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SUCCESSFUL BUSINESS SALE TO PROVIDE SECURE RETIREMENT FOR THE DIRECTORS

Graefe Limited

CMC provided expertise, experience and guidance to the team of highly capable directors in successfully selling their business for a price beyond expectations, which helped them enter into a comfortable retirement.

THE CHALLENGE:

- To sell the business
- Achieve sufficient capital gain, allowing directors to retire comfortably
- Complete the sale within 2-3 years time frame
- Ensure sale with little disruption to the operations of the business

THE CMC SOLUTION:

- Created an exit strategy to suit the business / directors personal objectives
- Undertook a full business review, identified improvement opportunities to maximise the value and appeal to potential buyers.
- Reduced costs to improve the balance sheet and increase profit margins
- Recommendations to update marketing materials and production IT system
- Business valuations calculated providing essential support for negotiations
- Research, marketing and direct approaches made to targeted potential buyers
- Sales documents created - Information Memorandum and Heads of Agreements
- Guided, supported and reassured directors, giving confidence through the final stage of their business journey.

THE BENEFITS:

- Sold for £3.2 million, well above expectations
- Increased the business value, allowing the directors to comfortably retire
- Exit/Sales process completed within 2 and half years
- Quick and efficient transfer of business ownership



Brian Baker - MD of Graefe Ltd 1998 - 2008 - Living a comfortable retirement.

“ WHEN SELLING A BUSINESS, FINDING SOMEONE WITH THE KNOWLEDGE IS IMPORTANT BUT FINDING SOMEONE YOU CAN TRUST IS PARAMOUNT. WE TRUSTED CMC AND WE KNEW THEY WERE ON OUR SIDE. IT WAS NOT A PROCESS THEY APPLIED TO US, BUT A JOURNEY THAT WE TOOK TOGETHER. ”

Brian Baker – Managing Director of Graefe Ltd 1998 - 2008



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GRAEFE LIMITED

Graefe Ltd specialises in the manufacturer of high quality architectural wood veneers and doors and panels to the construction industry. Graefe was originally founded in Germany in 1837 and built an excellent reputation over many years for delivering high quality veneer products, at affordable prices and providing high levels of customer service.

In 1998 three members of the management team purchased the company through a 'management buyout' (MBO) running it successfully and growing it steadily for 8 years. In 2006 the directors made the decision to sell up, retire and reap the rewards of their lifetime's hard work. Having decided on the goal the directors sought professional help to guide them through the sale process, and maximise the value they would realise from the sale to assure a successful outcome.



THE BACKGROUND

Over the years the company had changed ownership several times, ending with it being acquired in 1998 by three members of the management who assumed the key roles of Managing Director, Sales Director and Production Director. The directors combined their individual skills and experience to great effect, growing the business to a turnover of £3,087,000 in Sept 2005. The company had an established skilled workforce of 25, good practices and a dependable 2nd tier management structure. Financial controls and cash management were sound and revenue was spread across 200 clients including many blue chip companies such as Laing O'Rourke, Amec and Taylor Woodrow.

The directors were very capable businessmen, which is evident from the ability to grow the businesses turnover and profits by 10% per annum and consistently outperform close competitors. However, selling their business was a new challenge and an area where they could call upon only limited personal experience. They recognised the need for professional help to bring the appropriate experience, knowledge, contacts and skills. Apart from anything else, they realised the importance of keeping the business running smoothly and performing while the sale was being negotiated – and they just could not do it all alone. They also knew this was a once in the lifetime opportunity and they wanted to optimum value for their business to guarantee a comfortable retirement for all three owners.

The managing director, Brian Baker first approached a company regarded as one of the UK's market leaders in selling businesses but quickly felt uncomfortable by their impersonal and prescriptive approach. As Brian said 'we felt like a small fish in a big pond and they didn't seem to really care about our business'. A recommendation then led Brian to his local CMC partner, who he approached in January 2006. Brian felt comfortable that CMC had the right skills, would provide a personal service and had partners who cared and could be trusted. As Brian explains 'when selling a business, finding someone with the right knowledge is important but finding someone you can also trust is paramount. We trusted CMC and we knew they were on our side. It was not a process they applied to us, but a journey that we took together.'

THE CHALLENGE

The ultimate objective was for the directors to achieve a sufficient capital gain from in the sale of their company to allow them to retire within a two or three year timeframe. The business was in reasonable shape but there were a number of areas where improvements could be made that would maximize the price, appeal to potential buyers and enable a smooth sale with little disruption to the running operations of the business.

THE SOLUTION

EXIT STRATEGY

CMC started working with the directors at the end of January 2006. The starting point was to create, in partnership with the directors, an exit strategy to suit both the business and the owners personal objectives. Through confidential meetings with the three directors, an understanding of their needs and objectives was gained. This allowed CMC to recommend a suitable exit option, deal structure, timing plan, potential post sale involvement and a series of specific actions for building the business value. At this stage, one of the directors decided he wasn't ready to retire, preferring to stay in the business under the new ownership as he was younger than the others. This was factored into the proposed deal structure to ensure his personal objective was achieved.

CMC and the directors agreed that the preferred deal option for them was an 'equity sale' as it had the advantage of attracting only a 10% tax charge for each of them. A minimum sale value of £1.75m was also agreed for any potential deal to be considered. Graefe Ltd owned the long leasehold of their trading premises so an 'arms length' valuation was made and various recommendations suggested on how it could be incorporated into the deal.

A post sale involvement deal option was discussed in preparation of the sale documents.



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Two of the directors were prepared to work up to 12 months, possibly 18 months to support the new owners with the other wishing to stay in the business under the new ownership. Post sale involvement can certainly increase the sale price, as the process is designed to transfer skills and market knowledge – thus minimising the risk for the new owners by providing business continuity.

By this stage, CMC knew the business inside out and could confidently recommend a realistic time schedule. Both the directors and CMC felt they would be ready for the sales process to commence in May 2006, with an expectation to sell before the end of 2006. CMC set the expectation that all timings were likely to be dependent on legal and financial due diligence requirements of the purchasers - a key part of preparation for what can be a difficult period of the sale. As mentioned, a further 12 months from the date of any sale was anticipated to allow for possible post sale involvement.

BUILDING VALUE TO MAXIMISE THE DEAL (Business Grooming)

CMC undertook a full review of the business to assess its health, with the aim of identifying opportunities to enhance the value of the business and its attractiveness. For some years the natural focus of the owners had been to maximise income but as part of preparing to sell the business the focus needed to shift to establishing the value of the asset. In this area some actions naturally take longer to implement than others – so prioritisation was necessary - basically doing the things that would have the biggest impact first. This was an area where CMC were able to provide clear leadership. For example, there were opportunities to improve the balance sheet and increase profit margins – in this case by paying close attention to costs. CMC guided the directors on ways to reduce costs that was successfully implemented by the directors. Most business valuations are

linked to a multiple of earnings of profit – so increasing the profits is a direct way to drive up the sale value.

The review also highlighted some issues that could reasonably be expected to show up through due diligence and might then provide purchasers with the basis of an argument for lowering their offer price. Dealing with these, reduces the amount of work (and risk) the new owners must undertake and automatically makes the business more attractive. For Graefe this meant a general overhaul of marketing materials and updating critical IT systems on which production was heavily dependent. CMC's review also exposed a few potential stumbling blocks. The first was a potential minority shareholder based on an earlier and extant share offer. The other issue was the factory had been incorrectly registered for the use it was now operating. Issues such as this can cause all kinds of problems if not uncovered at an early stage. In this case, early identification of both issues led to simple and quick solutions.

The directors appreciated that what may seem like small perhaps insignificant improvements when you know the business intimately, may be seen very differently by a prospective purchaser. For this reason, getting these small things right can have a completely disproportionate impact on the sale price.

THE SELLING PROCESS

By this stage the working relationship with the directors was well established and they were very happy to appoint CMC to act as their broker for the sale of their company.

The minimum price of £1.75m mentioned earlier involved a lot of careful analysis and consideration of the commonly used methodologies for business valuations. Three different valuation methods were

considered – Balance sheet value, turnover percentage and multiple of profits. For Graefe a valuation based primarily on a multiple of earnings, but validated using the other methods, valued Graefe Ltd at between £1,206,000 and £2,004,000. Valuing a business is not an exact science but familiarity with the accepted methodologies a purchaser may prefer, is an important part of preparing for the negotiation. In this case, based on judgment and experience, CMC advised the owners that £1.75m was an achievable price.

The first draft of the Information Memorandum (IM) - the initial source of information for potential buyers - was then prepared in March 2006. CMC spent time, working together with the directors to refine the IM so that it presented a comprehensive, accurate and attractive picture of the business with all the headline data a purchaser would need. Graefe's company name was not disclosed in this IM document.

'We knew what we wanted to do but we just didn't know how to get there. CMC knew the selling process and was able to advise us each step of the way'

BRIAN BAKER - MANAGING DIRECTOR OF GRAEFE LIMITED 1998

With the IM complete, CMC carried out extensive research to identify potential buyers by creating a thorough profile of the most likely buyers. Following consultation with the owners, confidential direct approaches were made to a short list of 3 potential buyers.

Prospective purchasers were required to sign a confidentially agreement to before any commercially sensitive information was released. Although the initial response was not conclusive, the initial marketing activity led to a conversation between Graefe's MD Brian Baker and one of the potential acquirers. Once the identity of company described in the IM had become clear during this conversation, the dialogue rapidly became an active negotiation between Intercede Holdco Ltd and Brian Baker under CMCs guidance.

“ We could not have gone through our business sale without CMC. CMC really added value to our business, by saving us valuable time and money along the way. We wanted a personal approach, which is exactly what we got! ”

Brian Baker - Managing Director of Graefe Limited 1998 - 2008





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THE OUTCOME

A heads of agreement was signed in January 2007. Intercede Holdco Ltd was also in the process of purchasing another business at the time, so timing was an important consideration and the negotiation period extended.

The contract was signed and the business was sold on the 31st August 2007, the final day of the heads of agreement period. In the closing stages of the negotiations, Brian Baker was able to close the deal at a higher multiple than expected, a considerable achievement but clear evidence of the strategic importance of the business to the buyer. Brian admits 'We were totally naive at the beginning of this selling process but CMC gave us the knowledge and reassurance to confidentially negotiate a great deal, resulting in a very pleasing outcome'. Two of the directors agreed to remain active in the business for 12 months, passing veneer buying knowledge to the new management team, but stepped back after just nine months. The other director successfully transferred his employment under the new ownership, adding value to the new owners.

The eventual sale price was £3.2 million enabling the directors to retire and enjoy a very comfortable lifestyle. Brian comments that 'We could not have gone through our business sale without CMC. We knew what we wanted to do but we just didn't know how to get there. CMC knew the selling process and was able to advise us each step of the way'. Brian continues 'CMC really added value to our business, by saving us valuable time and money along the way. We wanted a personal approach, which is exactly what we got!'

ABOUT CMC PARTNERS

CMC is a firm of business advisers who specialise in helping business owners, to plan and prepare for every stage of the business life cycle.

With over 20 years' of experience gained helping businesses of all size to develop and grow, CMC is uniquely placed to support clients through all the changes and challenges they will encounter on their business journey - including succession planning and developing and executing an exit strategy.

CMC take a long term approach to working with owner managers and all engagements start with understanding owners' objectives. Once CMC know what you want to achieve we can help to plan the journey and guide you along the path.

www.cmc-partners.co.uk

THE SALES PROCESS TIMELINE



ABOUT GRAEFE LTD

Since 1837 Graefe Ltd has manufactured bespoke veneer internal doors and frames, including fire rated and acoustic products, as well as panels and associated joinery. Its expertise is premium real wood veneers. The speciality, is sequential matching and veneer management - the craftsmen ensure continuity of pattern and colour with stunning effects - a result they strive to achieve perfection on all projects no matter the size.

Graefe's promise is that its products, craftsmanship and service will inspire your designs and deliver a high quality finish to your building projects.

www.graefe.co.uk

If this story sounds like the kind of help from which you would benefit, please call Derek Allen on 01491 289181 or email derek.allen@cmc-partners.co.uk to arrange an exploratory first meeting – without obligation and free of charge.