# Chapter 2 - Exploring external buyers

## Speakers

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## Transcript

**Russell:**
In chapter two, we take a closer look at external buyers, examining and comparing the different types, including trade, family offices, private equity, and IPOs, and their appeal to business owners looking to sell. We asked our panel of experts: "If a business owner wants to proceed with an external buyer, where should they start?"

**Alisdair:**
Start by clearly defining your goals for the sale, including financial, strategic, and personal objectives, and make sure to engage advisors, including M&A advisors, lawyers, and accountants to guide you through the process. Advisors can help with development of a detailed information memorandum, showcasing your business's strengths, financial performance, and growth prospects, and will include a comprehensive business valuation to demonstrate the company's worth. Identify and research potential buyers considering strategic fit, financial capacity, and track record. Use confidentiality agreements to protect sensitive information before engaging in discussions.

**Purvi:**
Any contact with buyers should be carefully considered and managed because those early conversations can pave the way to a successful transaction down the line.

**Andra:**
If you are thinking that the external buyer route might be right for your business, seeking professional advice is clearly a good place to start. In the next part of this chapter, our experts examine the different types of external buyers in more detail, starting with trade sales - where a company is sold to another business, typically operating in the same industry or sector. Now, in this type of transaction, the buyer is often looking to strengthen their market position to expand their market presence, diversify their product or service offering, or create synergies to improve their operations. It's a very common exit strategy.

**Peter:**
Trade buyers definitely have specific types of characteristics in the sense that they understand the businesses, they understand the market which they operate in, and therefore, can sometimes, see the value, see the opportunity, and business owners may choose to go for that kind of sale on the basis that they can get normally better terms potentially and better value.

**Russell:**
So on the positive, a trade buyer may bring sector familiarity, clarity of purpose, and possibly better terms and value, but that can, sometimes, mean integration with their existing operations. Next up is private equity where PE firms raise funds from investors and banks to acquire and increase the value of businesses through restructuring, growth and, ultimately, exit.

**Alisdair:**
A private equity buyer differs from other buyers and their focus on financial returns and growth potential. PE firms typically invest in businesses with strong cash flow, aiming to enhance value through operational improvements, strategic bolt-ons, and financial restructuring. They often hold investments for three to seven years before exiting. A business owner might choose this route for the potential to scale the business rapidly, access the capital and expertise, and the opportunity to retain a stake in the business for future upside. PE buyers can also provide strategic guidance and professionalise the business, making it more competitive and valuable over time.

**Andra:**
There are certainly a number of benefits of selling to a private equity firm, especially if you want to remain involved in your business, scale at speed, and have a wealth of experience behind you. Now, we look at selling to a Family Office - which is a private investment firm that manages a family's wealth. Family Offices are typically viewed as more passive investors as they're often more concerned with preserving capital rather than seeking the highest returns, and typically, they don't take control of management and operations.

**Purvi:**
What's particularly interesting about this group of investors is that, one, they only answer to themselves, so they have flexibility on transaction structure, time horizon. Secondly, they have a quick and simple decision making structure as a result of that. And they are a really exciting pool of investors to consider in a process, because there are more Family Offices investing in private markets, and there's more capital within this group being put to work to invest directly in private businesses.

**Russell:**
Family Offices as a buyer group have grown in significance in more recent times. Relatively, they're able to make swifter decisions and their approval processes are in-house, but clearly, this doesn't make their due diligence any less detailed or terms less onerous. Finally, we analyse IPOs.

**Alisdair:**
An IPO or Initial Public Offering differs from other exits as it involves selling shares of the company to the public on a stock exchange. This route can significantly increase capital, enhance company visibility, and provide liquidity for shareholders. A business owner might choose an IPO to raise substantial funds for expansion, gain a higher valuation due to market dynamics, and benefit from the prestige and credibility associated with being a publicly traded company. However, it also involves regulatory scrutiny, ongoing public reporting requirements, and potential loss of control, making it suitable for businesses ready for these challenges.

**Andra:**
Listening to our experts, it's essential that business owners looking to sell to an external buyer understand the different types of buyer and the buyer motivations. By doing so, you should be better prepared for your sale, understanding which best aligns with your objectives. You can focus on the best buyer fit and hopefully secure the best deal.

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