Chapter 1 - Understanding the scope of the buyer universe

Speakers

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Transcript

Andra:
Understanding the types of buyers who might be looking to purchase your business is pivotal for any sale. Our expert panel kicks things off by defining the buyer universe and its key characteristics.

Alisdair:
The buyer universe is wider than many business owners realise, and comprises both external and internal exit routes. Focusing on external buyers, there have historically been three main options for owners of businesses seeking outside capital or an exit strategy, including strategic buyers, financial buyers, including family offices and the public exit route. Strategic buyers are large corporations that acquire other businesses to seek synergies, market expansion, or technological advancements, believing the combined entities will be stronger together. Whilst financial buyers, such as private equity firms, focus on financial returns and scalability. Taking the company public through an IPO is an option typically available to a limited pool of businesses demonstrating public company readiness.

Susie:
I would see buyers falling into one of four categories. So, you know, trade or strategic buyers, private equity buyers, or financial institutions, a management team, and that might include an EOT, an Employee Ownership Trust, and then a family for family businesses.

Purvi:
You also have some wild cards, which are sometimes great to add competitive tension in a process, such as international groups or businesses in other sectors.

Russell:
So we have a greater understanding of what the buyer universe looks like now. We asked our panel how has it changed over the last ten years?

Purvi:
In the last ten years, we've seen huge amounts of capital put to work by private equity. This has really changed things for financial buyers. The competition for assets, particularly primary deals, businesses which haven't been owned by private equity before are scarce. These are hard to come by and highly sought after. At the same time, we've seen a sharp increase in the number of family offices who are actively investing in private businesses. Meanwhile, in terms of trade buyers, a lot of industries have converged, so the definition of a strategic investor can be quite broad. This is emphasised by trends such as globalisation, digitalisation, so that net for a strategic buyer or even a wild card, becomes huge.

Mike:
The buyer universe of businesses has expanded quite a lot in the last ten years. The classic examples of private equity and trade sale are still most common, but other forms of transactions are also growing. Employee Ownership Trust sales, which act a little bit like a management buyout, but with a whole employment base taking ownership of the business are growing. Part of the reason for that is the tax breaks that are available for those types of transactions. Also, we're seeing increasing growing prevalence of what we call debt funds or credit funds that act a little bit like private equity, but with debt, and they will offer management and owners quite attractive stretch debt packages, which mean that an owner can take a lot of money off the table without diluting their equity too much.

Alisdair:
Technological advancements have also attracted tech-focused buyers, both strategic and financial. Additionally, there's been a growing investor emphasis on sustainability and ESG criteria influencing buyer preferences.

Andra:
It's really interesting to hear how the buyer landscape has developed and diversified over the years. Now, let's look at the types of potential buyers in more detail. What are the key differences between external buyers, including trade, private equity, family offices, and Initial Public Offerings or IPOs and internal buyers, for example, management, employees, and family members?

Susie:
With an internal buyer, you know, a management team or a family, they already know the business quite well, so it's a lot of the due diligence probably doesn't come up in the same way. But what you've got now is parties who were previously very closely aligned with the same goal, now acting in their own interest, which may not be aligned.

Peter:
External ones like PE, they look for an exit, they look for building on their equity, on increasing their stake, and looking for an IPO secondary sale, trade sale. And that's the key difference between internal and external. Internal buyers, so management employees, family, they look to the long term in relation to building the business and keeping it in the family or in the ownership for a long period of time.

Russell:
So we understand the key differences between internal and external buyers. But why is it important for a business owner to consider the full range of buyer types before selling?

Mike:
An owner's objective should define what type of buyer and transaction structure is right for them, but they should be informed about their options. Sometimes, we see people quite focused on one type of transaction without knowledge of what another transaction could mean, and importantly, not just how the consideration is structured, but what the post-transaction world will mean for them, their level of involvement, etc. We find working with a corporate finance advisor who can explain the different types of structures can be really helpful in helping owners consider their broader options.

Alisdair:
It's crucial for business owners to consider different types of buyers before going to market, because each buyer type has distinct motivations and valuation methods. Strategic buyers might pay a premium for synergies, while financial buyers focus on return on investment and growth potential. Understanding these differences helps tailor the marketing approach, negotiation strategy, and deal structure to align with the specific goals of potential buyers. This increases the likelihood of a successful sale, maximises value, and ensures a smoother transition post-sale. Additionally, identifying the right buyer type can help maintain company culture and protect employee interests.

Andra:
Notwithstanding the differences, motivations and objectives among buyers vary significantly. So we asked our experts: "Are certain buyers better suited to a particular type of business?"

Purvi:
Selecting a buyer for a business is like finding the right home for your business, and this is more about the objectives of the owner. So this includes what I call soft objectives, objectives that go beyond pure value maximisation.

Susie:
So, perhaps a family office investor might look for a more steady state business that's throwing off returns, you know, paying income out annually, and got a more proven track record.

Alisdair:
Financial buyers, like private equity firms are better suited for owners wishing to remain for future upside in companies with strong cash flow and growth potential as they focus on financial returns and scaling the business.

Susie:
And then a strategic or trade buyer is looking for an asset, a business, a particular kind of asset, perhaps to enhance their business. Perhaps, it's a tech business looking for a particular kind of tech that they don't already have.

Russell:
The buyer universe has clearly developed and diversified over the last ten years. The different types of buyer come with different motivations and objectives. It's clear for our experts that considering the range of potential buyer types, and understanding the potential appeal of your business to them can be a very worthwhile investment of your time. Our experts have highlighted some of the key differences between them, and we hope given some indications as to how you can identify which would be more suited to your line of business.

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