Trade and Private equity are actively seeking Companies in the Payroll and Human Resources market

Now, more than ever, the Payroll and HR businesses are attractive for trade buyers and private equity investors for two headline reasons. First, these sectors focus heavily on recurring ("subscription") income which supports a highly attractive economic model with strong forward revenue visibility. Second, rapidly evolving business models are making the concept of "employment" extremely fluid and employers need high quality payroll and HR solutions to support this evolution.

This attractive positioning is why, with proper support and planning, you have the opportunity to take advantage of the value you have created. This is the third in a three part series designed to help you plan ahead to secure the personal and financial satisfaction that comes with sale of/investment in your business.

- ***Part One – Understand the value of your business,***
- ***Part Two - How to position your business to potential buyers/investors***
- ***Part Three - Best Practice to optimize the outcome of a transaction***

PART THREE: BEST PRACTICE TO OPTIMIZE THE OUTCOME OF A TRANSACTION

We concluded Part Two with the recommendation to look at your business through the eyes of an investor and to be prepared with professional governance and business plans. This Part Three of the series focuses on best practice behaviors in managing your business leading up to and during a transaction and identifies the activities that support a successful deal.

- **Start early –** plan to provide updates and documents in a structured and consistent manner throughout the transaction process. Understand that you will have three primary responsibilities for an extended period during a transaction process namely (1) staying healthy and having emotional and physical capacity for your personal life, (2) leading the business and (3) supporting the transaction. Best practice is to engage an Advisor to lead the transaction process at least six months in advance of commencing the process so that your Advisor knows your business thoroughly and has established a solid foundation of trust with you. Your advisor can then act as your designated lead for critical aspects of negotiation, due diligence and transaction related activities.

- **Detailed financial data and models/forecasts –** In Part 2 we spoke about the critical need for robust and transparent financials. Thinking specifically of your own individual goals, and especially in the context of a transaction where you will retire post sale, you should detail all 'non continuing' costs (both one time and recurring) related to you the founder. This information should also detail other one-time costs that will not occur in the future, and, subject to being validated during due diligence, will be positive adjustments to EBITDA. All of this information should be for the Last Twelve Months (LTM) and roll forward into a monthly forecast for the Next Twelve Months (NTM). 'Adjusted EBITDA' will be a big influence on your valuation.

- **Be a smart buyer of professional services –** there are a variety of professional services that you will leverage during the course of a transaction including legal services, tax advice, and accounting/financial analysis support. We recommend scoping the work carefully to allow your potential advisors to quote accurately for their services. Negotiating staged payments can ensure that you don't over-invest in advance and only pay for what you receive as you progress through the process. Best practice is to engage advisors whose core business is to serve founders of your type and businesses of your scale and enterprise value. Make sure you select carefully the specific individuals who will support you.
- **Know what you do and don't want to be doing after the deal is concluded –** This is perhaps the most important topic for you to consider because you have the opportunity to shape a deal to meet your individual future plans and ambitions. Do you want to move on to a portfolio career and have a more non-executive Board role? Are you still ambitious to drive the business forward as the CEO actively responsible for delivering growth and are you 'just' looking to de-risk and 'take some chips off the table'? Would you enjoy working as a divisional leader in a corporate environment? Do you want to walk away from the business and pursue a new career or interest entirely? Answering these questions before you start a process is critical (and the answers can and should be different for each founder in the case of multiple founders) to shaping expectations going into a transaction and ensuring you achieve your individual goals.
- **Understand your potential investor ecosystem –**Having understood 'what' you want to do individually post transaction, you can then approach the different buyer and investor ecosystems we discussed in Part 2 with clarity. For example, trade buyers may well look to integrate leadership teams and a founder aspiration to retire is helpful for the buyer as they know integration is more straight forward and helpful for the founder as founder costs can be added back to EBITDA helping to bolster valuations. Alternatively, financial Investors are often looking for Founders who are looking for a 'partial' liquidity event and who have the desire and capability to lead a business through a significant period of growth.

- **Educate yourself on deal structures and your own appetite for risk –** Deal structures can vary enormously. Cash, loan notes, equity, sweet equity and earn outs can all form part of an offer with each element coming with different attributes of risk, potential for upside and tax charges. Educate yourself on the topic and make sure you have advisors on hand to help you accurately compare and contrast apparently wildly different offers.
- **Spend time on tax planning –** Engage a wealth manager to advise you personally and help you identify tax planning that you may be able to appropriately execute upon in the time available before a transaction. A wealth manager will help you think through your own position, generation planning if appropriate and help you think through impending changes in the tax code.

As advisors to founder based businesses, we know that every business and founder is different facing their own unique opportunities and challenges to optimize their value. We work with founders over a period of time to ensure they are poised to take advantage of buoyant seller's market and are personally and professionally ready for the next phase of their lives. Over the last 5 years Acresis has helped Founders realize over £450m of liquidity, and whilst this is only one measure of success, we are very proud of this.

We hope this three-part series has provided insight into the value of your business, the steps you can take to enhance/increase value to a buyer/investor, and the best practice required to shape the optimal outcome for you as a founder.

To explore more on current market dynamics and options for your business, please contact us here or you may also discover more here on our website.