WHAT ENERGY MANAGMENT CONSULTANCIES SHOULD KNOW ABOUT SELLING THEIR BUSINESS

HARRISON BRIDGE

CONNECTING TALENT AND STRATEGY

INTRODUCTION

I talk to the owners of Energy Broker firms quite a lot, as you can imagine. Over the last few years, it's become clear that the market is maturing. In turn that maturity is leading to a lot of M&A activity.

Selling a business is something most people only do once. After speaking with a few owners who had sold their energy broker business I realised just how much they had learnt that would never be used.

Insights that could make a real difference to the final price other owners got for their business or could at least make it a less painful process.

So, I asked some of them to share their experience. I also asked an M&A consultant, Steve Retford, to add his thoughts.

What you have here is advice from owners, just like you, on how to sell your business. Plus, the insight of a man who has bought and sold energy related businesses across Europe not only for himself but also for other owners.

I hope it proves useful to you.

Lee De Souza

CONTRIBUTORS

I'd like to express my thanks to the individuals who took the time to discuss their experience of selling an energy broker firm. Each had a unique experience and was very open in discussing what that was. Without them, this report would not have been possible.

However, to ensure they gave deeply honest answers each of them spoke under condition of anonymity.

The contributors held the following roles in their Energy Management Consultancy

Chief Executive Officer
Finance Director
Managing Director

I'd also like to thank Steve Retford, MD of Industrial MA. He has contributed his experience as both a buyer, seller and negotiator of TPI style businesses.

Sharing his views on each aspect we discovered I had little choice but to name him as a co-author of this document.

Former CEO of Energy Management Ltd

Former FD of Energy Management Ltd

Former MD of Energy Management Ltd

TIMING

Our View

One clear thing that came through was how important the timing was to a business sale.

Often the catalyst to a sale was external, coming from investors, market changes or the sudden arrival of a knock on the door. It was surprising how few people were making a conscious decision to divest the business, having prepared it for maximum value. Those that had done this seemed to feel they got a 'better deal'.

My main take away from these conversations was how important it was to periodically take a long view look on your business. If the way ahead looks tricky, and you believe you can get 'your number' then maybe its time to focus on your preparation for sale.

Alternatively, if you're aiming to maximise your value then you should be keeping an eye on who your potential buyers are, and what they would value in a business. Then build it in.

QUOTES

- "It was a combination of investors getting to point where they were ready to exit AND we realised we'd taken the eye off the ball. We'd not been investing as much as the competition and recognised they had an unassailable lead."
- "It took some soul searching from the investors, they tend to be proud animals. but I must be honest, we needed to ask ourselves "do we have the appetite on the board to claw it back?"
- "There was a wider context. There were suggestions of regulation coming in on the TPI (third party intermediary) market. Did we have appetite to face the challenges that would throw up?"
- "Did we have the appetite to deal with that? If you're heart isn't in it then there was a lot of risk"
- "There was a wider exit strategy of the parent group. We were divesting everything, so it was time for it to go."
- "We reached the stage where we either accelerate growth by doing more M & A activity, or we invested in systems. Both would have involved bringing an outside player into the business and giving up some shares."
- "So, we either sell, gain additional finance with a PE house, or get AIM listed to take the business to the next level."
- "We'd reached a point in the marketplace where we had a strategic opportunity. There were very few players that had our capability and other, global players, were looking to seize the opportunity. We chose to cash out"

STEVE'S VIEW

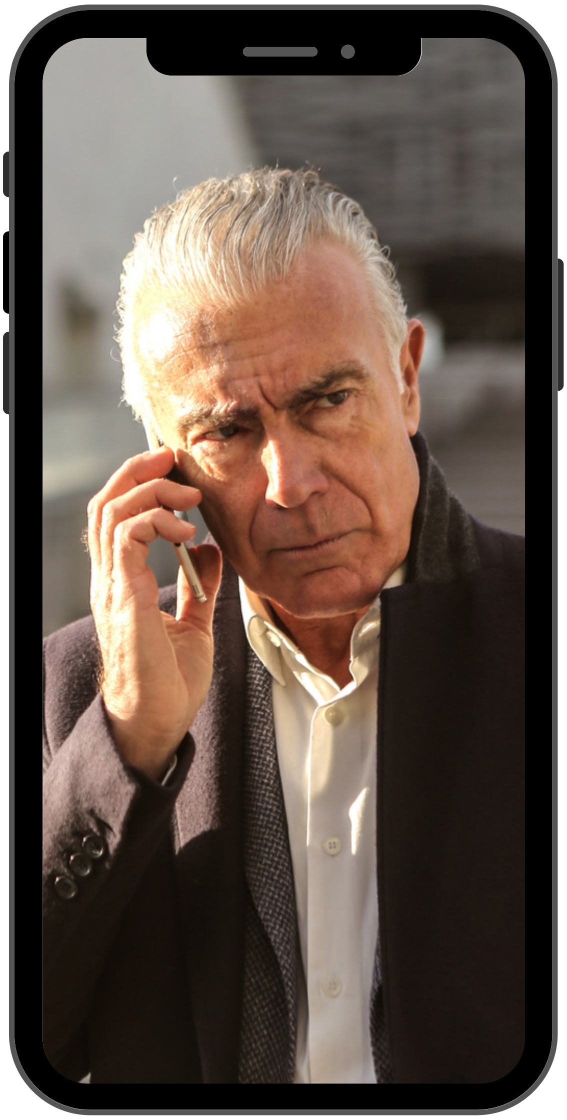
A lot of the people who set up energy consultancies as middle-aged men or women back in 1999, when the UK Power market first opened up, are now nearing or have reached retirement age and many are searching for an exit strategy. It is creating an interesting supply and demand challenge with a saturation of businesses open to a takeover.

Clearly this isn't conducive to getting a good price – unless you can find a way to stand out from the crowd – so for those owners who are not quite yet at that stage of their life, the advice is to plan as far ahead as possible.

Timing is an interesting aspect to selling a TPI business. Someone deciding to sell three years down the line will have a lot more options than someone trying to do it next three months.

With more time you can especially maximise your EBITDA.

Avoid expensive upfront projects that have long ROI timescales. Remember that multipliers get applied to your EBITDA so saving £250k on an IT project could increase your final sale value by £1.25m



Every year, you should ask everyone on the board, 'Does anyone want to sell in the next three years.' If the answer from anyone is yes, then you have a conversation to be had. It might not be a sale; it might be an MBO but whatever the exit strategy, you need to be forward looking. If it's a major shareholder and the remaining board/shareholders are unable to raise the finance required to manage an MBO, then the company may require a trade sale.

WHO TO SELL TO?

OUR VIEW

Different buyers will value you differently, depending on why they want to buy you.

The senior leaders we spoke to all had very different experiences, in terms of how they found the buyer, and the nature of that buyer. Ranging from similar sized competitors to big multinational corporations.

What did come through was how important it was to be comfortable with the buyer you choose to sell to. You do, in fact, have a choice.

It's a balancing act of not taking the first offer that comes your way, but at the same time there is a risk to being, on one respondents' word, greedy.

It was also clear that the size of your business will influence who may buy you. With an EBITDA below a million it's unlikely Private Equity will be interested, but private buyers may be willing to invest. Over a certain size the reverse is true, and creates the potential for strategic acquisition, which seems to carry a higher price tag.

QUOTES

- *“We weren't on the market at the time and just got a Knock on the door. We probably could have spent more time prepping for the transaction, not for price but to speed the whole thing up.”*
- *“You need to realise that different buyers look at you from different perspectives. That effects how they value you. What is valuable to them might be different to someone else."*
- *"You get the best value when you create a strategic opportunity for them, rather than buy it, strip out costs and run it as is."*
- *"We presented a strategic position for the buyer, in an area that is unique and allowed them to grow.”*
- *“It is about finding the right partner who wants to acquire the right business to reduce your completion risk."*
- *"Completion risk needs to be part of your equation, I've heard of a lot of deals that go up to the wire, and they don’t happen."*
- *"You need to meet their management team, and gauge what is the commitment?"*

HARRISON BRIDGE

STEVE'S VIEW

THE FOUR CLASSES OF BUYER:

Private Investor:

An individual with funds, perhaps not directly involved in your industry. If you fit within their limits they may acquire a proportion of your shareholding. However, they may have limited cash compared to other investors, so typically invest/acquire smaller enterprises.

Competitors:

A very common type of buyer. They often want to acquire companies to increase their market share. Especially If they see an angle like making you more efficient, or increasing your sales/margins.

These deals tend to be in the region of £500k-£10million, due diligence also tends to be lower. This means Deals tend to progress to completion faster.

Private Equity companies:

They invest in larger businesses with a plan to increase the EBITDA over then exit on a set timescale. Deal costs usually exceed £150k per deal so they typically target larger acquisitions, £2-30m. Smaller business get overlooked.

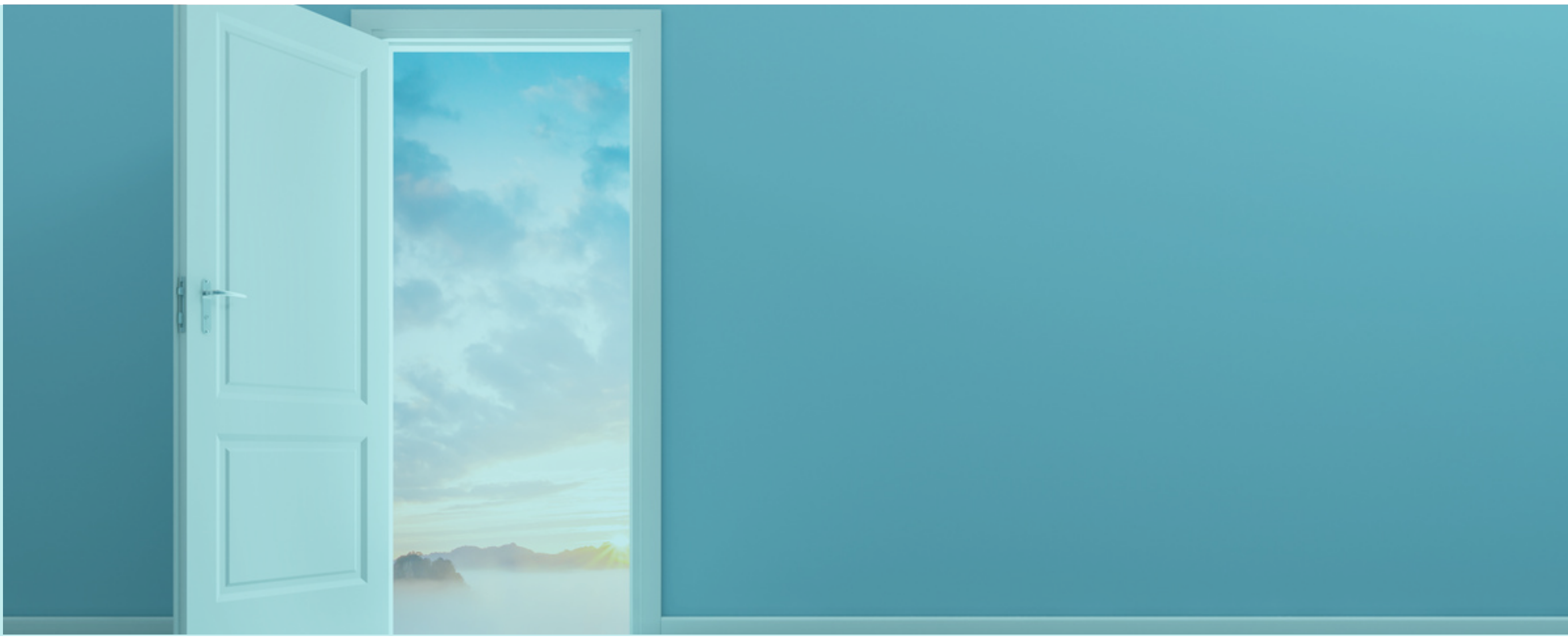
They tend to target companies within a sector that complement other firms in their portfolio. This allows them to instigate a cross selling relationships.

They are quite risk averse so issues will heavily impact on EBITDA multiples, or simply kill the deal. Plus they often don't have knowledge of the sector so they may want the management team to remain in the business post deal.

Strategic Alignment:

These organisations acquire companies within their sector but not always offering the same service. This creates cross selling and diversification opportunities, amongst other benefits.

These deals can vastly range in value depending on the companies involved. Sale prices can be inflated for a company wishing to acquire the right client book.



THE PROCESS
OUR VIEW

In two words I can summarise the insights that everyone shared: Be Prepared.

Selling a business is time consuming, intense and will put you through a bit of an emotional wringer. Steve may not thank me for this but not everyone used an advisor. However, everyone did have someone with experience of the selling process heavily involved.

And for me that was the big take away: don’t try and go this alone. For so many reasons. You need someone in your corner that will have the tough conversations and stand ground when it’s needed.

It seemed that most people realised during the sale just how hard that would have been to do for themselves.

QUOTES

- *"The Owner of the business I sold too gave me some advice: "Go and find a professional advisor." You need someone to have the difficult conversations and doesn't mind pushing people. Important if you want to extract maximum value."*
- *"It's important you have a lead negotiator"*
- *"We had a legal advisor that I have used for 15 years that were well versed in doing these deals that were useful."*
- *"We used an M&A broker house who had experience in the field. Important to find an M&A adviser successful at that point in time and who knows the marketplace as it is today."*
- *"If they have done 2 – 3 transactions in the same marketplace but it was 5 years ago, they don't know the marketplace"*
- *"Be prepared for how nit-picky people will get. There's an Initial romance getting to like each other, then when the numbers aren't right it becomes a Mexican standoff."*
- *"The buyers wanted me on board, so when negotiations got fraught, I could help both sides. Maintaining a dialogue when one of them throws a ridiculous number around or threatens to walk away"*
- *"Be prepared for the amount of work involved in the scales of the process because you can't get much work done or be visible if you are selling a business."*
- *"A sales process takes so much time! You want to be at the table and spending lots of time on documentation. It's energy sapping."*
- *"You still have a day to day job and that's the bit everybody forgets, but we were lucky because we had a good management team"*

STEVE'S VIEW

I'm obviously a little bias about getting an advisor, but it's good to hear so many people who have been through a sale appreciated the value of theirs.

Put simply, having an advisor that works in between will make for a better deal. Almost acting as a mediator.

For many sellers, the business is their baby or at least it's tied into their personal identity. Your buyers can ask questions or challenge things that strike close to the core and emotions can often get in the way.

M&A advisors are not emotionally attached to a business being sold and therefore can keep rational when emotions ride high. The word "Deal Breaker" is a phrase that is used far too often.

This often happens when the lawyers gets a chance for one-up-manship over their peers. It often leads to solicitors' costs being more than the point being argued and more importantly the time that it takes to resolve. A good negotiation is about giving and taking.

The trick is knowing when to take a stand.

An important role of an M&A advisor is to keep a deal moving in the right direction and in a timely manner. Regular weekly meetings between all parties is vital in bringing anything overhanging to a head, confirm what's been completed/agreed and what actions need completing in the next 7 days.

Keeping momentum is important, it's very easy for an unanswered query to hold up a deal for weeks at a time. A lot of buyers are entrepreneurs and can get bored if deals take too long, which risks a deal failing.

WHAT IMPACTED THE PRICE

OUR OBSERVATIONS

So, at its heart the base value of a Third-Party Intermediary is easy, being tied to the residual income streams and EBITDA multipliers.

But there were other factors at play for all the sellers.

There was a strong emphasis placed on documentation, data and process by some buyers. I didn't get the impression that these so much affected the price. It was more that, if they hadn't been up to scratch there simply wouldn't have been a sale.

The ongoing viability of the business without you, the leader, also plays a part.

Not with every business, a buyer who simply wants to roll you into their own business as additional income might want fewer people on high wages.

However strategic buyers, who tend to pay more, seemed to be very interested in the state and quality of your management team, and their ability to take the business forwards without your leadership.

I once heard someone refer to this as the Acapulco test:

If you can leave the team running the business whilst you take a 3-month vacation to Acapulco, confident your business will have continued to grow and expand when you return, then you have a leadership team.

And teams like that can make you much more appealing to the strategic buyers that pay bigger prices.

Worth thinking about.

QUOTES

- *"When you look at TPIs (Third Party Intermediary's) they're straight forward to value: what is the residual income stream? You get a certain % upfront, Rest lifetime contract."*

- *"What is your tail? The calculation if the business stopped today. How much revenue do you have assigned over next 2 – 3 years? Those typical equations"*

- *"Some investors might keep income stream and the buyer keeps the customer. Understanding this when negotiating, can offer sweeteners as well."*

- *"Depth and breadth of directors but also the next level of the management team had an impact on how appealing we were. Really key for the buyer to know who will take it forward when you go."*

- *"The way we were structured at a group level, each business had their own leadership team. What it meant that, even though I was Group CFO, we had an FD in each business which meant it could be sold with an incumbent management team."*

- *"You need to recognise that, with a lot of energy consultants, if all roads lead to you, it can be a problem when you come to exit. We made a decision prior to exit, to get a management team in place for the energy business."*

- *"I can say that you have got to make sure you have clean data, good data. It comes under real scrutiny, so make sure you have good sales practices and protocols. And make sure your systems are really good as well."*

STEVE'S VIEW

SO MANY THINGS CAN IMPACT THE SALE PRICE OF A BUSINESS, BUT HERE ARE MY TOP SEVEN THAT OWNERS SHOULD KNOW ABOUT.

1. If a company is acquiring your business, and all the knowledge within the company (client relationships, supplier relationships, finance, product knowledge and drive) comes from the owner, this can be viewed as a risk. Get a management team in place that can clearly lead the business post deal.

2. Your EBITDA is very important in the valuation of your business. Don't get hung up on your order book value as this is not a guaranteed future income. nsure that your historic and current accounts and management accounts are all accurate and up to date. Accurate financial accounts and performance figures gives your buyer confidence that the EBITDA can be used as a good base from which to calculate your value.

3. There is a growing interest from buyers regarding firms which have invested in software to drive up efficiency. The software could be adopted into their existing operation creating added value.

4. Be brutally honest with the buyers. If you tell a lie to cover something up, then it will come out, and then everything you say is doubted, which increases their perceived risk.

5. If you have "skeletons in the cupboard" get them out in the open and resolve any issue caused. The due diligence process will undoubtedly find them, so better for them to be discussed openly.

6. If you have key policy documents missing or an error in any contract documents, again it will be perceived as a risk which could result in driving down the sale price. Therefore, ensure that policies and documents regarding the likes of GDPR, anti-slavery, domain name ownership, etc, need to be in order prior to sale.

7. Buyers like to see professional well-run businesses that will install confidence that they are acquiring a business that will return their investment.

LOOKING BACK

Finally, we asked one question of everyone we interviewed:
 If you could go back and give yourself once piece of advice, what would it be?

Naturally they all gave more than one piece of advice.

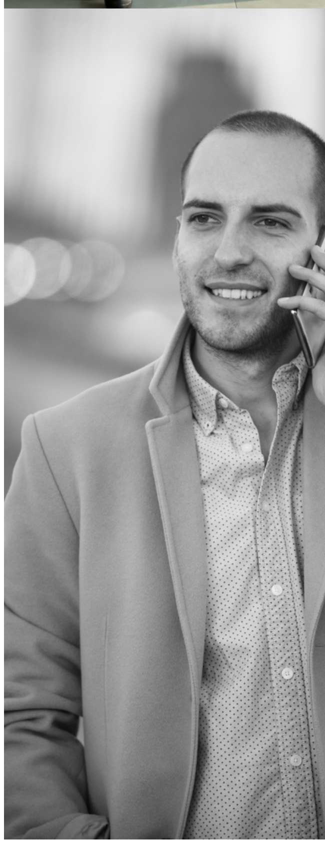
But it boiled down to:

- Get a good advisor
- Decide if you want a lifestyle business or to sell.
- If it's to sell, then run your business so that its ready to sell at any time.
- Have a clear idea of how much is enough and have that conversation with your board to understand their number as well.
- Prepare to be at a loose end once the sale is done.

QUOTES

- "Advisors can be objective they want the sale as well but can be objective. That can help when things get a bit intense around numbers and so on. "
- "Almost always run your business in a way that is ready for a sale. Have all the commercial paperwork in right place, Financials are sound, and do it in the right way. which is easy to say in hindsight, but we were lucky because a few years before we sold, we went quite far down the track with another potential buyer, so knew what to do."
- "Debate with your board how much is enough. If someone gave you a cheque, what would you be happy with?"
- "Be clear, are you running it as a lifestyle business or trying to sell it? you run the business very differently depending which one it is."
- "Be prepared that they might not want you. They want your business and your management team, not you. That can be hard to hear."
- "Get some more help on the day to day [whilst selling]"
- "There's always the potential to get a better price from someone else. The question you need to ask as shareholders is: what is the price you are prepared to sell?

  Example, someone will pay you multiple of 8 on your EBITDA. Then someone else says 11, but the risk of completion is much higher. Should you take it?"
- "Beware the risk of being too greedy in the marketplace. You could wait next year to get a better multiple but your valuation, but it could also go down. If you are doing a strategic sell you have a window of opportunity."



HARRISON BRIDGE

STEVE'S VIEW

I HAVE BOUGHT AND SOLD MY OWN COMPANIES OVER THE YEARS, SO I CAN BRING A LITTLE PERSPECTIVE FROM BOTH SIDES OF THE FENCE. REINFORCED BY WHAT I SEE WITH CLIENTS.

1. **Don't get too excited when offers are tabled.**

It's easy to start spending the money before the deal is done. Big numbers can dazzle you into taking a poorly structured deal.

2. Look out for loopholes

Some unscrupulous buyers adopt questionable terms in the deal. Ensure your legal team are experienced enough in Mergers & Acquisitions to spot them. You need to understand the structure of the deal and the risks involved otherwise you could be inadvertently giving away your business.

3. Earn outs

Very rarely does the earnout pay out 100%. You could get as little as 25% of what is anticipated. If you are not happy with the deal, then re-negotiate. Remember the deal must be right for all parties.

4. Don't stop

Throughout the process keep running your business as if it were never going to sell. It is very easy to take your eye of that ball. If the deal falls through you need the company to still be operating as it was prior to the deal.

CONCLUSIONS

My conversations with the leaders that contributed to this work have been eye-opening. As were the ones I had with Steve whilst preparing this document.

I'm not going to repeat myself, but I will draw a conclusion.

If you want maximum value for your business, you should plan to run it in such a way that it will appeal to a strategic buyer.

That means understanding who may want your business, for what purpose and then building elements in that make it a clear choice.

A central part of that will be having a talented management team.

If you run the business, have all the top clients, and are the only one to know all the ins and outs of how things work then the buyers will see you as a risk.

Let's be honest, once you have your money are you going to stick around, or work as hard if you do?

Either they take your business on for much less, tie you in with an earnout or simply buy someone else.

That may be the most telling thing about this process. Everyone I spoke to who had successfully sold their business had a strong management team in place.

It seems to be the most effective way to prepare for a sale.

As a bonus, it drives your growth and makes your life easier too. All in all, it's a win-win.

HARRISON BRIDGE

[Lee De Souza]

07817 836359

lee.desouza@harrisonbridge.com

LEE DE SOUZA

ABOUT THE AUTHORS

Lee De Souza is the Founder and Managing Director of Harrison Bridge. He has seventeen years executive search and executive interim recruitment experience across several sectors up to board level including nonexecutive appointments.

Lee has delivered over 200+ searches in the UK & Internationally including volume projects and recruiting entire executive teams.

Harrison Bridge was founded with an eye to support the push for carbon neutral by locating the right leaders to make that happen. He supports this ambition not just with his services, but also the creation of value add content to help those leaders achieve that goal.

Lee takes great pride in the compliments he gets on his LinkedIn posts, even the more questionable ones. He'd love you to connect.

"Lee successfully found a new Director of Strategy and Communications for us recently at Elexon to join our Executive team. Our requirements were complicated requiring a peculiar mix of skills but he found a solid (and genuine) long list from which we shortlisted great candidates. What impressed me was Lee's commitment and drive plus he challenged us to refine and prioritise our needs. Throughout he communicated fully and delivered each milestone to the agreed timeline. No hesitation in recommending him."

MARK BYGRAVES, CEO, ELEXON

[Steve Retford](#)

01225 984 080

steveretford@industrialma.co.uk

STEVE RETFORD

An M&A with specialist experience of energy brokers. Preparing businesses for sale, locating buyers, and negotiating deals.

Steve has held several top-ranking positions with SMEs and global corporations within the water and energy sectors over the last 30 years.

In his most recent role as CEO of a leading energy management consultancy, Steve grew the company's client base by 60 per cent over a three-year period through astute acquisitions and diversification into new markets.

Never afraid to innovate, Steve has a very strong background in renewables and biogas technology and has consistently delivered growth wherever he has been.

"Two words to sum up Steve (and his team) – "Relentless" and "Focused". Found a buyer that was the right fit for the deal and in fast order. Struck up a great rapport with all parties involved on the transaction which was invaluable in keeping the deal on track when issues arose during the process and facilitated a smooth and efficient completion. IMA managed the process from heads of terms stage through to completion with great skill and focus and ensured all involved stayed on task. Can't recommend highly enough."

Tom Webb Mogers Drewett Solicitors