



TEN COMMON VALUE DEPRESSANTS

Here are the ten most common worries buyers have about acquisition targets, in our experience. Buyers need to be confident that a business is sufficiently strong to survive and prosper after change-of-ownership and integration. The less confident buyers are, the less they want to buy and the less they want to pay. So it makes sense to take remedial action in advance of any sale attempt.

1. Poor or inconsistent profitability

Any buyer wants a good return on his investment (“RoI”). The lower or more uncertain the profits, the lower the price will have to be in order for a buyer to achieve his target RoI. And the greater the risk of business failure in a downturn.

2. Key person dependence

If a business relies on key individuals, any buyer will be concerned about its future without their continued presence or commitment. This is a common problem among businesses still managed by their founders. Unless a second tier emerges, capable of managing without the original key people, the business may be completely unsaleable.

3. Obscure financial history

Personal expenses put through the business, accounting changes and acquisitions can all make it difficult to present a clear, attractive picture of the past performance of your business, and its future. So do what you can to establish a like-for-like statement of historical financial performance on a consistent basis with your projections, remembering to add back expenses in excess of strict commercial requirements.

4. Weak financial control

If budgeting and cash flow management have been weak in the past, how can a buyer have confidence in your projections?

5. Mediocre Management Information Systems

Do you have good systems in place to deliver accurate and timely leading and trailing indicators of your business’ performance? You should!

6. Key customer / supplier dependence

If a business is heavily reliant on a few customers or suppliers, buyers will be very wary. Every effort should be made to broaden the customer base, and supply base, before attempting sale.

7. Uncompetitive products or pipeline

If current or future products and pricing don’t stand up to rigorous comparison with competitors’ offerings, the company is in danger of losing market share, growth and profitability.

8. Small size or small relative market share

Buyers tend to equate small size to small relative market share and high risk. Growth and differentiation are the main ways out of this predicament – but take time to achieve.

9. Inadequate legal protections

- **Contracts:** Buyers worry that verbal understandings between customers or suppliers and current management might not be honoured post-transaction. And “change of control” provisions in existing contracts spell risk for a buyer. So get a commercially-minded legal review of these matters sooner rather than later.
- **IP protection:** If any intellectual property on which the business relies is not adequately protected and policed, the buyer may face unexpected competition in future. The sooner these worries are addressed, the better for you and for any potential buyer.

10. Inadequate tax planning

Some arrangements for minimising tax at the company - or shareholder levels take time to put in place. Avoid the agony of paying too much tax by starting to plan early on.

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