




THE  
Deal Diary

# A tale of woe







If you are selling your business, you are going to experience a short, intense, high stakes adventure. The transaction itself will be complex and the number of people involved will increase that complexity.

Here's how not to do it...

### *Diary chapters:*

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## Chapter 1

# Initial contact

### The Vendor

"Would you like to sell now for 12x, or sell for 9x and work on for another 3 years?" I can't believe these emails. I mean, who writes them, and do they seriously think anyone takes them seriously? I mean, if I was looking to sell my business then I doubt I would sell it to the type of organisation that sends this type of email.

But, maybe we do want to sell the business. How the hell should I know when the right time to sell is? I know I'm not getting any younger and William needs to take on my client bank, but I don't have the time to train him and I'm worried he might leave and take my clients with him. There are some great people working here but are any of them what the bank would regard as sufficiently credit-worthy? Besides, I know enough to realise that a management buy-out is a one-way street, if it fails then the last one out, put the cat out!

Wow, nice website, these guys must have a few quid. Let's see who we have here, mix of IFA legends and ex-product provider executives if I'm not mistaken. What's all this Mission Statement guff – "become the best financial planning business in the UK, leveraging the power of our people in a client-centric environment, treating customers fairly through a holistic advice-centric process" – do these people really believe this stuff? Right, I'm going to call them up, call their bluff.

Well that was weird, he was a really nice chap and seemed to know a lot about the challenges facing a business like ours. I don't usually go in for all these scare tactics, but the cost of regulation keeps on rising, I have no real clue what the Senior Managers Regime means for a firm like ours and I'm really getting tired of it all to be honest. Deal sounds really attractive too, 3 times our trail is about £2.7m, so assuming 10% tax, the wife and I get £1.9m and William would get almost £500,000 – not bad. He did say they buy the business so that must mean 10% tax. If they take on all the staff then that's all our liabilities gone and I'm playing golf in the Algarve regularly.

### The Purchaser

4 acquisitions this year – that's the target. It's all on me but the rest of the board know that I can do it. Follow the process, tick the boxes and we'll get there.

The recipe for 4 deals starts with emails to about 1,000 firms. Should get about 2% response and of those 20 firms I should be able to get 5 sufficiently interested to get 2 to heads of terms. That's the sweet spot where the Vendor's emotions and greed take over and my hit rate rockets – winner, winner, chicken dinner!

This data sheet is pretty meaningless on its own, so thank the lord for the FCA Register. I've found some great looking firms and managed to cobble together my 'death list' of firms that absolutely must get a well-timed phone call from yours truly. Definitely the most sole-destroying aspect of the job, but a necessary evil if you want to line-up multiple deals.

What a start, I'm getting my list together and someone calls me – I prefer it that way round. Nice bloke, business sounds quite nice, but not too nice – don't want to be overpaying now do we. In many ways he was the classic IFA owner, probably great at being an IFA and I'll bet his clients love him, but not really a businessman.

I'm always amazed when people swallow 3 times trail and set up a meeting without asking what 'trail' means, how it's paid, how the transaction is structured, taxation, guarantees and so on. I'm pretty sure he doesn't realise that we are not buying the shares in his company, just the assets. I bet he'll wriggle like mad when he realises that there is no guarantee on the money he's not getting up front and I doubt he will appoint a solicitor now, even though I'm repeatedly telling him to do so for his own good. Oh well, another 'fish and chip deal' starts here – game on!

# Chapter 2

# Meetings

## The Vendor

I meet new people all the time and yet somehow, I'm nervous. As I sit here sipping my hugely overpriced, oversized, overloaded Latte, I'm wondering if I should have told William I was meeting these people. No, let's get some information and then talk. William is a 'techie' so he likes to be presented with all the facts. Get a grip Eddie, it's just another bloke in a suit, nothing to worry about.

Jackpot. This looks like a good deal to me. Jonathan is a nice chap and he seems to be right on top of all the key issues for IFA owners right now. I liked his presentation style and almost all of what he said made sense. They seem very active right now and I just hope we can get this deal before he speaks to too many other IFA firms and gets tied up in other deals. I'll have to arrange a meeting with William to run through all this and get him in front of Jonathan. I can't believe how keen I am to take this deal and ride off into the sunset. I'm so tired.

So many questions from yesterday's meeting. Talk about sleepless night! Do the staff get same terms, do they take the office lease on, will they take care of insurance, are William and I going to be registered? And top of my list, why won't they pay a multiple for our financial planning fees? I know it's not as stable as fund based but it's not completely worthless! Surely they will be a bit flexible on that. They need to be, as it will be £100k this year, so if they exclude it we lose £300k off the price for the business.

Well, I think William took that quite well. I was a bit shocked to hear him say that he had considered leaving last year. I know I've been slow to hand over my clients, but I didn't realise he was that fed up. Not sure if I should have told him about the financial planning fee thing. I think on balance it's better for him to meet Jonathan and see the Hoover & Co operation, before getting into too much detail. He wanted to quit last year – I can't believe I didn't realise that!

## The Purchaser

Well, the mailshot went well, loads of responses and I've got a little admin bod to sort the rubbish from the good stuff. I reckon I got around 2% total enquiries, but obviously some of them will be tire kickers and there's always plenty of muppets, but I should end up with enough leads to hit target. 5 new firms to see this week – rock and roll...

Right, whose next, Eddie Exeter of Eddie & Associates – oh yeah, he called me, low hanging fruit this one! There he is, nursing his Latte and pretending to be busy on his phone – texting the wife probably! Right, show time.

"We buy the business as a going concern. We take on all the staff, probably premises and other bits and bobs, depends on the final deal. We pay 3 x trail. You get up to one third of the total consideration in cash, subject to a discount factor, bit like initial commission, you get another third in shares in Hoover & Co, which will be worth a fortune in 5 years time when we sell everything on and the final third is earned out over 2 years. Sounds good? Great.

Excellent meeting there. These guys need to sell and I'm talking to the right guy as Eddie is the majority owner and looks like he's on his last legs. His partner won't be easy to convince, as he's got more qualifications than a 2 headed Harvard graduate and will want to drill into the details. But money talks and that's the bottom line.

## Chapter 3

# Heads of terms

### *The Vendor*

I can't remember the last time I actually sat down with a client! Selling the business has literally taken over my life, and my wife. Its all very well getting the wife involved in the business for tax reasons, but when the firms grown to this size, decisions need to be made and she is a major shareholder, which actually complicates matters, given that she can't really tell one deal from the next – now if they were handbags it would be a different story!

I'm amazed at where we have ended up after almost 9 weeks of to and fro. The original offer was 3 x our trail, which came to about £2.7m plus about £100k net from the balance sheet. Then we find out that's to buy the 'business'. Now if someone says that to you, you'd think they are buying the company, I certainly did. Turns out 'business' means just that, bits and bobs that make up the business, but not the shares in the firm. Obviously we want a 10% tax rate and we don't get that if we don't sell the shares in the company, so that changes the deal completely.

Apparently buying the shares is way more risky and after a week or so with no word at all, Jonathan finally comes up with an 'alternative deal' for special situations where Hoover & Co might actually break all their rules and buy the shares in a company. This seems to be a deal based on our profit and they've just made an offer at £1.8m without explaining how they got there. From the first conversation I had with Jonathan I've come down by almost £1m. Nothing has happened to the business in that time, but I feel like I've lost that money and I'm not sure we got anything in return!

And the worst thing is that William and my wife now want to do a deal and don't think £1.8m in the current market is that bad. I've ended up between a rock and a hard place and I won't be able to back out of this one in a month of Mondays'. Oh well £1.62m after tax, split between William and I is not that bad. I guess we sign up and go to the next stage. William is keen to do this as he's got so many questions about Hoover and Co and Jonathan has asked him to wait until the due diligence stage.

### *The Purchaser*

That has to be the fastest negotiation I've done, from flash to bang in 9 weeks! Thank god for minority shareholders and wives. You can always count on the wives to push deals forward. They get their husband under their feet post deal, until he takes up a hobby or has an affair or something, but the payback is plenty of spending money and a few more nice holidays each year.

I thought this deal was going to fall over when I hit them with the first offer and they realised we weren't buying shares. Oh well, out with plan A and on to plan B and were back on track. I'm always amazed how emotional vendors get and how once they get into it, they will accept all sorts of rubbish offers, packaged up to look good.

I will need to be careful about this William chap. He's come up with a huge list of questions and some of them indicate that he might actually know what he's doing – real pain when you get one of them. Once we get into due diligence and I get our team in there to pull the drains up, the focus will be firmly on how bad their business is and how much of a favour I'm doing them in parting with £600k cash, a few shares and an earn out based on performance – woops, I mean £1,800,000 total consideration constructed as a mixture of cash, shares and performance related earn-out. Caught myself talking like a human being there for a second!



## Chapter 4

# Due diligence

### *The Vendor*

The Hoover & Co due diligence visit has been booked for 3 weeks now and I only received the list of items by email today. The process starts in 2 days time and the list seems endless. It's just a little IFA business, not some multi-national conglomerate. Feels like a hammer to crack a nut. Reading this list does make me realise that some of our operational stuff probably doesn't appear to be born out of a well-constructed strategy (using multiple platforms, dealing with clients on all different basis, IT systems all over the place – the list goes on). Hope this doesn't put them off too much.

Wow, what a mission. 2 solid days of pulling all this stuff together in one room, ready for tomorrow's start. William and I were just looking at some of the folders before we left the office and agreed that there will be some explaining to do. It's all very well telling anyone that will listen that you are a fee-based financial planning firm, but when you're looking through files and there are no financial plans, well, the whole thing feels more like an aspiration than a reality.

Miller time. Friday night and it's all over. Let's hope the deal is not all over too. I really have no feel for how that went at all. We had Jonathan doing all the hand-holding for Hoover & Co and his 2 gunslingers asking all the tough financial and compliance questions. I'm left with more questions than answers right now and William is angry that there was insufficient time for him to get answers to his questions about Hoover & Co. He has also expressed concern that if this deal falls through, the entire process has become a matter of record and we are both agreed that we didn't handle it very well. All very worrying, I haven't seen many clients lately and new business has taken a hammering as a result. No doubt they will pick that up in the management accounts.

### *The Purchaser*

Day one of the due diligence process and there were lots of worried expressions at Eddie & Associates this morning. Oh well, that's normal as they don't really know what to expect. Once again we are masquerading as Auditors. Surely the staff in these firms realise that firms of this size don't need an audit. Piles of folders to work through, so it looks like they have pulled out all the stops to get prepared. Most of them look new though; which is a sign that maybe they didn't have all this to hand two days ago.

The end of day one and I'm sat in my budget hotel, waiting for the chuckle brothers (that's the compliance officer and the financial controller) to get ready so we can go and eat. I need to get into the financials a bit more tomorrow, get some more answers on the lack of management information and get into some client files, so we can find out a bit more about their clients.

Finally done after two, fourteen-hour days it's all over. Conversation in the car home was interesting. Our financial controller was pretty happy with what he found; only noting that income had dipped recently and that the balance sheet didn't look that strong. My compliance guy was very cautious, noting that although they had most of the tick-box bits covered, there was little to demonstrate that they had made any kind of transition to a real financial planning business, which is what Eddie & Associates are selling themselves as. I'm not sure this business is worth £1.8m, but I need to gather my thoughts and then report to the board.

## Chapter 5

# Negotiations

### *The Vendor*

I can't believe the conversation I've just had. Jonathan must think I've got rocks in my head or something. There's definitely something wrong here. They want to drop the offer to £1.5m and their only justification is that they cannot be sure about some aspects of the business, because of our lack of management information. I mean, it's not like they found Shergar in the stationery cupboard or something.

So that's it then, the deal is dead. I do feel a bit sorry for Jonathan, as I think on the whole he has tried to play a straight hand. But the deal on the table now is so far away from the original offer that it's impossible to go ahead. We started at £2.8m and we are now down to almost half that. I don't think Hoover & Co realise the significance of chopping this deal in half and how that affects William and I. William – wow, he's going to throw some shapes when he hears about this!

It's at times like these that I'm reminded just why I wanted William to succeed me. He's a smart guy and keeps his powder dry when I tend to have a knee jerk reaction. We seem to be agreed that the deal is probably dead but I like William's idea of going to the next stage and getting the legals produced. If they delay or refuse then it's over anyway and if they go ahead and produce something ridiculous, we can hammer them with it and walk away with our heads held high. At least it won't look like it was our fault if we ever have to explain this horrible mess to another buyer.

### *The Purchaser*

I hate board meetings, particularly when our investor is there. I get on really well with the MD and although I've not known the finance and compliance chaps that long, I do understand them. But the investor speaks Spanish as far as I'm concerned. "If we buy this business at this price, when is the payback and does the projected return exceed our agreed hurdle rate? Just speak English man. It's a good little firm, the numbers stack up and it's what we all agreed we wanted as an acquisition target.

I can't believe our board meeting ended the way it did. The problems in Sales are causing me a major headache. We have to service debt introduced by the investor as part of our deal with them, which means if profit dips we are potentially in trouble. "Go back and offer them £1.5m" If the MD doesn't want this deal then we should tell the Vendor and walk, not chip them and drag our heels for weeks on end. How do I go back to them and offer a lower amount, without any real justification for it?

Called Eddie today and it did not go well. That said he did not dismiss the revised offer completely, so let's see what happens. This deal has got to happen for so many reasons. I've had two deals collapse this month, I'm miles behind my personal targets and I'm working harder than ever. I'm never at home and I seem to be watching my children grow longer.



## Chapter 6

# On the rocks

### *The Vendor*

So, we now have clarity on our final remaining questions and the deal looks like this. Consideration is £1.5m, so £500,000 in cash (charge for cash waived), £500,000 in 'shares' in Hoover & Co (non-voting D class shares) and the final £500,000 is paid to me and William over 3 years and is dependent on our performance as advisers. We get basics of £70,000 each but we have to do 3 times our total package before we see an override at 30% of the balance. Looks like we will need to increase costs to clients.

Our legal arrangements mean we could be hit for a maximum of £250,000 each in warranty claims if it turns out that anything's not quite as they thought it was in due diligence. We get no loan notes and no guarantees, so if Hoover & Co goes under we loose the remaining consideration, which is two thirds. We have to provide indemnities (legally binding promises) about pretty much every aspect of the business and they have the right of offset, if they need to claim against us on an indemnity, or indeed a warranty. Oh and they appear to be able to fire us under our new employment contracts if we step out of line and we have no protection under the sale and purchase agreement and could loose more than we started with. Where do I sign?

So, Hoover & Co's accounts have just been published for the last year and it's a horror story. They've made a whopping loss and are propped up by their investor, who refused to meet with us.

### *The Purchaser*

Well, the deal is still on – just. Briefed the lawyers last week and the sale and purchase agreement and contracts of employment should be with me later today. Hopefully they've done a tenancy at will so we don't have to re-negotiate the entire lease for the office in the middle of this deal. Whatever they've done, they will be charging like wounded rhinos – that's for sure!

Well, I've read everything a few times and it all looks similar to the documents we use all the time. Why it cost £15,000 to produce I do not know. Anyway, let's just pray Eddie doesn't get too worked up about the lack of loan notes for the deferred payments and the commercial warranties section, which always raises a few eyebrows.

A good day today, spoke to Eddie and William on a conference call and they sounded pretty positive. I will need to dig a bit deeper into their questions around the indemnities they are giving Hoover & Co and the interaction between the sale and purchase agreement and their employment contracts. Wonder if they've taken legal advice yet?

## Chapter 7

# Game over

### *The Vendor*

Jonathan seemed completely beaten by the news that we were pulling out and I do feel for him as it's not his fault. I feel a huge sense of relief that this nightmare process has come to a close, but I also feel very angry that it soaked up so much time. I lost one of my best clients while this was all going on and if I'm totally honest, it was my fault as I was focusing on this bloody deal. My wife wants to string me up and William is pretty angry with everything and everybody. I need a holiday more than anything, but that's the last thing I can do right now. I need to work with William to get things back on track, deal with all the rumours in the office and call a few clients back, maybe make some money.

Well, we still have a viable business so it's not all bad. Amazing that eighteen months of daily contact with Jonathan at Hoover & Co, stops with a single email from me to him, telling him with much regret that we are out. He didn't even reply. Not much to say I guess.

If William and I work together to get my clients under his management, we can have another look at a sale in three to five years' time. By then, William might even be able to buy the business himself. That's what I'd really like to see happen. I hired William, trained and mentored him and he takes over. That's a great story for clients and the absence of any third party means I can do the deal behind closed doors.

Good news; William is up for it so it's game on. Let's hope we don't get any major shocks that demand capital investment in the next few years. I'm still concerned about the risk of William leaving and client's following him, but what else can I do. Feels like a plan, so best get my head down and crack on. What a nightmare this whole episode has been. Still, you live and learn.

### *The Purchaser*

Right, who's next?

## Chapter 8

# Final thoughts

### *High stakes. Be prepared.*

This is a cautionary tale. It's a work of fiction, but sadly, it's inspired by the direct experience of hundreds of real transactions. Selling a business is complicated and for the owners, the stakes will rarely be higher. Going into this process unprepared is a bit like jumping out of a plane without a parachute. With skydiving, you absolutely know what is going on, with business sales, not so much. As with many things in life, awareness is key and proper preparation and planning, prevents poor performance.

If you are thinking of selling your business, Kingmakers can help you find the right buyer and navigate your path through the deal, while avoiding the pitfalls highlighted in this tale.

Get in touch or go to [www.kingmakersgroup.co.uk](http://www.kingmakersgroup.co.uk) for more.

And good luck.



A man who views the world  
the same at fifty as he did at  
twenty, has wasted thirty  
years of his life.

— Martin Luther King



