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Dealing with unsolicited approaches

Company owners often receive approaches from firms (private equity and trade) who are interested in acquiring their businesses well in advance of the intended time horizon for a sale. It is always flattering to receive such approaches and is an indication that others recognize your achievements and the quality of the business you have created. It also suggests that when the time does come to sell your business, you will have a number of parties who have already put their hands up as potential suitors. It is also a good dynamic when you do launch a sale process to have, as a reason for sale, the fact that you have received a number of approaches and that this has influenced your thinking behind the decision to put the company on the market.

So what should you do if you receive an unsolicited approach?

There can be considerable advantages in meeting up with or having an initial call with a prospective suitor in advance of a sale exercise including:

- as and when you do launch a sale exercise, it makes them feel they have a bit of a head start/inside track which may encourage them to devote significant attention and resource to the sale exercise
- it could occasionally result in them making a knock out/pre-emptive bid for your company (paying tomorrow's price today!)
- you can glean useful information regarding the market and their own business (particularly relevant in the case of overseas trade buyers)
- it is possible in the case of overseas trade acquirers that they indicate an intention to enter the UK market organically if they can't find a suitable acquisition target or that if you are not interested in selling, they will buy one of your competitors. This may influence your thoughts on timing if the company in question is, for example, a US "category killer" e.g. Amazon which could represent a major competitive threat.
- it may provide you with a useful insight into prospective suitors' acquisition criteria which may suggest you should modify your corporate strategy accordingly to ensure your company meets those criteria

Real World Example:

Express Finance – Dollar Financial

A great example of this was the specialty lending business Express Finance. Based on taking a couple of meetings with US strategic acquirers well ahead of sale, the owners of Express realised that their online presence was the prize and their high street outlets were not highly valued (for reasons of ease of scalability). US acquirers also wanted the credit scoring and underwriting process to be fully automated in the web platform for the same reason. Express Finance exited its high street presence at cost, reinvesting in its tech platform ahead of a sale to Dollar Financial at a high double digit multiple of EBITDA.

Some Golden Rules

- Don't seem too keen! Play hard to get and say you have no current intention to sell the company although you are frequently receiving approaches from potential suitors.
- If you do agree to meet or have an extended call on the back of an unsolicited approach, don't accept the first time suggested. Also don't' agree to go to their offices – let them come to your offices or, if there is a confidentiality issue with that, somewhere convenient to you
- When discussing your business, talk about its significant growth potential (hence you would be selling yourself short by selling the company now!) but don't provide detailed financial projections – that could come back to haunt you if and when you do launch a sale exercise if you have underachieved the numbers you have provided. Also bear in mind that in due course, the corporate finance adviser you appoint for the purposes of a sale exercise will no doubt be looking to present a number of adjustments or add backs to your actual profitability
- Never give an indication of an acceptable price – the message must be consistent that you are not for sale
- Ask lots of questions about them and get them to talk about their business and their views on the market and the competitive landscape in the UK and in the case of overseas corporates, their local market – this may help you determine whether there is an opportunity for you to enter their market
- Make a note of any unsolicited approaches you receive for future reference and if a meeting or call ensues take detailed notes of what was said
- If you are receiving a lot of approaches from private equity houses, be a bit selective in terms of those you meet. Give preference to any US PE Houses (they pay more!) and houses who specialise in your sector. Before agreeing to meet any PE House, ensure that their target valuation range matches the value you are looking to achieve on exit. Don't go overboard with meetings with PE Houses – attending too many such meetings could detract from your focus on the business and the law of diminishing returns applies.
- Guard against private equity houses who approach your management team directly behind your back with a view to encouraging them to undertake an MBO. Any such approaches should be nipped in the bud.

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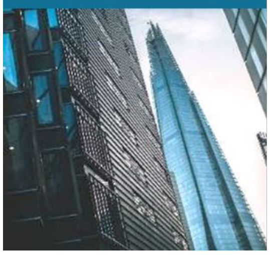

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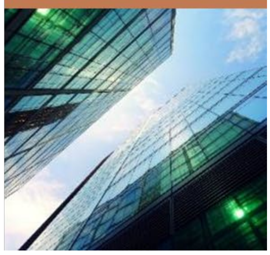

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