

The Deal Diary

Created by



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Brief

The Deal Diary is a series of 7 articles providing readers with insight into the various stages of the sale and purchase of an IFA business. This document contains all 7 articles and valuable 'lessons learned' notes for future vendors.

With over 30 transactions undertaken to date, the author Rob Stevenson provides rare insight into the day-to-day experiences of those involved in a transaction of this nature. The Deal Diary was published by Citywire in their New Model Adviser publication between April and November 2009.

Concept

The Deal Diary covers 7 critical stages in a transaction to sell an IFA firm, from both the vendor and the purchaser's perspective. The diary reflects on the same experience from either perspective, thus providing some valuable insight into what is said in these circumstances, and perhaps more importantly, what is actually meant.

The Articles/Stages

The Deal Diary is split into the following key stages in the process: -

1. Initial Contact
2. First Meeting
3. Heads of Terms
4. Due Diligence
5. Negotiations
6. On The Rocks
7. A Deal At Last

Clearly there are many different 'steps' in a transaction and these articles have been created to reflect the critical points of interest.

Firm Profiles

The basic profile of each firm is as follows: -

The Vendor

The Vendor is a business called Smith and Jones, an IFA firm based in Bristol with the following key information: -

- 4 shareholders (Smith and Jones and their wives)
- 16 staff total (including Smith and Jones but not their wives)
- 8 advisers (6 employed and 2 self employed)
- Turnover of £1.5m for 2008 (steady for last 3 years)
- Pre Tax Profit of 10% for 2008
- Recurring income of £300k for 2008
- Estimated FUM of £300m

The vendor is not actively looking to sell this business.

The Purchaser

The Purchaser is an IFA consolidator called Hoover & Co, based in London with the following information: -

- 4 shareholders (including an investor)
- Lead negotiator is an ex-IFA
- 120 staff (constantly moving target due to aggressive expansion)
- 60 advisers (employed vs self employed not disclosed)
- Turnover of £7m for 2008 (projected much higher for 2009 onwards)
- Pre Tax Loss of 2% for 2008
- Recurring income of £1.8m for 2008
- Estimated FUM of £900m

The purchaser is actively looking to purchase multiple IFA businesses.

Article 1 – Initial Contact

The Vendor

“Are you interested in selling your business”. I’ve seen so many of these letters now that the message is a bit like “are you looking for cheaper car insurance”, annoying, intrusive and pointless. I mean, if I was looking to sell my business then I doubt I would sell it to the type of organisation that sends mailshots like this letter so obviously is.

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 nor is Chris. 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, ex-product provider executives if I’m not mistaken. What’s all this Mission Statement guff – “leveraging the power of our people in a post-RDR 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 RDR is a huge issue for us and the capital adequacy situation would definitely finish us off. Deal sounds really attractive too, 5 times our trail is £1.5m, so assuming 10% tax Chris and I get £675,000 each to retire on – 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.

Not sure I should have set up a meeting there and then but never mind. Hope Chris doesn’t mind. Playing golf with him tomorrow. Think I’ll let him win a few holes and then bring it up, 6th tee sounds about right.

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 a mailer to about 1,000 firms. Should get about 1% response and of those 100 firms I should be able to get 20 sufficiently interested to get 5 to heads of terms. That’s the sweet spot where the Vendor’s emotions and greed take over and my hit rate rockets – chicken dinner!

This data sheet is pretty meaningless on its own, so thank the lord for the FSA 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 5 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’ll 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, 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!

Article 1 - Lessons Learned

1. There are a few rules to this game. Have a plan and if you don't, get one. Everything that happens becomes a matter of fact and if the deal doesn't happen it's all a matter of record, which can affect a future deal.
2. Sign a non-disclosure document now. Any prospective purchaser should have one for you to sign. You will be divulging potentially sensitive information so it's best to do this right at the start. Confidentiality is often covered in the Heads of Terms but if you never get that far then you are not covered.
3. It should go without saying, but don't respond to mailers like this if you have not planned to sell the business now. You probably haven't sold a business before and you are likely to get pulled into a negotiation which will have a momentum all of its own.
4. The nice chap on the other end of the phone is selling you something and its best if you remember that. The website, letterhead and everything else are designed to appeal to you, so don't be surprised when they do.
5. Buyers and sellers come and go, so don't be swept away because someone's sent you a letter. They send letters to thousands of firms and you're not special at all, well not a this stage anyway.

Article 2 – Initial Meeting

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 Chris I was meeting these people. No, let's get some information and then talk to Chris. He's a 'techie' so he likes to be presented with all the facts. Get a grip Alan, 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 Chris 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 Chris and I going to be registered? And top of my list, why won't they pay anything for our regular premium renewal commission? 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 accounts for around 20% of our trail income. If they exclude it that takes the base figure of £300,000 down to around £240,000 and on 5 times, the difference to the price for the business is £300,000.

Well, I think Chris took that quite well. I was a bit shocked to hear him say that he had considered giving up completely last year. I know the PII renewal and some of the FSA stuff was a bit of a pain, but I didn't realise it had hit him that hard. Not sure if I should have told him about the renewal commission 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 about 35 firms to see in the next few months. 10 new firms to see this week – rock and roll...

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

"We buy the business as a going concern, acquiring all the commission generating agencies by novation. We take on all the staff, probably premises and other bits and bobs, depends on the final deal. We pay 5 x trail, no renewals though as they are worthless. 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 Alan has the old 'GCSE Woodwork' qualifications so post RDR he's screwed. His partner won't be easy to convince, as he's got more qualifications than a 2 headed Harvard graduate and will want to know the in's and out's of a duck's do dars. But money talks and that's the bottom line.

Article 2 – Lessons Learned

1. Plan ahead and don't go in blind. Do some research on a 'deal' and get together a list of key questions, something like the following: -
 - a. How many deals have you done, when, sizes, successes and failures?
 - b. Walk me through a typical deal – key stages, timescales and so on...
 - c. Take me through the proposed structure of the deal.
 - d. How many aborted deals have you had in the last 12 months and what were the main reasons?
2. At this early stage you want to find out as much about the prospective purchaser as you can. Do your homework before and after you meet them. Download their accounts from Companies House and read them, asking questions at the meeting. Check them out on the FSA Register (take care if they are not authorised) and Google the names of all the key players. If they are serious then they often come up on Google searches and the forward thinking one's have LinkedIn profiles, which are very revealing when it comes to who these people are linked to!
3. Ask other industry contacts too, broker consultants, other IFA's, journalists and anyone else you can think of.

Article 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 wives involved in the business for tax reasons, but when the firms grown to this size, decisions need to be made and they are major shareholders, which actually complicates matters, given that they 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 5 weeks of to and fro. The original offer was 5 x our trail, which if you discount renewals was £240k, so £1.2mil total. 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 have offered 7 times the profit figure, which works out at about £1mil total consideration, with 10% tax to pay. From the first conversation I had with Jonathan I've come down by a third from £1.5mil to £1mil. Nothing has happened to the business in that time, but I feel like I've lost £500,000 in 5 weeks and I'm not sure we got anything in return!

And the worst thing is that Chris and both his wife and mine now want to do a deal and don't think £1mil 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 £900k after tax, split between Chris and I is not that bad and still works back to 3 times our total ongoing income of £300k and that's what most people have told me is the 'norm' for deals like this. I guess we sign up and go to the next stage. Chris 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, which is next I guess.

The Purchaser

That has to be the fastest negotiation I've done, from flash to bang in 5 weeks! Thank god for wives getting involved in businesses. 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 Chris 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 £350k cash, a few shares and an earn out based on performance – woops, I mean £1,050,000 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!

Article 3 – Lessons Learned

1. If you have not done so already, appoint a lawyer with experience in this field. If you want a recommendation then look for links on the Kingmakers website.
2. When negotiating, know your boundaries before you start and stick to them. Think of it as an auction, know your limits and if in doubt, don't bid.
3. The amount of cash you receive on the day of completion is effectively all you can count on in any transaction, so make sure it's enough. If you can arrange loan notes for the balance then you should do so.
4. If you are offered shares in the purchasers business then ask yourself this questions "do I want to invest in this business and would I be buying shares with my own money if it wasn't for this deal?". Let the answer guide your negotiations.
5. The following are all good pointers regarding paperwork: -
 - a. Get as much detail out on the table before you sign this document.
 - b. Make sure you are clear on exclusivity – a period of about 3 months is usually sufficient, so if they ask for 6 they have not got their act together.
 - c. Ask to see a copy of the last sale and purchase agreement the purchaser used – they can de-personalise it for you and refusal is generally a sign of either inexperience or them having something to hide – don't accept confidentiality as an excuse either and sign a separate NDA if you have not done so already.
 - d. Get the final draft and then let someone you trust read it, preferably someone not in the industry who will be capable of being objective about the deal you are contemplating.
 - e. Beware - signing this document seems to send a signal to the vendor's subconscious that they've done the deal. You might think this is silly but it often happens and a sharp purchaser will rely on this later when it's coming down to the wire and you're not happy with their changes to the terms of the deal!

Article 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. Chris 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 New Model Adviser, but when you're staring at commission statements that show high concentrations of income from the same product providers and there's not a client fee invoice in sight, 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 Chris is angry that there was insufficient time for him to get answers to his questions about Hoover & Co. Chris 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 Smith & Jones IFA 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 you have 1 audit a year. 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 2 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 2, 14 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 going forward. The compliance officer 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 post-RDR financial planning business, which is what Smith & Jones are selling themselves as. I'm not sure this business is worth 7 times profit, but I need to gather my thoughts and then report to the board.

Article 4 – Lessons Learned

1. This stage is all about both parties finding out the 'detail' about each other. It's easily dispatched with good preparation and plenty of honesty. If you have 'ended up' at this point without a clear plan to sell the business, you are likely to have some decisions to make.
2. Try to avoid giving the staff weak explanations as to who these people are. If you must make something up then the auditors, compliance consultants and management consultants are all plausible.
3. You should get the detail of what the purchaser wants to see well in advance, so get prepared but don't over-prepare and don't even think of hiding anything or making stuff up. The sale and purchase agreement will contain commercial warranties in the purchaser's favour, so if something's not quite right and they don't find it in the due diligence process, you are still on the hook when they find it later – be warned, if your talking to the purchaser of your business about the commercial warranties 4 months after the deal is done, you will be in a very dark place indeed.
4. Due diligence should ideally be a two way street so make it clear that you have some questions of your own, submit yours when they send you theirs and make sure you are going to visit their offices too.
5. Don't be surprised if you don't get sent a report on their findings. They are not obliged to do so and their findings are their business. Do however make sure you get some feedback and quickly. If they are going to move the goal posts, this is when it happens, but you probably won't see it until the legals, so get some face time NOW.

Article 5 - Negotiations

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 are we going to be able to fully integrate it into our core operations, while sustaining and growing profits from it and increasing the capital value of the assets we purchase?" 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 5 times profit"! 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 Alan from Smith & Jones 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 2 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.

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 multiple from 7 to 5 times profit 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 £1.5m and we are now down to half that. I don't think Hoover & Co realise the significance of chopping this deal in half and how that affects Chris and I. Chris – 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 went into business with Chris in the first place. 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 Chris' 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.

Article 5 – Lessons Learned

1. First thing to say is that this stuff happens all the time. Purchasers often 'chip' the price on deals, the key thing to find out is whether they are doing it because they have a good business reason, or because they just can't help themselves.
2. The due diligence process will have shown them your business warts and all. However, it's down to them to 'interpret' what they have found and this interpretation often leads to a change in terms, swiftly followed by a breakdown in negotiations.
3. The critical thing to do is roll with the punches. Find out what's behind the change in terms and if it's down to the due diligence make sure it's justified. If it's just an MD or CEO who thinks he/she is a bit of a player then there are plenty of other deals out there so don't be afraid to walk away and live to fight another day.

Article 6 – On the Rocks

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 £5,000 to produce I do not know. Anyway, let's just pray Alan and Chris at Smith & Jones don'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 Alan and Chris 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?

The Vendor

So, we now have clarity on our final remaining questions and the deal looks like this. Consideration is 5 times profit, so £750,000, with £250,000 in cash, less a fixed fee of £25,000 for taking cash. There's another £250,000 in 'shares' in Hoover & Co (none voting D class shares) and the final £250,000 is paid to me and Chris, £125,000 each, over 3 years so £42,000 odd a year and is dependent on our performance as advisers. We get basics of £50,000 each but we have to do 3 times our total package (including the earn-out figure, so £92,000) before we see an override at 30% of the balance. Looks like we will need to increase costs to clients, when commissions are falling and the entire industry is going the other way – could be interesting from a TCF perspective!

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 lose 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 lose 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. 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 Chris 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 Chris to get things back on track, deal with all the rumours in the office and call a few clients back, maybe make some money.

Article 6 – Lessons Learned

1. So, all is revealed and it's a horror story, what a surprise. All this could have been avoided by getting an example sale and purchase agreement upfront and by asking some well-timed questions along the way.
2. Most important lesson here is to know when you are beat. This deal looks horrible but it's not completely fictional and deals have gone through on this basis many times before.
3. In terms of the actual deal itself, the article pretty much explains all the consequences of the terms but here's a few key points to note: -
 - a. The final consideration can often be made up of a variety of 'components', some valuable (like cash) and some about as much use as a wooden leg in a forest fire (shares in this case).
 - b. There should be clear water between the consideration for the business and the amount a vendor is paid for their services if they are to work in the business post-transaction. Many purchasers seem to glaze over when talk turns to paying for the business and then paying the vendor to work in it afterwards. Someone's got to see the clients, either the vendor or one of the purchaser's employees, so what's the difference?
 - c. Some firms still don't have remuneration packages for advisers that reflect best practice in terms of TCF. Don't be too hard on them as they are trying to turn around an oil tanker with a speedboat strategy – not easy changing cultural problems in accordance with the FSA's timescales. If it looks wrong then challenge it, as there are always variations on the 'main' deal.
 - d. If you have not sold a business before then swallow your pride and get help. The legal documents are often complex and you shouldn't beat yourself up if you don't understand some of the detail. It's not what is says on the page, it's what it means in practice that's important and that's where the experts come in. Remember, advising business clients on their employee benefits is not the same as buying and selling business, so just because your corporate clients like you, it doesn't mean you are the next Warren Buffett.
 - e. When it comes to warranties and indemnities, you must be very clear what you are signing up to. If the purchaser suffers a loss as a result of buying your business and you're on the hook through a warranty or indemnity, then it could cost you your home and much more.
4. Try to always put yourself in the purchaser's shoes and think what protection you would want if you were buying a business.

Article 7 – A Deal at Last

The Purchaser

Well, we've been looking for some time now and finally I think we have the right people in Alan and Chris. They are our kind of people and critically want the same things as John and I do. An exit in 5 years, but on our terms. Everyone over there is well qualified and they seem keen to adopt the Greenfields service proposition for clients, so that's a big tick for RDR, TCF and so on. I think we are possibly a little further ahead than they are on the transition to a fee-based financial planning business, but they do appear to want that business model and they are at least honest about their current circumstances.

So due diligence was done in 2 days and we had the benefit of the Hoover & Co report and legals too. Operationally, our IT systems are the same, employment contracts are similar, we share the same profile of clients, have failed miserably on the same compliance issues and so all in all it looks like a good fit. John and I like these guys and there's an emerging trust between us, so let's hope this goes through.

The Vendor

I can't believe we had to go through such a negative experience with Hoover & Co, to get educated as to what we really want out of our business and our lives for that matter. Chris and I really like Tom and John from Greenfields. They want to build, with us, to a critical size over the next 2 years and structure our exits so it happens within 5 years. They want time to prepare the business and negotiate from a position of strength, picking from a few potential purchasers. I've personally heard all that stuff before, but now that I've gone through an aborted deal, it makes so much more sense and it's what Chris and I want for sure.

The firms are of a similar size and the cash position of both is broadly the same. Their firm is younger than ours and has recently had a successful FSA visit, so it will act as the Purchaser. They have 2 shareholders Tom and John and once we have merged the businesses, they will have 30% each and Chris and I will have 20% each, with the wives out of it completely (the business not the marriages). We won't actually take any cash out now, but our deals going forward best reflect our position in the business and profits will be either distributed or reinvested based on a simple annual vote – halleluiaah for some common sense.

So here we are, the Ivy in London. This is it, the completion lunch. I can't believe we've made it - phew. The war is over and the battle is won. I feel invigorated by the thought of what lies ahead for the 4 of us. This whole experience has been a real rollercoaster and an invaluable lesson for me. If I had to offer a single piece of advice it would be this – plan ahead and don't end up in the middle of a deal by accident. I got lucky, will you?

Article 7 – Lessons Learned

Nothing much to say here other than sometimes when you've been shown what you don't want, right up close and personal, identifying what you do want becomes fairly straight forward. Take care though, it's still a deal and you need to put into action everything you have learned regardless of who you are negotiating with and especially with friends and/or family.

and remember...

A professional negotiator adds value because they are detached and can separate the emotion from the facts and act accordingly. To be a good negotiator you have to 'appear' to be throwing caution to the wind, while actually maintaining absolute control and that takes years of experience.

so here comes the big pitch...

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Who do we represent?

We represent the Purchaser in most of our transactions, but we can represent the purchaser or the Vendor in a transaction but never both together. Be very wary of firms asking for money to go on their 'preferred list'. They take their main hit from the Vendor, so they actually get paid by both sides – shabby and a conflict of interest in our opinion.

How much does it cost?

If you are thinking of selling your business and reading this, then be assured that all the fun and games in these pages is not to be found in a Kingmakers deal and all the best practice is employed by the purchasers we represent. So we can introduce you to a quality business for nothing (they pay us), which means you have nothing to lose by getting in touch.

What else does Kingmakers do?

Kingmakers clients almost always work with us over an extended period of time and our core service is actually based around outcome based strategic business planning and the provision of consultancy and outsourcing solutions for growing firms. If this sounds like you then get in touch, we can really help.

I hope these articles and this document have been both entertaining and informative and if you're doing a deal sometime soon, good luck.

Rob Stevenson
Director

Kingmakers