

# Billingham on how to av

The future pathway of any business has nothing to do with fate and everything to do with strategic preparation, especially when considering exit planning where vendors must emerge as the most attractive prospect in a competitive field, according to Paul Billingham, co-founder and Director at Knight Corporate Finance.

**D**eciding to sell a business or seek investment is a big decision – perhaps an even bigger decision rests on how business leaders should go about the process of achieving their goals. There are many elements to a transaction – it is not just about price – and the overall intensity of the experience is far more complex than vendors new to the process expect. “A number of vendors underestimate how complex a transaction is until they are in one,” stated Billingham. “Due diligence and the level of information required is far more detailed and onerous than it used to be, and buyers and investors are incredibly demanding.

“Most vendors are fully focused on their business, so understanding the intricacies of a process and the range of options available is unlikely to be a priority. For most vendors, they only go through a process once, and you only really learn having gone through it. That is what businesses like Knight are there for.”

A transaction should not be win-lose, but win-win for both sides, which is another reason why Knight urges vendors to fully consider professional advice. “Deals are only successful if they work for both parties, so



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tactical approaches are key,” added Billingham. “It surprises us that some vendors try and undertake a process themselves without corporate finance advice. We always stress to vendors that if they do not choose Knight to support them, they should choose someone with the knowledge and experience to prepare and get them through a transaction. These processes are difficult,

emotional and taxing, and if anyone has any doubt as to whether to use a corporate finance adviser or not, we would encourage them to talk to someone who has been through a transaction. If the seller has an adviser it can take the heat and emotion out of a very demanding and stressful process. A good corporate finance adviser will not only ensure you have the best advice around the many

nuances of a deal, but also act as a conduit between buyer and seller, and ensure the transaction maintains momentum and any issues are dealt with efficiently.”

#### Planning time

Billingham also noted that when someone is focused on running their business day-to-day they often don't have time to think about what they want or what

they could achieve from a transaction. “They don't have time to sit back and reflect on more strategic options,” he added. “And there is often a misunderstanding as to what adds value to buyers and investors, and what detracts from it.

“There is also a lack of understanding of the wide range of options available to vendors. One thing we always like to do at the outset is fully understand what is driving the decision to start a potential process, so that we can set out the various strategic options available. Setting expectations with vendors from the start is important, and sometimes we have to disappoint people if we do not think a valuation can be achieved or a process completed at the present time. Preparation is obviously key, and as stated, this has never been more important.”

Billingham explained that every process is bespoke as all businesses, even those operating within the same sector, are quite different. More importantly, he emphasised, every vendor has a different set of priorities. “No two transactions are the same,” he added. “So we have introduced Vendor Assist, a dry run due diligence process aimed at ensuring a business is prepared for a transaction.

# Avoid a hard exit

It also highlights any potential risks to a process being successful. Vendor Assist has had a significant impact on our transactions through higher completion rates, shorter timescales and maintaining valuations."

The outlook for ICT resellers from an M&A perspective is still positive. Despite the economic impact of Covid-19 Knight Corporate Finance has completed eight transactions since the end of March, and many other deals have been completed across the sector. Valuations are holding up well and there is a good balance of buyers, investors and sellers, observed Billingham. "Private equity has retreated from

not come in until April 2021 at the earliest. "Having seen a 90 per cent reduction in the Entrepreneurs' Relief allowance in the last Budget, business owners will be wary of potential changes to the standard rate of Capital Gains Tax at the next Budget," added Billingham. "Any increases in these rates will potentially reduce the number of sellers in the market, or make private equity less attractive as an investment option, so we will be watching closely."

## Robust sector

Covid-19 has obviously impacted all businesses in the sector and created a number of challenges for M&A and investment. But

Knight's recent transaction with Union Street Technologies demonstrates how good planning and preparation can overcome unforeseen challenges, as this was a process started before lockdown and primarily focused on private equity, which subsequently switched to a trade transaction when it became clear that was the better option.

Union Street Technologies' CEO at the time, Tony Cook, commented: "I knew the process was likely to be challenging. Until we started the journey we did not fully realise how complex and demanding the transaction could be and the value of having Knight as an advisor."

## If the seller has an adviser on board it can take the heat and emotion out of a demanding and stressful process

a number of sectors since the start of lockdown, and the sectors where they see a high quality of earnings like ICT are arguably more attractive than ever, as they still need to continue making investments," he commented. "Despite the economic uncertainty from the Covid-19 crisis, and potentially difficult Brexit related challenges ahead, we see no reduction in demand from trade buyers and institutional investors for well managed profitable ICT resellers."

The biggest risk he sees to the M&A market is material changes to Capital Gains Tax, but the announcement from the Chancellor that there will be no Autumn statement means that any changes will

many of the private equity backed trade buyers in the market nevertheless need to acquire to achieve their growth plans, so Billingham has not seen any downturn yet. The situation could change as furlough schemes come to an end and the wider economy is impacted materially, he observed.

"Talking to a number of business owners recently, the Covid-19 crisis has led to some reflection on personal aspirations" he added. "Knowing your exit plan and preparing for it thoroughly does not mean that you have to execute now, but we firmly believe that those with a plan and are prepared will be able to move quickly in the event of 'Black Swan' events like Covid-19."

Knight is in its 12th year of operating almost exclusively in the ICT sector, and the company prides itself on being well referenced by clients such as Cook, but also by buyers on the other side who know that the company has integrity and runs a thorough and diligent process. "We help our clients understand what is the art of the possible and help them focus on their own aspirations for their business," commented Billingham.

"Our advice is to understand what is possible but not to focus on what deals their peers claim to have achieved or 'multiples' as these can be misleading. The only important factor is for vendors to achieve a deal that meets their ambitions and goals. This is the starting point when we begin working with a business. We will look into this in more detail at the this month's ICT Investment Forum."

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