

# When to sell your company

## Timing is (nearly) everything

Deciding to sell your business is one of the biggest decisions you'll ever make as a founder. But just when you think the sleepless nights are over, you've got to deal with the next big question: when to sell? Finding the right moment is crucial – it can be the difference between a significant increase in value, and a sale not happening at all.

So when should you sell? Short of finding a crystal ball, there's no fool-proof way to pick a time to sell. There's always a chance your business will be subject to unpredictable circumstances beyond your control.

For example anyone planning to sell their aviation company in March 2020 might have had a rude awakening when the World Health Organisation declared a pandemic and fleets across the world were grounded. But equally, a company like Slack, which enables remote working between teams, was probably quite smart to sell to Salesforce in the midst of the coronavirus crisis – the \$27.7bn price tag certainly proves the point.

No one could have seen the pandemic coming, but fortunately, global health crises and other major industry-wide catastrophes are fairly rare. And there are plenty of indicators we can look out for with more certainty:

## 1. Follow market conditions

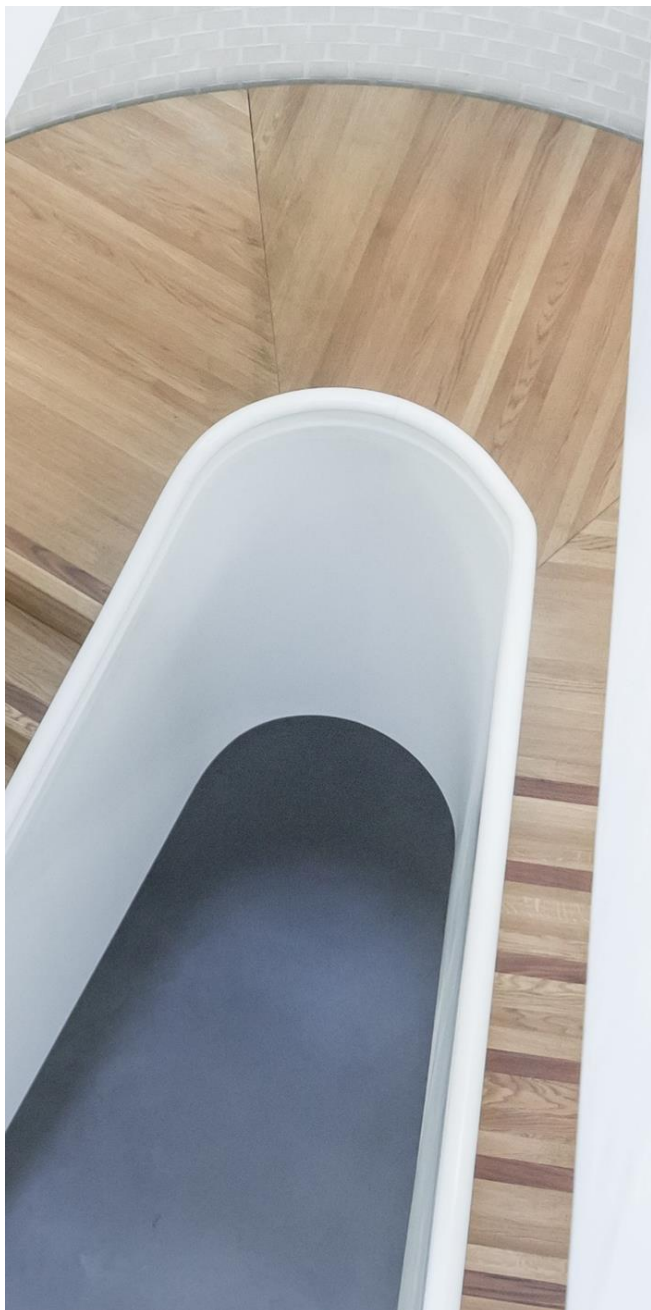
Three key points to consider regarding the M&A market:

- The more buoyant the M&A market, the easier it should be to sell your business
- The more buoyant the M&A market, the higher the valuation you should achieve
- A strong economy generally means a strong M&A market and vice versa

As mentioned, another key indicator is the economy, particularly recession periods and downturns leading to a recession.

Key points to consider regarding recessions and downturns are:

- Fewer businesses perform well, with adverse effects for the M&A market
- Attractive financial projections for a business will seem less credible
- Acquisition finance (particularly bank debt) is less readily available



Generally speaking, a downturn in the M&A market hits larger companies first – with bigger deals the most at risk. While at the smaller end of the market, there should always be a solid base of deals involving retirement sales, disposals of non-core businesses and sales of businesses which are growing by taking share in a flat or declining market.

## 2. Keep an eye on valuation bubbles

Economic bubbles have been a reality for centuries and can happen for a range of different reasons – but whether it's surrounding tulips or telecoms, the universal truth of bubbles is that they will burst. Your business can be riding high as part of a bubble one minute, and see its valuation nosedive the next.

So if your sector is experiencing a bubble, it's wise to consider exiting – even if you hadn't thought of doing so beforehand. The key to timing an exit is flexibility: so, while you may have planned to exit a few years later, if your sector is experiencing a bubble, act.

## SaaS expansion in the Legal Tech sector

The fast-growing legal SaaS firm Netmaster Holdings Limited (CaseLines) was sold to Thomson Reuters Corporation, as the business intelligence and information firm looks to expand its cloud-based software offering within the legal sector.

CaseLines is a provider of a cloud-based SaaS end-to-end evidence management platform for use across public safety, justice and the legal sectors. The platform offers a single, secure home in which to manage all types of legal evidence. This acquisition comes at a time when CaseLines has seen its services in high demand due to COVID-19 as global courts are being forced to conduct trials on a remote basis. Though CaseLines is already operational in 25 countries, and to date has conducted over 400,000 trials through the platform, Thomson Reuters will look to further expand the footprint of the company through leveraging its own global reach.

Thomson Reuters Corporation is a Canada-based provider of integrated information solutions to business and professional customers in the financial, legal, tax and accounting, scientific, healthcare and media markets.

finnCap Cavendish advised the founders of CaseLines on the sale of the business to Thomson Reuters, working closely with one of Oaklins' teams in New York throughout this transaction to achieve a great result for the client.

*"In Thomson Reuters we found a strategic buyer that shares our commitment to the rule of law. We have a proven record of enabling the courts' digital transformation in the UK. We are optimistic that with Thomson Reuters' global footprint we will be able to help courts around the world to continue to operate effectively and efficiently into the future."*

Paul Sachs, Founder, CaseLines



### 3. Remember the value of critical mass

As we've seen, external forces can play a big part in your decision to sell – but don't take your eyes off the prize – your business. You need to be thinking about growing your company to its optimum size for selling (which doesn't mean as large as possible, as the buyer needs to grow the business too). As your business grows in size, not only will it become more valuable thanks to its growing profits, but it will usually be given a higher valuation multiple on those profits. On average, profit multiples on company sales increase with the size of the deal. This is because the bigger the business, the better its risk profile and earnings quality.

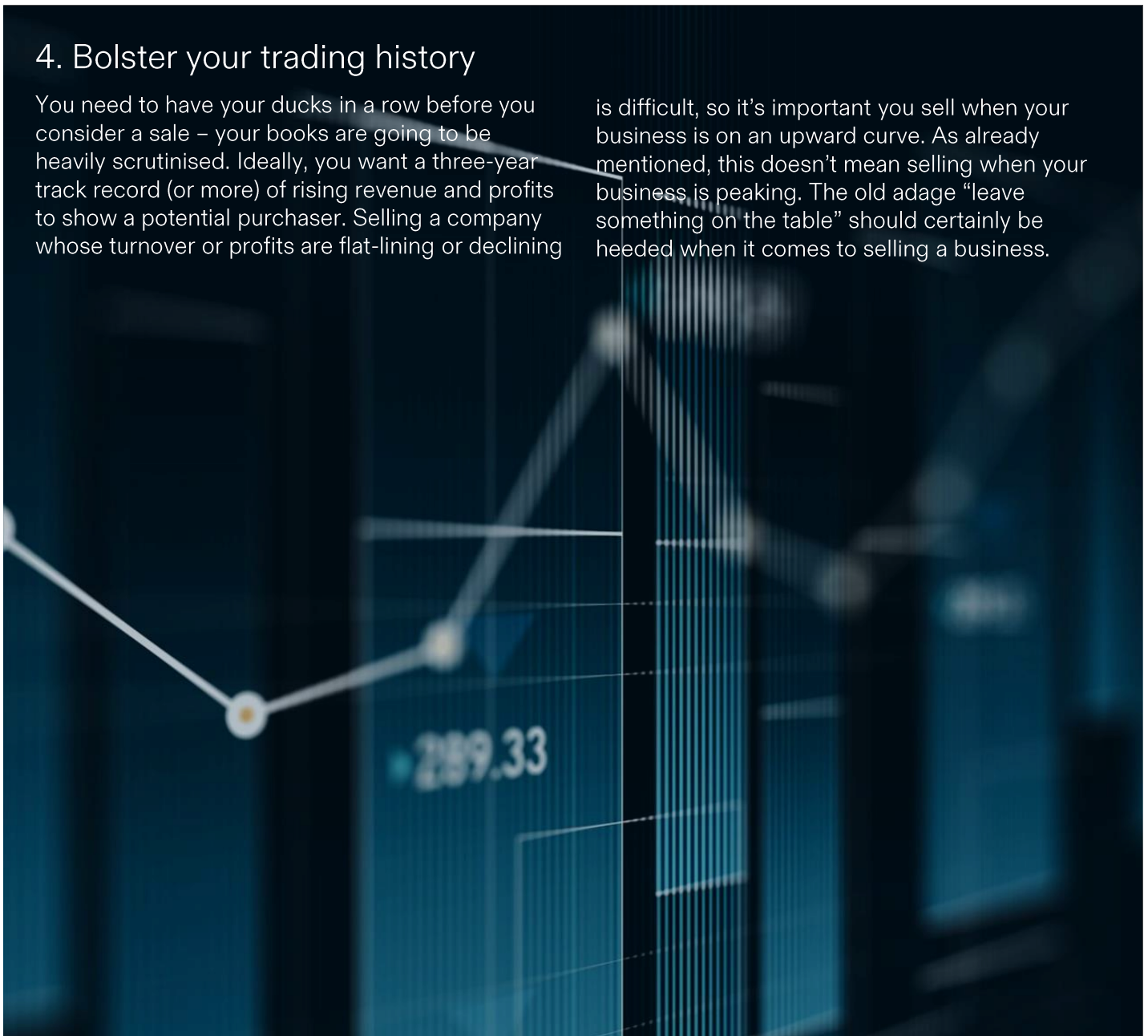
As your company grows in size, it will typically:

- Be less dependent on key people, so able to attract better management
- Have a healthier spread of customers
- Have a stronger market position and brand name
- Be less vulnerable to attack from competitors

### 4. Bolster your trading history

You need to have your ducks in a row before you consider a sale – your books are going to be heavily scrutinised. Ideally, you want a three-year track record (or more) of rising revenue and profits to show a potential purchaser. Selling a company whose turnover or profits are flat-lining or declining


is difficult, so it's important you sell when your business is on an upward curve. As already mentioned, this doesn't mean selling when your business is peaking. The old adage "leave something on the table" should certainly be heeded when it comes to selling a business.



## 5. Consider a partial sale

If you can see that the time is right for a sale but you don't feel ready – let's not forget that the emotional attachment you've built up with the company is powerful – a partial sale could be a good answer. This will unlock some of your wealth, stopping you from missing out on a potentially heightened value –

but maintain some of your ownership and the privileges this brings. It's a way to de-risk your position if a lot (or all) of your wealth is tied up in the business.



World First UK Limited (World First), a leading provider of foreign exchange, international payment and hedging solutions to corporate and private clients, completed the sale of a minority stake to FTV Capital, a US-based growth equity investor with a strong track record in payments, transaction processing and financial services.

Founded in 2004 and headquartered in London, World First provides international currency, payment and hedging solutions to its clients throughout the world. The company provides its customers with a superior foreign exchange experience by utilizing a proprietary technology platform that automates and streamlines transactions, enabling customers to enjoy better rates and faster transactions. The flexible, user friendly platform is supported by award winning customer service. As the economy becomes increasingly global, World First is uniquely positioned to address the growing international payment needs of corporate and private clients.

*"We look forward to working with our new partner, FTV Capital, a firm that has the experience and resources to help support the continued success of World First – we believe this will help us to accelerate our expansion plans significantly."*

Jonathan Quin, co-founder and CEO of World First

## 6. Steer clear of a forced sale

It may seem counter-intuitive to sell while the going is good, but ultimately, the one overriding rule in timing an exit is to sell when there's no absolute need to do so. This way you can always pull out if you're not happy with the sale price (or for any other reason). A forced sale can also give the buyer an advantage – they know you need to sell and they'll negotiate with that in their back pocket. Ill health and financial problems will always make forced sales inevitable for some. Anything you can do to avoid this scenario, such as de-risking your finances with a partial sale, is strongly advised.

## 7. Get the time of year right

While it's hard to aim for an exact date, planning your exit to time with the financial year-end is always a good idea. This way you'll have a neat set of audited accounts that shows the business in its most recent state – reducing uncertainty over the profits on which the purchase price is based and the assets are sold. Time it this way and the purchaser's accountants can carry out their due diligence while the audit is taking place, minimising disruption to the business and helping to maintain confidentiality. Finally, some purchasers may wish to have an input into the finalisation of the accounts. For example, they may want to create provisions for release in future periods to enhance the profits of the company in the period following the sale. By planning your exit to tie in with the financial year-end you can provide the purchaser with the opportunity to do so.

## 8. Embrace tax relief

As with any significant gains, the current tax regime will have a large impact on the net value of your sale. It's therefore key to include tax planning as part of the sale process. Entrepreneurs' Relief, or Business Asset Disposal Relief as it was renamed in 2020, is still important for smaller businesses but the key is the lower tax rate levied on capital gains compared with dividends or other sources of income.

Business Asset Disposal Relief provides for a lower rate of Capital Gains Tax (10%) to be paid when disposing of all or part of a business where certain criteria are met. As of 2020, the lifetime limit of the relief was reduced from £10 million to £1 million. Any gains in excess of the £1 million lifetime allowance will be subject to main capital gains tax rates of up to 20 percent, which remain unchanged and at an all-time low following the Budget. Regardless of the recent changes, the combination of Business Asset Disposal Relief and CGT rates make the current tax environment a relatively benign one for entrepreneurs considering a sale.





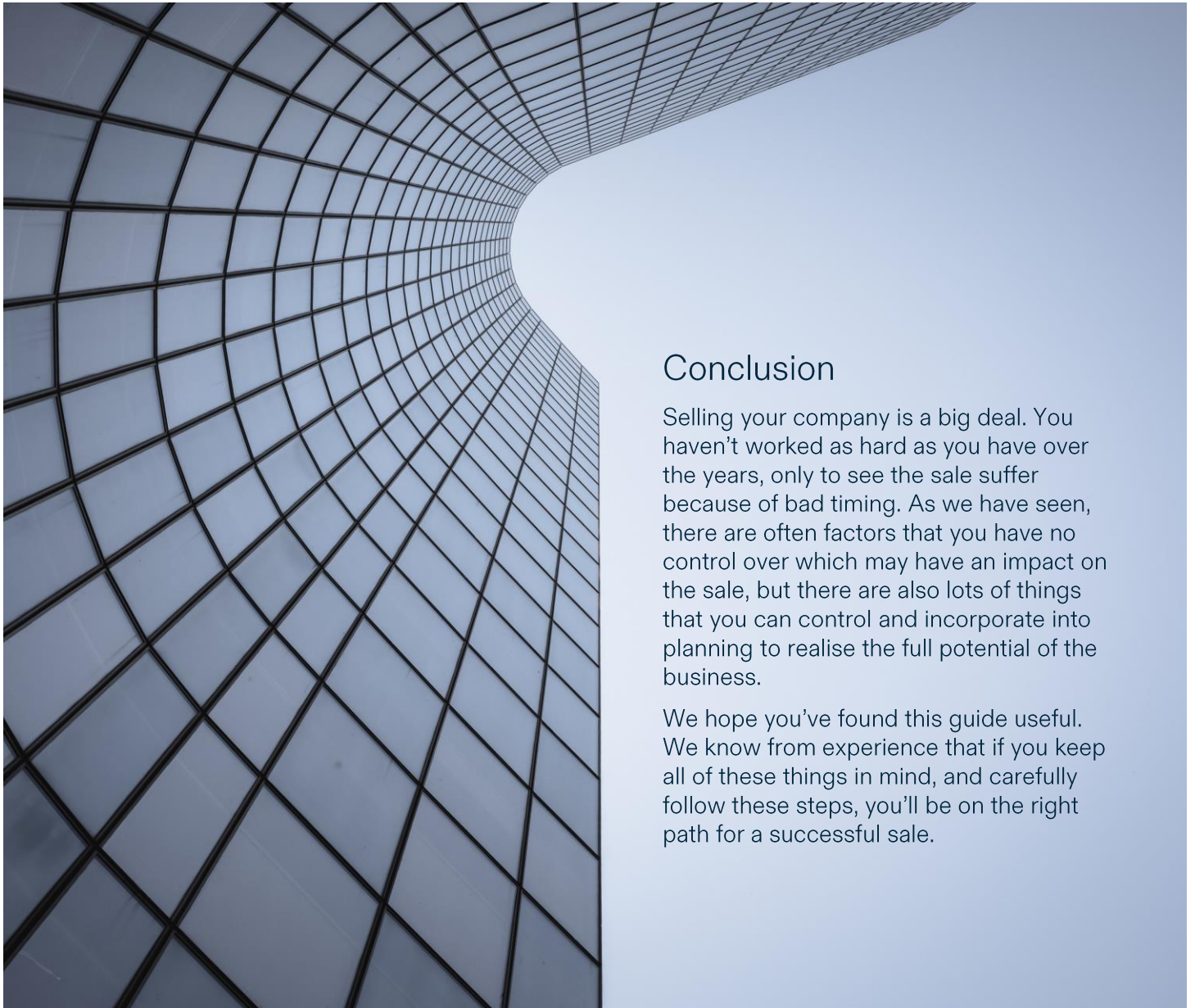
## 9. Consider splitting ownership

It's worth noting that if you split ownership of your shares with your spouse, and all of the pre-conditions for entrepreneurs' relief are met, you can realise £2m in value at the concessional 10% CGT level. Combined with the historically low CGT main rate of 20%, you can realise a significant tax arbitrage by converting the income stream from your business (on which income tax is paid) into a lightly taxed capital sum through a sale of your company.

## 10. Remember the time it takes

Another key consideration when planning your exit is the actual time it will take for the sale to be completed. As you'd imagine, it's not a quick process. Selling a business takes an average of six to nine months – although may take even longer. The planning and preparation period for a sale can start between three years and 12 months before a sale – so the earlier you start thinking about it, the better.

If you're looking to retire following the sale, remember that unless you have a sufficiently strong management team in place, the purchaser may require you to remain in the business for a year or two afterwards – so you'll need to factor that into your retirement time-line.



## Conclusion

Selling your company is a big deal. You haven't worked as hard as you have over the years, only to see the sale suffer because of bad timing. As we have seen, there are often factors that you have no control over which may have an impact on the sale, but there are also lots of things that you can control and incorporate into planning to realise the full potential of the business.

We hope you've found this guide useful. We know from experience that if you keep all of these things in mind, and carefully follow these steps, you'll be on the right path for a successful sale.



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