



by Phil Needham

## A Case Study

### BRITISH BUSINESS BROKERS

#### Welcome to our Business Transfer Agency

This article discusses our sister company, which very recently helped a business sell for more.

Here is our case study:

7 years ago, Steve and Jim came to see me. I set up a new Limited Company for them and talked them through their plans for business. We also helped set them up with a fairly standard accountancy software package. 6 years ago, they came in to review their first set of accounts. With £300,000 turnover, 20% gross profit and £40,000 of overheads they felt they had had quite a creditable first year, so they both remember and like to remind me of my conclusion that “£16,000 isn’t really enough to keep one middle class family supported never mind two”.

Anyway, the motivation must have worked because for 5 years in a row they maintained £300,000 per year income growth and pretty much the same gross margin, and overheads

	Year 1	Year 2	Year 3	Year 4	Year 5
	£	£	£	£	£
Turnover	300,000	600,000	900,000	1,200,000	1,500,000
Gross Profit	60,000	120,000	180,000	240,000	300,000
Profit before tax	20,000	80,000	140,000	200,000	260,000
Profit after tax	16,000	64,000	112,000	160,000	208,000

Jim wanting to retire and knowing (from me) that the sales process can take many months, went with Steve to see a business sales agency. Fortunately, neither Steve nor Jim were very impressed, and they asked me to look over the Agency’s report. I wasn’t very impressed either.

Firstly, their valuation is summarised as “put it on the market for £650,000” (2 ½ x last year’s profit before tax).

OK this is quite a niche business, and it is very dependent upon the two owners (perhaps justifying the multiple of 2.5), but it has a consistent and established history of growth. The then current year’s figures were looking like coming in with another £60,000 increase in the profit-before-tax and the owners were quietly confident of pulling off a 7th year of growth to follow. So, this looked potentially like a company bringing in £380,000 of profit being sold for a maximum of £650,000. A multiple of just 1.7.

**Hornbeam Accountancy Services Limited** Bidwell Road Rackheath Industrial Estate Norwich NR13 6PT

Whether you are a client or not, if we can provide further help or advice concerning any of the matters covered here, please do not hesitate to telephone us on (01603) 720424 or email [info@hornbeam-accountancy.co.uk](mailto:info@hornbeam-accountancy.co.uk)

*Disclaimer* Most of the information contained in this Hornbeam Highlights is of necessity greatly oversimplified. We are trying to bring to your attention tax planning and business management opportunities. However, you should not take action based upon this leaflet without obtaining specific professional advice.

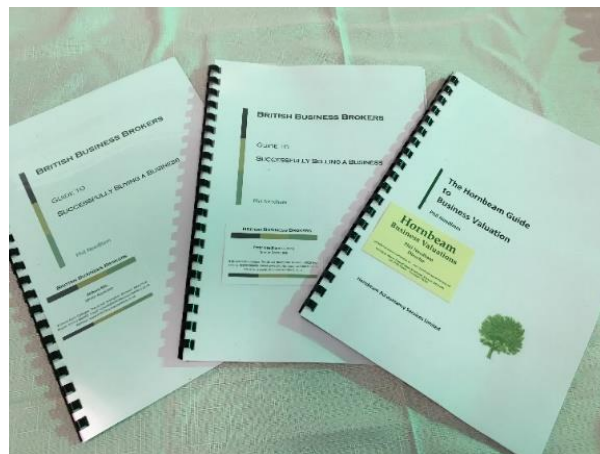
Secondly, we had to consider whether we could sell this business. With Richard having worked on corporate projects for KPMG, myself having worked on sales and acquisitions over the years, and Peter having worked on a lot of business research for his degree, we felt we had the right team.

In fact, Richard wrote the pitch to Steve and Jim and the sales prospectus, Peter worked on researching and approaching potential buyers and administered a strict system of confidentiality agreements.

Anyway, we won the pitch, based on our view that although this business would be difficult to sell at any price, we could sell it for £800,000. Last month this is exactly what happened, just as the company hit the £380,000 profit before tax target. Don't make the mistake of thinking this was all smooth going. We wrote to just under 100 likely buyers, sent confidentiality agreements to about 20 and sent prospectuses to 14 potential buyers. We negotiated with a handful of prospective buyers. After all that, we found the actual buyer from outside of the industry.

Although both the solicitor we recommended and the buyer's solicitor worked hard to make it a quick and clean sale (thank you Alistair), the buyer had considerable trouble with the bank he had lined up to finance the deal and eventually had to change banks, much delaying the deal. But last month the deal completed to all our relief.

If you know anyone who has a business to sell, or if you are thinking of selling, why not talk to us about how we can help you maximise the proceeds of your sale. Steve and Jim are available as referees.



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