HSBC Private Banking

Video Transcript

# Business Ownership Transition Webinar Series - Preparing Your Business and Yourself for Exit

**Russell Prior:**

Good morning and welcome to the first webinar in our 2023 webinar series on Business Ownership Transition. My name is Russell Prior, I work at HSBC Private Banking, where I lead the Family Enterprise Succession Service.

Over the course of the next 75 minutes, we'll be taking a look at the issues surrounding preparing your business and yourself, for the ownership transition of your business. Now, I've read and heard on many occasions that one of the most important things to do when considering ownership transition, and particularly the sale of your business, is to have the right team of advisors around you. The ideal team should consist of an M&A advisor, an accountant with experience in selling businesses, a lawyer who specialises in M&A corporate transactions, and a wealth planner; someone who will look at personal matters pre and post sale.

Well, I'm absolutely delighted to have such a team with me on the call today. In that order, our panellists this morning are Jacques Callaghan, Head of Mid-Market M&A at HSBC UK. Greg Limb, Partner at KPMG, John Barnett, Partner at the law firm, Burges Salmon and Andra Ilie, Senior Wealth Planning Advisor at HSBC Private Banking.

Thank you to our panellists this morning for joining me. Before I get started, just a couple of things I'd like to make clear to our audience. Firstly, and sorry for the health warning, that HSBC UK Bank PLC, and our panellists this morning are not providing legal or tax advice in this webinar. So please do accept that any views expressed, or any information we provide, doesn't constitute legal or tax advice.

But more importantly I hope for the interaction with our audience this morning, if you'd like to ask questions, please do use the question box at the bottom of your screen. We have time at the end for questions. But also if any questions do arise during the course of the webinar, I can take those if they're relevant to the topics we're talking about. So health warning over, I'd like to start our discussion today on the topic of advisors. We know how important it is to have the right team on board, whether because it's going to be your one and only exit, or because you are selling to, or talking to, interested parties, buyers who have a really strong advisor team on board on their side of the transaction.

So, I'm going to turn to our panellists now to get your views on this issue about the right team. So I'll come to you in turn, but how well-prepared do you think business owners are on this point of getting a good team of advisors together? What holds them back? And if you would, perhaps by way of also an introduction to yourselves this morning, why is your role, or the role that you play in a transaction, critical? Greg, can I come to you first on this question please?

**Greg Limb:**

Sure, thanks Russell and good morning everybody. I liken the sale of a business to any big decision. Yeah, you've got to make sure that when you're making that decision, you make that with the right team behind you. If you're selling your house, you want to get the best person who sells the house in the market in which you are in. And it's no different to when you're selling the business. And as you said at the very top of the call, it's very important that you have the right team around you, and it's not necessarily just a team of one, it's normally a team of a combined grouping of advisors who helps you. And that's critically important.

The bit that I see on this as well is I'm a tax partner by training. So tax is the biggest cost that anyone will ever see on a transaction. So making sure that tax is also considered as part of what you're doing, and people often forget about that until almost the last minute, is making sure that's done at the very, very beginning. Because there's so much more that can be done in conjunction with John and Andra in terms of the wider advice that you can give to a client, to make sure that that is dealt with correctly.

**Russell:**

Thanks Greg. John, let me come to you next please.

**John Barnett:**

Yeah, so are business owners prepared for this? In general not, they've been working hard at the business, rather than necessarily working hard thinking about who's going to succeed that business when it finally transitions. So they aren't prepared. Why don't people get advisors in earlier? I guess with lawyers in particular, people worry that the clock is ticking straight away, and they're racking up costs. Actually, I think most law firms, if you have a sensible conversation with them, you can get an awful lot done on a sort of no-cost basis very early on to have those early discussions. And that would be, I suppose, my number one tip, is to have an early discussion with your advisors about costs. And you'll find that you can get an awful lot upfront. And when you eventually get to the deal, you can probably get abort fees, or contingent fees, success fees rather than just a strict sort of hourly basis.

In terms of the role of the lawyer, I would say get the lawyers involved as early as you can. I've certainly seen some deals where the corporate finance advisors, the accountants are talking about it, and then they get the lawyers in to “do the legals”. And from my point of view, that's sort of a complete anathema. The way I put it I think is this, that you are selling a business, but the buyer is buying a whole bunch of risks. And actually, thinking about exactly what it is the buyer is buying, thinking about all of the possible really detailed risks that they're buying off you, and what you can do to stop them, or ameliorate them, is really crucial. And if you can get early discussion on that, it will make the whole process easier. Final thought is, when you're choosing advisors, find somebody you like because you're going to be spending more time with them over the next six months than you are with your spouse and children. So forget technical capability, just find somebody you get on with.

**Russell:**

Potentially scary thought that, John. So wise words, I said, thank you. Jacques, let me come to you. Obviously, with your role at the bank, you'll be very close to a lot of our corporate clients. And I guess very often you'd be one of the first they'd be talking to. But what's your take on this issue of getting the right team of advisors?

**Jacques Eugene Callaghan:**

As both John and Greg have said, it's absolutely crucial to get the right team in place, and to get the right team in place early enough. Just to kind of echo John's comment about costs, certainly from a corporate finance perspective, we invariably are success fee orientated, which means that we don't get paid until a transaction happens. And what that means is, that we can start engaging with customers and clients very early on to help them think about what the strategic options are – and what the consequences of those options are. And one of the things, that not unsurprising that a number of business owners face, is being unsure as to actually what they want to do. And what that might mean for them? What that might mean for the company? And we spend a lot of time talking through with business owners about all of those permutations and combinations.

What we do find is that the earlier we get engaged, and the better we get to know the company, the better it is in terms of the ultimate result. And the other thing that in any deal, there are a number of factors but two important ones are: momentum in a deal, and being as prepared as possible, and anticipating things that might come up in a deal to be able to respond to them just helps with that momentum. And then the second thing is timing, and actually having a group of advisors on board, including Corporate Finance Advisor, to actually give advice as to when the right time to go is because sometimes it's not at all clear what the optimal timing is. Also, it kind of lends itself to engaging with advisors early on.

**Russell:**

Thanks, Jacques. And I think what you said there certainly is going to be echoed by something that Andra I'm sure will cover on. But Andra, let me come to you also for your thoughts on this.

**Andra Ilie:**

Sure, that was, thank you very much for that intro, Jacques. That actually worked very well with my thoughts on this. And I guess at my end, in terms of what we're seeing, I think the level of preparation before a sale varies greatly. And what I tend to see is two categories. So, there's one category of people who are quite well-prepared and aware of what the transaction might mean. And that may be because they've contemplated it for a long time, maybe they've reached a particular valuation, it's the right time in the cycle. So, they will have done a bit of due diligence and a bit of prep. Now at the other end of the spectrum, you've got those business owners who may perhaps need to sell. So they may be forced by circumstances, maybe they need to retire. I had a client at some point who had to sell because of an illness, and there was nobody sort of around to take the business on.

So when you are forced by circumstances, you haven't had the chance to do that preparation and that work in advance. Which I echo everybody's point, it's absolutely critical. So I guess the key from my perspective is very much around having a clear purpose and objective for why you're selling, and maybe selling that to yourself before you try to sell it to anybody else. I think that's absolutely critical. And in terms of why people hold back, especially those in the latter category that I mentioned, I think they're not emotionally ready, if I can say that, to do it. Because the business is effectively an extension of your identity. It's very, very difficult to let go of something you've built from the ground up. So, understanding that you need advice in managing that, and getting that early on, I think it's again really, really important. And nobody really likes shifting from what they know best, I suppose we're all human.

And in terms of how we help in my team, we act effectively as coaches before a match. We try as much as we can to ensure that all worries and concerns are out in the open and addressed. You don't know what you don't know, but there are those who do. So making sure they're on your side I think is absolutely critical.

**Russell:**

Thank you. Some wise words there. And I think you're absolutely right, everybody's saying here look, engage early, preparation, planning, clearly important. And that issue John of personality, getting a team around you, that you can work with, also that can work together because the advisors are going to have to interact together. Let me turn now to what must be one of the most pressing issues for business owners, the economic environment. We've seen rising inflation, rising interest rates, possibility of a recession and sort of narrowly escaped only recently, our sterling under pressure. So what I'd like to ask you panellists is what are you saying to, or what's the outlook for, business owners thinking about ownership transition? And Jacques, let me come to you first on this, and then we'll go Greg, John and then to Andra.

**Jacques:**

Yeah, so a number of things. One is that during COVID, most companies were affected in one way or another. Some were affected in a positive way, some were affected in a negative way and some kind of both. And one of the things that we have had to do, and business owners have had to do, is portray kind of what is normalised trading and what is the normalised outlook going forward. And actually, depending on the company, there are certain ways of doing that and ensuring that buyers have the trust as to what they are buying. So that is something which the market has got used to in terms of those changes in the last two or three years.

In terms of sentiment now, there has been a noticeable change in investor and buyer sentiment since the beginning of this year. And that is a function of the public markets holding up / going up. It's a function of the macroeconomic data coming out is not as bad as anticipated. And also the debt markets are actually slowly opening up. So, compared to the backend of last year, where there was so much uncertainty, we are now seeing that there are both corporates and financial investors that are looking to transact.

And to kind of put it into context, in any one year, there are about 50 LBOs (Leverage Buyouts), in the UK above a hundred million pounds enterprise value. And last year there were 37. Now of those 37, 27 of them happened in the first six months. So there are only 10 in the last six months and so far this year, with two months in, we've had four. And what we are anticipating is that there will be a significant pickup, certainly from September. Because most people aren't going to start a sale process over, during the summer and obviously it takes time to prepare companies. So there will be a slight pickup in Q2, but there'll be a lot of activity from September onwards.

**Russell:**

Thanks, Jacques. Greg, what are you seeing in terms of the impact of the economic outlook?

**Greg:**

So I would very much echo what Jacques was saying in terms of the pipeline for where transactions are going. We're starting to see it trend back upwards now. We're not at 2021 levels of activity, which was a record year for M&A as we came out of COVID, but we're certainly trending more towards the normal end of the pre-COVID market in terms of the level of transactions that are being worked to. So that's something that we're seeing there. The one thing that we are seeing, and we have continued to see for the last few years though, is the current low rates of tax being a driver for people to sell their businesses. With capital gains tax rates for most people at 20%. Yeah, it is still a driver, and obviously we can see the state of the nation's finances, and the need for more taxes to be raised in certain areas, many people fear that capital gains tax is the one that could easily do that. So that's the biggest tax that people face when selling a business, so it's often the one that drives it forward from there. And there's other taxes that come out of this in terms of where that is. But that's an indication that's there.

I think the other thing that we're seeing as well is that we are seeing with sterling being relatively weak, we are seeing that there are more and more overseas buyers in the market who are looking to take advantage of that. Because in relative terms, it is making UK businesses at the cheaper end of the spectrum. So we're seeing good engagement, good activity as Jacques is saying. Yeah, it's not necessary now it takes time to sell a business. But that pipeline is filling, and filling up to a healthy level, and something that is being driven. And you will always see people trying to take advantage of market conditions.

**Russell:**

Very true. No, very true. As you say for certain groups it is still quite attractive. John, let me come to you. What's your take on the impact of the economic conditions?

**John:**

Yeah, I mean I think this is why you have a team of advisors on board because obviously coming to a lawyer for economic advice isn't what you'd usually do. And I'm particularly badly placed, I studied economics for my first degree, so actually I know nothing at all about it, I seem to recall. And I agree with all that Jacques and Greg have said about short-term considerations. But the one thing I would say is that over the last 30 years or so of doing this, every conversation you have with a business owner always starts with a question, "is now at the right time economically?" Because even if you're in good times, well they could get even better.

And I think what I find with a lot of businesses, is that businesses also have their own cycle. They have a natural point, give or take six months, give or take a year, when it comes to be the right time to move on. And obviously, businesses also have their own economic cycle as well. Now, obviously, within that there's picking a time, and what Jacques and Greg have said is absolutely right. I think what I'd also say, just in terms of the structure of a deal, it doesn't necessarily have to be all or nothing though.

So even if now is not the right economic time to sell, you could for instance have a deal with an earn-out. So if you think there's some more growth to come, you can wrap that into the deal and potentially get some of the future upside written in. Or you could not sell, you could withdraw some capital, you could do a self-funded deal in some cases. Or you could take shares in a purchaser. So there are other options there if you've reached the right time for your business, even though the wider economy may not be absolutely right for you.

**Russell:**

Thank you. Thanks, John. Andra, any thoughts from your perspective on what you are seeing?

**Andra:**

Yeah, so I guess if we take a step back on this, I think what we're seeing is that a lot of the family owned businesses or privately held businesses, they have a lot of inbuilt resilience mechanisms. And what these do is they tend to make them wait the storm out. So again, sorry to bore everybody, but it does boil down to the motivation and purpose for why you're selling. Because if your sole motivation is to sell for maximum financial value and the environment allows it, great. But in my experience, that tends to be just one of the factors. So, business owners that we've spoken to tend to have other goals around that financial piece. So there's things such as if you're retiring and have no successors in the family or outside of the family to take over. There's things such as maybe protecting the employees that have been loyal to you for so long. Or your standing in the community, the links you've built. And of course, all of this being caveated with the fact that the balance sheet allows it. You might just wait. It might not just be about the right time, but definitely also about the right buyer.

And I guess my second point to make here is, there's no time better than the crisis to stress test relationships. And when I talk about relationships, I mean those with your business partners, with your family, especially if some of those work in the business. And just checking in on them, and reviewing your governance framework that you have in place, and whether it's functional. And what I mean by that is things like: do you have the right communication channels in place? Do people know what they're supposed to be doing? Do your stakeholders know their roles and are they working cohesively? So maybe just use this time to pause and reflect on the bigger picture before you go into the nitty-gritty detail of the transaction, before making any decision. And as John said, maybe the option isn't a full sale, maybe it's a partial sale, which again is something we've been seeing quite a lot.

**Russell:**

Thank you, Andra. Well I'd like to move on now to take a more detailed look at the issues around getting a business ready for an ownership transition. And again, I'll come to each of you in turn on this one. Jacques, what I'd like you to explore, given the state of the M&A market as you've explained it. But what are the sort of top factors that buyers are going to be looking for? Or what are the top attributes in a business that value will be ascribed to? And flipping it round, if you're the vendor, what are the kind of critical issues you should be thinking about in terms of the positioning of your story for your business to the prospective buyer community?

**Jacques:**

Well to generalise, given kind of where we are in the macroeconomic cycle, a lot of buyers, particularly financial buyers, are looking for companies that are robust, resilient, defensive. With good incumbent management teams with good organic growth, but maybe a platform for a buy and build, with limited customer concentration. And one of the things that one's got to be conscious of is what we saw coming out of the first lockdown at the end of 2020 in Q4. The first nine months of 2020 were very quiet in terms of deal flow, and a lot of stuff got pushed into Q4 2020. And then the next two quarters, the first half of 2021. Just that nine month period was more active in terms of M&A activity, than the whole previous record year for buyouts in the UK. And the previous record year was 2007. And so, not only did things get delayed and pushed out, but also because of the multiples being paid, things got brought forward. And so it was all concertinaed into a pretty short period, and looking forward from today, that may well repeat itself.

Now, from a business owner's perspective, there are two considerations here. One is that because of that anticipated pick up in volume of deal flow, buyers, particularly financial buyers, for the deal team to justify to their investment committee, that they're going to spend time competing in the hotly contested auction process, and have the comfort and confidence of paying the highest multiple. They have to persuade their investment committee that they have done as much work as they can from outside and well ahead of any formal process. That's including doing commercial due diligence. It's including developing a relationship with the management, lobbying stakeholders, et cetera.

Because if they can't persuade their IC that they've done that, then the IC will turn around and say, "Well, actually if you haven't, somebody else would've done". So we don't want to have that opportunity cost and certainly a ball cost. And so, what that means is, one does have to take in a longer runway than normal, to start to pre-field, to preselect a small number of parties that you want to engage with at the right time. And it's a two-way, obviously, dialogue where you get to know them as well as they get to know you.

And so, I would say that it's not a case of having the typical fireside chat three months before the launch of a process. Ideally, it's six to 12 months before launching a formal process and working backwards. So that's the first factor. The second factor is, again, we're generalising and it very much depends on each situation. And each process we run is very different depending on the circumstances, but it is going back to this timing point as well. And not necessarily wanting to be in what is going to be a very busy period. So you either go before or you go after.

**Russell:**

Thank you. Thanks, Jacques. So Greg, let me come to you now. Let's take a look at this from an accounting firm perspective. What are the sort of issues that you face that you are asked to look at? I'd just be interested to know in economic times like these, is there a greater focus? I mean linking back to what Jacques was saying, is there a greater focus on due diligence, and really getting behind the numbers, and the story, and that normalisation issue?

**Greg:**

Thanks, Russell. I think answering the last question first, if I may. Yes, there is a greater emphasis on due diligence. That's an important part, that's always been a critical part of the sale process from a buyer's perspective. I think with what we've gone through for the last three years with COVID and the turmoil that has given to numbers to businesses and everything that's gone on from there, it does mean that buyers are paying more attention as to the robustness of the numbers. And I know that was a word that Jacques used in terms of where that is, the robustness of the numbers is important. But it’s how have you been on that journey? Where has it been? And where has it come through? And yeah, so there is an increased focus on that. Even into tax where things like the JRS, the job retention scheme and COVID - other payments that are there - HMRC is scrutinising these more and more so, and a purchaser doesn't want to walk into a problem that's come from there. So absolutely on the diligence piece.

The other bit that we do, and align to what Jacques was saying and as I would often say this starts two years before somebody goes into a sale, is “how robust are those numbers that you are going to present to a potential purchaser? What are you doing in your business? What are you presenting? What can be done to make those stand up to the rigour of due diligence?” And it is a real rigour that will be put through on due diligence, it’s a drains up. It's very much probably the worst time that any business will ever go through in terms of what they are having to face. We all know where our skeletons are often buried or the closet in which they're hid. Diligence is seeking to find us and that's what it’s about to do.

So we're often brought in very early in the process as people as people are thinking of getting onto that journey because what we want to help them do is maximise the value; what can we make sure that when they go into this process, is not going to be chipped away at or eroded, by people on the other side taking away that value from there? And it could be that, it's a deal preparedness and a deal readiness program as we put businesses through. It can be a tax review early on in the stages to what are your problems? Where are your legacy issues? Where can they come out? And equally, as we go into this, we often sit on the seller's side and do due diligence on their behalf. So we're doing a seller readiness due diligence, which means that then when you get into the process, the actual diligence process can be shrunk, and it can be done with a level that there is very little for the purchaser to come back on. So a whole range of that.

Then finally, and the bit that then gets in, is we look at tax planning; what can the tax planning be done around that piece, and making sure that once you've got that money, it's right for the future? Often we see the sale of a business aligned with the transition of wealth from one generation to the next, or for that wealth to be spread around. And planning that early is another key point as well because you don't want to be going into a transaction and saying, "Oh well I actually want to change what we're doing now to make it this way", that will just erode value and erode confidence.

**Russell:**

Absolutely. No, thank you. Thanks for that. John, let me come to you. Similar issue but from a legal perspective. So what are the critical legal issues that come up when considering a business ownership transition or an exit? And again, just interested to know whether the current economic environment brings any new nuances to that. I'm sure there's a core set of things that goes on at any stage. But anything more specific you are seeing given the economic circumstances we face over the last period?

**John:**

Yeah, I mean the good news on the legal side is that the legals, that there's basically, I would say four fundamental questions which have always been there with any sale. Who is selling? Who are you selling to? What are you selling? And what are you getting? Those are, and always have been, irrespective of the economic circumstances, the key questions. And that may make the process sound easier. Who's selling? "Well, I'm selling, I'm selling the business, I'm selling it to X and I'm getting Y." Well actually when you dig into those questions, there's a whole lot of detail there. So who is selling? Is it the company selling the business, or are you selling the shares in the company? Those have very different outcomes. And watch out for the budget I would say, in economic circumstances because small tweaks in tax rates, as Greg said, can really change the differential between who's selling.

At the moment, there's a bit of an advantage in selling shares for all sides, but that has changed over time. But in terms of who's selling, don't forget there are some minority shareholders, some optioned holders out there. There's probably some family trusts, some shares you gave to your children. There's probably some shares still tied up in your father's probate that you've forgotten about. Get all of those things sorted earlier, and work out who is selling here. Who are you selling to? Well, is this a trade sale? Is this a float, an IPO? Are you selling to private equity? Is it a partial sale? Are you selling to a management team? Yes, all of those, again, will have different dynamics in terms of the legal issues. What are you selling? I think that that's almost the one that people forget is they think, "Well, I'm selling the shares or the company is selling the business." As I said earlier, actually what you are selling or what the purchaser is buying is a whole bunch of risks. Did you have planning permission for the particular change you made to your business premises? Have you got your insurances in place? Did you have the licence to do this? Have you claimed things correctly under the furlough scheme? Is there a chance that the revenue might come back and attack you at some point in the next six years?

Getting to that level of detail and thinking as much as you can about the risks that you are selling to a purchaser, I think is absolutely crucial. And then finally, what are you getting? Are you getting cash? Are you getting deferred cash? Are you getting some sort of earn-out where the price is a bit uncertain? Are you getting shares in the purchaser? All of those, by the time you multiply all those out, that's where the legal issues get quite interesting, and nerdy lawyers like me get very excited.

**Russell:**

More simple sounding questions with scary, scary answers and detail I think is my reaction to that but wise words, I think you're absolutely right to highlight that, thank you. Andra, let me come to you from a wealth planning perspective.

**Andra:**

Sure. I have to say, I really like being part of this panel because again, it shows the variety of the advisors that you can have around yourself in a transaction, and how different angles are covered. But to answer your question, Russell, I think we see families focusing quite a lot on stability before almost shifting the focus onto the growth piece. So many business owners, they've built a business because of a passion or because of an idea that they had, and they truly believed in. So like I said, it has much more attached to it than just that financial value. There's also the emotional side of things. I always like to use this example with one of my clients who asked me if I judged him, if he said I have three children, two sons and a business. And how can you fundamentally? You probably spend, like we were talking about before, you spend more time with your business than you spend at home.

So for those who think of selling, it goes back to again, why are you doing it? If you're happy with the sale terms, with why you're doing it, you've communicated it to all of the stakeholders, the timing is right and everything works, that's great. But one of the points that I wanted to make here is when business owners come to us, they tend to talk to us before a sale about understanding their options for the resulting wealth, which is really interesting. So almost linked to Greg's point around that succession piece. So what comes next? It's not just the investment diversification that we talk to clients about, but it's also about structure diversification. Come talk to us about maybe setting up family offices to manage that resulting wealth, or perhaps giving back, being philanthropic.

And my final point is, when they come to us pre-sale, they're looking to understand what comes post-sale, and educate themselves in those intricacies of surplus wealth. Because what a lot of people don't appreciate is having that wealth post-sale will bring completely different challenges to what you had before. So you may be used to living on an operating income, or dividends, or things like that. Whereas now, post-sale, you are just going to have a large amount of money that will have to be managed and handled differently. So it's really important that those details are spoken about before.

**Russell:**

Thank you. It reminds me that we've focused a lot on the deal, but the truth of it is the deal is, if we get it signed, it's a moment in time on a much longer journey in the entrepreneur's lifetime, before and after. If I may move on to another area, let's look a little bit more at the sale process in detail. One of the areas that a lot of business owners raise with us is the issue of, how do you manage the news flow around a deal? They're thinking of selling, who do they talk to? Who don't they talk to? What information do they prepare? How do they get it out there? How do you manage that? Particularly if you're doing something inside the company and you perhaps don't want the management to know at that stage. How do you manage that whole news flow piece? John, let me come to you on this, and then I'll come to you Greg. John, what's your advice around managing the whole sort of news flow piece?

**John:**

Yeah, I mean there's no right answer is the short message. First thing to say is in terms of your advisors, do talk to them early because we're all bound by obligations of confidentiality or in the case of lawyers, privilege. So you can have confidence to talk to your advisors early. In terms of managing news flow within the company and managing it with the purchaser, yes, it's very difficult. I suppose inside the company, work out who needs to know and when do they need to know. So think about minority shareholders, people who hold share options in particular, they might need to know a little bit earlier. If there are trustees involved who are some of the shareholders, don't just bring them in at the last moment as an employee benefit trust or a family trust, they will need to know slightly earlier.

And one that I haven't brought up for a while but I guess is pertinent at the moment, is think about trade unions. If you've got a unionised workforce, there will be certain statutory rights they have to know at certain stages, so think about that. I think in terms of some practical tips around it, as I said, there's no easy answers. But think about making sure you have a separate email address for this particular project and just use that email address, don't use your central work one because your PA, secretary, various other people will probably have access to that. So have your own separate email address, get one set up just for this deal. Potentially get a new mobile phone just to use that for this deal, if you need to. Think about team sheets, think about actually very early on, getting a list of people the key things they're entitled to know and when, the right phone numbers, the right email addresses.

In terms both internally and externally, deal rooms, electronic deal rooms are also very useful where you can put all the documents in one place, you can have differential access rights to those. And you can see who's accessed what document, who's printed what document, who's downloaded what document when, that's I think another key practical tip.

Non-disclosure agreements, I guess where we might get onto in a moment, definitely do them. So sort of prepare for the best but assume the worst because people can't unknow information. So once information has gone to a purchaser they can't unknow it, so you will just have to time that very carefully.

**Russell:**

Thank you. Again, some really, really great practical tips that often, I think, get overlooked in the sort of heat of thinking about it. Greg, what's your take on this whole managing that news flow, managing the information flow?

**Greg:**

I think as John alluded to, I think technology is a real boon from where this used to be many, many years ago because you can control and put things into a safe space without so many people split seeing. I mean 20, 30 years ago a deal of any size of magnitude would have people standing by the photocopier, printing reams and reams and reams of paper out to be shared around with everybody. Obviously, as John mentioned, these can go in data rooms which are electronically managed, electronically gated, and allowing that access to information in a more precise and concise manner. I think the other thing that's been quite interesting is over the last few years, and it's back to John, with your vendor of the business having his second phone, and everybody thinking, "Is he having an affair or is he starting some other sort of business?" Then actually working at home, and actually giving yourself distance and removing yourself away from the office to do a lot of the meetings, a lot of the discussions. Having the advisors, go to the advisors, don't have the advisors come to you. We all know that people coming into a building, or offices, or factories can give that insight from there. So just think about what people will see and perceive as something that we often see that goes on from there.

And the other bit that we've seen used to good effect, and I'm sure Jacques has seen this as well, is that put the pause in, strike the deal, then have your communication process. So you almost have a gap between, a bit like buying a house, you exchange, you shake hands and then you complete. And that gives time for that information to flow out for people to be consulted, for other consultations to come in from there. But yeah, do look at what you can do and do manage that. You'll never get it precisely right. There'll always be something, but you can manage a lot of it.

**Russell:**

Thanks, Greg. Jacques, you are involved at the early stages helping to shape the deal, working with the owners, maybe looking at interested parties, you would be involved in a different stage of the process. How do you work with business owners to manage that information flow, and to respond to questions, and interest, and whether the interested parties are genuine and all that? Whether it's competitors just looking for information, how do you deal with that and work with business owners on those issues?

**Jacques:**

Sure. Yeah. Well I think it's two things that we're discussing here. One is news flow and one is information flow. So on the news flow point, what we always encourage the client to do is to make sure one's got a PR strategy in place for if there is an approach by the press or if there is a press leak. And having a kind of response pre-agreed if that is the case. And ensuring that there is a very thought through structured way of who's going to be responding to it, and how they're going to respond to it. And there are various ways of doing it, but just as an example. Invariably a business owner will have talked to a number of advisors, whether that's formally or through a beauty parade. And there will be, invariably, that there will possibly be some noise that one has to anticipate might lead to a leak.

But one of the things that we have done in the past is where there has been a beauty parade where we were appointed. Timing wasn't at all certain as to when processes were going to start, and actually wouldn't even start it for over a year because that was the optimal timing. And the response was, well we have appointed HSBC as our advisor to make acquisitions as to pose to sell the company. And we were generally in that case kind of looking for acquisitions as well. So that's just one way of dealing with the news flow. On the information flow, one of the things that we spend a great deal of time on, for a couple of reasons, is pre-filtering and pre-screening buyers, both trade buyers and financial buyers.

And one of the reasons for that is to ensure that management and the owners don't waste their time. That they are only engaging with buyers who are informed, educated and motivated. And when it comes to the initial meeting, invariably, is much more productive because we have gone through a comprehensive pre-screening process. And the second reason is again, in terms of testing buyers, but particularly trade buyers' appetite that they aren't just on a fishing trip to try and find out commercial sensitive information. So that is a very important part of the process that allows that one, information flows is controlled, but two, management can focus on doing their day job more than wasting time with buyers that are not appropriate.

**Russell:**

Thank you. Let me come to just pose one more question to the three of you. Well I'd be interested just to know are there any kind of common pitfalls, or deal breakers, or critical issues that get overlooked in a sale process? Greg, let me come to you first on that. And then I'll come back to John and Jacques.

**Greg:**

Apologies, I was on mute there. I think often the deal breaker is, or one deal breaker that is often overlooked, is the preparedness and the readiness of the vendor to sell. Do they really want to sell this? Have there been through the psychological severance of what it means for them to give up their, often what is their life's work, and their pride and joy? So I think that is something that is there in that early stage discussion of how, “are you ready for this deal, and how will you come to terms with losing a significant part of your life?”

**Russell:**

John, your thoughts?

**John:**

Yeah, I think it's often, well, it's often the smallest things that break a deal. And if I could use an analogy in a different situation, I often deal with people after somebody's died and they left assets to people in their wills. And actually what causes families to fall apart in that situation is it's not the big money sums, it's the small painting or the small ornament that they always thought was going to be theirs. And turns out wasn't going to be theirs, and everybody thought, and it's the same with the deal. It's often those unspoken assumptions, those really small things as Greg said, actually the often the emotional things for the vendor. This is absolutely key to their business, this is key to their raison d'etre. And actually, if the purchaser comes in and doesn't put value on something they think is valuable, that's often what can tip it over the line.

**Russell:**

Yes, and Jacques, any thoughts you've seen as common issues, common critical issues that often cause a deal to break down?

**Jacques:**

Well actually for the market, there has been quite a few failed auctions in the last six to nine months. And the overriding issue for those is a difference in valuation expectations. And that invariably, when a process falls over like that, normally it's somewhere between six to nine months for that business to trade, but trade in a bilateral way. If the owners have realigned their value expectations, and if the company has continued to perform what they were expecting it to be. But that's by far the one reason why deals fall over.

**Russell:**

Thank you, that's really interesting. I want to move on to the final topic that we have. We've got lots of questions coming in already. But to our audience today, if there are any questions you have, please do pass those through. But on the final area I wanted to talk about is dealing with the emotions. And Greg, John, you alluded to this. We know through our own experience dealing with post-sale events and the lead up to with business owners, that emotional thing is a big one. So Andra, I want to come to you on this because, I guess, this is something that you will see all the time in terms of your role. How do you actually help business owners to think about and deal with these emotions? And is it possible to plan on a more rational basis to deal with emotion? Is that something that's even possible?

**Andra:**

That's a really good question. And to your point, Russell, I really like the fact that both Greg and John alluded to that being such a big part – managing that emotional side. Because I think a lot of the time people take it for granted because you're so focused on your business. And at this stage you're so focused on the sale and the terms of it, that you may not consider whether you're actually ready to do it, ready to let go. And what we do is, we're often used as a sounding board by clients and by business owners, where effectively that's someone in your corner almost that you can ask questions, talk about some of these emotions out loud. But also have that comfort that you're not the only one because this is, as you're saying, Russell, and we do this day in, day out, it's perfectly normal. Everybody goes through it and the sooner you acknowledge these feelings, the sooner you almost get a bit more prepared for it.

So the feeling of letting go is one of the biggest ones. So again, it's such a big part of your life, your business. You've probably worked on it for decades, you've built it from scratch. Are you happy seeing somebody else running it? And also, if you as part of your deal, maybe you have to stay on for a few more years, are you happy working for somebody else? I had a client at some point, there was this deal that fell through because they had a department store that had been third generation, and the buyer was going to change the name, and that was it. That killed the deal because for him that was a no-go. But again, that goes back to he just wasn't ready.

So it's things like how do you feel about the deal? Is it fair? It's your legacy, what's going to happen? The buyer is going to change that, are you comfortable with that? And in the midst of that, there's all of the other dynamics of managing, not only the buyer, but managing all of the other stakeholders. You may have, again, loyal employees, you may have your business partners, you may have your family whose lives would've been impacted by everything, by the business. So how do you manage all of that? So the way we look at it is, I like to use some sort of a sports analogy. So it's just important that everybody knows their role to ensure a smooth transaction, because everybody's going to be impacted by your decision to sell to a greater or lesser extent. So the key is very much understanding what's happening, acknowledging those feelings, and trying to deal with them as much as you can.

And what we focus on again, and what we always talk to business owners about is, what comes post-sale? And we always talk about these two resources that you'll have; so you'll have a lot of time on your hands, which most people aren't used to, and there's also the financial aspect, so you're going to have the capital. The money, you can spend it, you can start another venture, you can give it away, give it to family, go travelling, but you're going to have to do something with it at some point, not immediately, but at some point. And then there's the time, so again, I like to use this example with the client who, after he sold his business that he had been running for 30 years, kept taking the same train into London at 6:00 AM, going to his favourite coffee shop at the bottom of his office, and just having a coffee. And then just getting the train back. And he's been doing that for decades, so it shows that emotional attachment.

And again, getting an understanding that your life is going to change is absolutely critical. You need to have a think about the vision for that resulting wealth, for yourself and for your family. And I know those are big words and I know they're much harder in theory than in practice, but perhaps just pausing and reflecting on what you've achieved post the sale, and not taking any immediate decisions is one of the key things from our perspective.

**Russell:**

Thanks, Andra. And link to that there are also some practical issues that you need to do on the personal side, both pre and post. I mean simple things like wills - John, there'll be a lot of legal aspects around the planning to make sure you've got all of that in good order. Could you give us a flavour of some of the details that people need to think about in legal terms pre and post-sale?

**John:**

Yeah, absolutely. So if there's one question I'll always ask a business owner, and I'm a cheery lawyer so I get to ask the cheery questions, it's the one question is, "what if you were to die tomorrow?" That's a really horrible thing to be thinking about at a time of business sale. But actually it's a really good question for three reasons. It focuses the person's mind on the fact that actually the question is not should I sell this business? The question is at some point somebody is going to succeed to this business, and is now the right time? And it changes that dynamic of actually should I sell the business? Should I not sell the business? It just asks, somebody eventually will have to succeed to this business. If you don't do it now, eventually it will happen.

That question then second also focuses people on the question of all of those emotional issues we've been talking about, what is important about this business? What is it that you are selling? What is it you want to leave as your legacy? And then the third key issue of that question is it does focus people on the tax, which Greg's talked about earlier as well. But crucially, to give you one example, if you die just before you sell the business, there's generally no capital gains tax, no inheritance tax. If you die the day after you sell a business, you might end up paying 20% capital gains tax, and then 40% inheritance tax on the proceeds. So it should net tax rate of 52%, I think it is. So one day's difference can make 52% tax difference. Now, what should you do about this? Well, the first thing to say is just, there are opportunities available to you before a sale, which won't be available to you after a sale. So for instance, setting up a trust for your family, you can generally do much more easily before a sale than you can after it.

There's an opportunity called a linked investment company. If you're thinking of setting up some new ventures or some new trades, again, you can do that before not afterwards. Potentially actually, if the purchaser is going to be keeping your employees on, then there might be some opportunities to share options in place for people which will postdate sale, which will make the whole process easier. Might even increase the purchase price in some cases. So think about those post-sale tax opportunities, pre-sale. In terms of the legals, yeah, you're absolutely right. Wills, making sure your will's in place and up-to-date. Lasting power of attorneys so that somebody else can sign things if you lose your mental capacity. Think about insurance as well, insurance can actually be a really good solution if you die or lose capacity and there's a need for liquidity, or some money, or somebody else to come in and take things over.

**Russell:**

Great, thank you. Thank you very much, and thank you panellists for dealing with the questions I've been able to put to you. As I said a moment or two ago, we've got some questions that have come in from our audience and I'm going to, for the next few minutes, turn to those. I'll try and group them where I can. A couple of questions come in from the, I guess, flow from the discussion we were having about the economy and the times we're in. We had a question around business valuations, recognising that EBITDA may take a hit. One question is, are multiples affected in the same way? And perhaps linked to that, I could also throw in the question that says, we've seen through COVID that certain sectors retained attractiveness or became more attractive through COVID; is that the same? Is it changing? Are there different sectors that are perhaps more attractive? If it's okay, Jacques, I'll come to you on that first. And then perhaps, Greg, I'll also come to you afterwards for a view on these topics, if that's all right.

**Jacques:**

Sure. Yeah, so just on the sector point, what we tend to see in this part of the cycle is, and this goes back to, and we're generalising, but what investors are looking for and goes back to the kind of defensiveness. But one example of a sector where activity has increased and not unsurprisingly, is healthcare, because of that defensive quality. And healthcare accounts for about 9% of UK's GDP. And in this part of the cycle, it reflects about 15% of deal flow, as an example. But that's also linked into other defensive/growing sectors like technology as well. Or certain elements of business services. So, that goes to what buyers are looking for, and those sectors that have those characteristics to generalise. In terms of valuations, what we are seeing is because there is this supply and demand imbalance between opportunities available, and money looking to be put to work, for those top quartile in terms of quality of businesses, the multiples being paid are as high, if not higher, than previously. Because actually there are fewer deals, and the same number of bidders are looking at those deals. So that kind of pushes up returns. Sorry, pushes down returns. However, it does depend on which segment of the market one's talking about in terms of size. So for very large deals, so billion pound plus deals, debt is still not that easy to come by. For deals anywhere from 25 to 500 million, there is still quite a lot of debt available. You might not be able to get as much of it, and it's certainly going to be more expensive. But that has not been a prohibitor of doing deals. So hopefully that kind of answers the question.

**Russell:**

Thank you. Thanks, Jacques. Greg, any thoughts on this one?

**Greg:**

So just a couple of things really. I mean not that I disagree with what Jacques said there. I mean, the other bit I would just say where we've seen an increase in potential deal activity at the moment is in defence and aerospace. Obviously, with what's going on with issues over in Ukraine, that's a very profitable sector, and we're looking for people to see what they can do to come into that sector. The other bit that we're seeing is affecting some of the multiples, just picking up on this is ESG, and the need for ESG and the right ESG credentials in a business is affecting what people are able to see. So if they've got good strong ESG track record and credibility, then that's something that's helping people achieve the top end of the multiples. If it's less so, then it's there and obviously multiples have a range, then yeah, that will always be the case there.

The other bit I would just say is that EBITDA always comes with a story. There is never a flat line EBITDA. EBITDA will always be there. It will be down one year for X reason, it'll be up for another reason and equally, you are always selling on the fact that EBITDA will be increasing, so there's that story behind it. So understanding that story is critical and that comes back into the preparedness as to say, why are you selling? What is your story? Where are you wanting to take this? What are you wanting somebody to buy into?

**Russell:**

Thanks, thank you. A question that comes back to this issue of keeping staff engaged throughout the sale process. I'd be interested if there are any tips that you have on this, and I've got one more specific question that's coming in linked to this. Should we, as owners, give preferential shares to senior managers in order to be sure they get on on-board prior to a sale? Or is it better to wait and build in some reward for personnel after or during the sale? How do we keep people on-board? I think one of you also highlighted the criticality of that management team as part of the process. I think this also links to that. Greg, whilst you are up, any thoughts on this? And then John perhaps, and equally, Jacques I'll come to you on this.

**Greg:**

So I think the first thing is that getting them on board early can have tax impacts. You can then bring into play very much tax incentivised schemes that can make sure that the management getting those shares, or having some form of reward in the business can be done in a very, very tax efficient manner. Yeah, equally as well, as a purchaser of the business will want an engaged management team as well to take on. So having some form of mechanism that allows the purchaser to incentivise and give the management team something there is of critical importance as well, I would say, Russell.

**Russell:**

John, any thoughts on this?

**John:**

Yeah, I'd agree absolutely with Greg on that. In fact, if you're thinking of incentivising management and making sure that everybody's aligned, the earlier you can do that, the better. What I usually find with deals is that they haven't thought about this. Sometimes they've even made a promise to the key management, I will see you right. And then they realise that's going to be very expensive in tax terms because they're going to either have to pay them a bonus with 45% income tax plus national insurance. Or they're going to have to make a gift out of the sale proceeds, and then that causes all sorts of deal issues because it gives PAYE risk for the purchaser going forward. The earlier you can do it, the better.

The one thing I would say is we did manage one deal where we managed to get a tax incentivised scheme in place just two weeks before a deal. And you can rely on the fact that even two weeks before a deal, that 1%, 2% you're giving to management actually will still have a big minority discount, and that there's some play you can do around that. Even a couple is quite a technical issue, so I won't go into detail. But even a couple of weeks before a deal, it's not necessarily too late to do something, but get in as early as you can.

**Russell:**

Thank you. And Jacques, any thoughts from you in terms of incentivisation of management as part of the deals you see?

**Jacques:**

I would echo what John and Greg have already said but also say obviously depends on the individuals involved as to their motivations and their approach to the sale. But also where the sale is likely to end up because if there is an opportunity for the management to lead a private equity backed deal, that is huge incentive in itself for them to make sure that a deal goes through.

**Russell:**

Thank you. I’ve got a question coming that was actually goes right back to where we started with the team of advisors. I guess, I think we've had a great panel today, so let me say that right now. But the question actually says, how do you find the right advisors in the first place? How do you select the right one? Now I guess, without giving away some of the tricks as to why you are the best on the street as it were to my four panellists, but what's your view on this? What's your advice to people in terms of how they should go about finding those right advisors? John, let me come to you first on this one.

**John:**

Well, only the obvious answer is just to look at the people on this call I suppose, but speak to other businesses you know who've been through this and see who they have. And actually the advisory community do know each other as well. So speak to your corporate finance advisors about which accountants and lawyers to deal with. Speak to your accountants about which lawyers to deal with. I guess a lot of businesses will have accountants, will have auditors in place anyway. So often that's the existing relationship. So probably they're a good first port of call I would suggest.

**Russell:**

Thank you. Andra, I'll come to you next. Interesting this question should come up. This morning I was doing an event with some business owners yesterday, and one of the questions we had yesterday was, one of the entrepreneurs who was attending said, "Look, I've been talking to several private banks. Why should I talk about you? Why are you better than the next person?" So what's your take on this from perhaps the perspective that you cover indeed, that I cover?

**Andra:**

Yeah, so I'm going to go with John's point for this one as well. I guess it's very much to do with people that you've worked with before and can recommend others because I think your level of trust already starts from much higher up. The other thing I would say is you really need to like the people, again going back to what John was saying, because yes they have the technical expertise, but can you have them around you? And do you trust them? And do you feel comfortable with them being around for such a long time and talking about such personal things? You talk about the business, but it's something again you've pulled your heart and soul into. And in terms of why should you work with us? I guess we do get this question quite a lot.

I think again, it comes down to yes, we've got the expertise, we've got the global reach, so a lot of the time people come to talk to us because of our international outreach. So they may have family based in different locations, they may have different branches in different places for their business. So again, it helps very much that we've got that. And I guess, all I say to people is just give us a chance. Come meet us, come talk to us. If you like us, and you think we're competent enough, we've got the relevant experience and can add value to what you are trying to do, and just be there in your corner. Going back to what I was saying earlier, we can just be there in your corner, and support you through the process and help you through it as best as we can.

**Russell:**

Thank you, Greg.

**Greg:**

I think, in danger of group-speak, but I mean, I think there's a lot of what's been said. But the other point I would just make. And this is a point that goes back almost to what we're saying at the very beginning; we see many businesses who've grown up with their advisors and had the same advisors for a long, long time. Yeah, that is great. The point I would say is that you are on a business sale, you are going through such a transition, such a change, you do want to make sure that that person who you have surrounded yourself with for a long time is the right person. If they are, then that's great, but often there is the need then to bring in the specialist advice. I think we've all had experience of working with existing advisors or existing bankers, existing solicitors, but being brought in for the bigger, more meaty issues that the organisations that we all work for are capable of doing. So it is looking for that and saying, actually has this person got the skills that can do this, and the experience to help me?

**Russell:**

Jacques, anything else you want to add? I guess you must be involved in a lot of these beauty parades and pitch approaches.

**Jacques:**

Yeah, from a corporate finance perspective I would just kind of add a few comments. I would encourage people to choose a corporate finance advisor based on a number of criteria, including making sure that the size of a deal was relevant for the advisor. That the advisor has good sector credentials. That they know the buyer universe, both trade and the appropriate financial buyer universe. And that you’re going to get the senior involvement throughout the transaction. But this is a meaningful, which goes back to making sure you get the right size of deal with advisor, you're going to get the senior input throughout the deal. And, there are a number of things that we differentiate ourselves on, one is kind of reiterating Andra's comment about global reach, we are very international, particularly for a mid-market advisory firm. We also, given our position on the lending side and on the advisory side, we have very strong relationships with priority firms, and know exactly kind of what they're looking for, and where they are in their fundraising cycle, and who's likely to pay up for particular types of businesses.

We also can give input as to whether a company should think about an IPO or not. And this isn't just advice, but we have an equity capital markets business. So, sometimes in terms of that range of options to think about, an IPO is one of those options. And we, being close to the market because of our ECM business, can give insight into that. And yeah, as we say, it's somebody that's going to put in the time well ahead of the launch of a process to really think about getting the optimal result for the owner.

**Russell:**

Thank you, thank you all. I see we're coming up to the end of our allotted time this morning and I want to make sure that we finish on close. I apologise to those in our audience that have left questions that we don't have time for. So let me thank you first panellists for joining us, John, Greg, Jacques, Andra, thank you for sharing your views. I think there's been a great range of insights, and real practical tips, and some good high level thoughts. A great thanks from me for that. For our audience today, I do hope you've enjoyed the session and the discussion. If you do have any feedback, there is a tab, a share feedback tab, so please do share your feedback. I'd also like to reiterate what I said at the beginning, this is just the first webinar in our series of nine webinars on business ownership transition this year.

Our next webinar is coming up at the end of March. It's on the topic of pre-sale planning. So some of the thoughts that have been shared today, John, Andra, and others, but we'll be taking a much more in-depth look at that. Critically important because some of those opportunities are ones that are time-limited. So please do register for that or indeed for the whole series if you want to. If there's anything from today's conversation that you found particularly interesting, or stimulating, or want to know more about, or where you'd like to speak to one of our experts, then please do take the opportunity to get in touch with your HSBC Relationship Manager. It remains for me with just about 30 seconds to go to say it's been a super interesting conversation this morning from my perspective. Thanks again to our panel, thanks to the audience for joining us, and may I wish you a good day for the remaining time of today. Thank you very much everybody.