7x	Activity possible	Activity possible
BCN Group	IT Managed Services	Comms / IT resellers	4	2	-	7.7x	Activity likely	Activity likely
Onecom Group	Telecoms Services	Comms / IT resellers	4	3	3.7x	5.8x	Activity likely	Activity likely
Content+Cloud	IT Managed Services	Hosters	4	1	5.7x	8.2x	Activity possible	Activity possible
Wavenet	Telecoms Services	Comms / IT resellers	4	1	5.7x	6.2x	Activity likely	Activity likely
AdEPT Technology Group	Telecoms Services	SME-focused IT MSPs	3	1	3.3x	6.0x	Activity likely	Activity likely
Iomart Group	IT Managed Services	Cloud services providers	3	0	1.3x	6.6x	Activity possible	Activity likely

Source: Megabuyte Quarterly ICT & Digital Barometer Q4 Report (period up to 30th September 2021)

What is interesting from the table above, is that the consolidators who have been acquiring in higher volumes more recently are those that are in the earlier stages of their private equity investment cycle.

Babble Cloud, Focus, Arrow, Wireless Logic and Air IT are all still within the first 2 years of their most recent private equity cycle, which is the period when ‘buy & builds’ tend to be the most active. Air IT, having made no acquisitions when it was under private ownership, have undertaken 8 acquisitions in the last 12 months, following its February 2020 sale to August Equity. The table above was the situation up to and including 30th September 2021, and since then Wavenet, who recently undertook a private equity transaction swapping Beech Tree for Macquarie, have completed 3 transactions, moving them into the top 6 of the most active consolidators in the last 12 months (as of December 2021).

As private equity backed buy & builds move to the later stages of their investment cycle and start preparing to exit their current private equity investor, they tend to slow down the number of acquisitions being undertaken. Typically, this is because they will not have time to effectively consolidate further acquisitions into their business, and therefore not get full value.

So, whilst you can see who the most active buyers are currently, this changes year to year depending on consolidators’ own strategy and cycle.

For businesses being acquired by private equity, the likely acquirers will also be driven by their own investment cycles, usually linked to the life of the fund, but they will also consider macro-economic conditions. They are not necessarily under pressure to invest and so will hold back if market conditions are uncertain.

Private equity will also be influenced by the other business investments they have and the number of transactions they are currently working on. Many of the regular private equity investors in the sector have limited bandwidth to undertake multiple investments at one time, and so whilst a target may meet all of the desired criteria, whether an offer is made will be influenced by resources available at the time.

If there is one buyer ‘type’ that is less focused on timing from their own perspective, and more so on the seller’s perspective, it is management buyout team. Any business owner with a good management team has the option to sell to that team if they are interested in this as an option. Despite its obvious attractions, selling to management is not that common.

At Knight, our view is that the Seller should drive the process and set out the terms upon which they are inviting offers for their business. This often goes beyond pure financial consideration to include the structure of the deal including deferred payments, roles for senior management and the plan for staff post-deal.

In conclusion

Whilst business owners may have an idea of who will buy their company, there are many factors that will influence who is likely to make the best and most compelling offer. Business owners should never assume a buyer will make the best offer. A good corporate finance advisor will always ensure that a range of buyers are approached, and know which ones will go further than others due to their current deal rationale and strategy. At Knight we have sold many businesses to buyers who were completely unknown to our clients.

Helping you navigate your next steps

If you'd like to discuss what the next step for you and your business could look like, please do get in touch – we will provide you with all the information you need.

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About Knight Corporate Finance

Now part of K3 Capital plc, Knight Corporate Finance was founded by Adam Zoldan and Paul Billingham in December 2008 with the specific aim of providing industry-leading advice and outcomes to businesses and entrepreneurs in the technology and telecoms sector.
Now a significant player in this niche, Knight Corporate Finance has built a reputation for excellence having completed over 140 transactions from its offices in London and Warrington.

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