Webinar Q&A

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FLAIR
business growth consultancy

Flair hosted a webinar with guest host Carl Swansbury, Partner and Head of Corporate Finance for Ryecroft Glenton. Carl has helped over 100 owners of recruitment and staffing businesses to exit their companies.

He shared his extensive knowledge of what makes a business interesting and valuable to a buyer. However, time constraints were such that we were not able to answer every question submitted live on the webinar.

Carl has kindly taken the time to respond to each unanswered question in the form of this document.

Q1. What is the normal multiple of profit?

Between 3 to 5.

Q2. How do I know somebody will want to buy it?

It is difficult to know until you go to the market and approach potential buyers, via a CF advisor.

However, a profitable, well run, high profile and regarded recruitment business will always be attractive to a strategic buyer. As long as you can articulate to a buyer the reasons they would benefit from buying the business (i.e. accessing a geographical location, new sectors, contracts, etc).

Q3. Is there an appetite for staffing firms working in emerging markets? Will they get a higher multiple?

Yes to both questions, as an example tech staffing companies in the US are likely to attract more interest, and therefore a higher multiple than the same business if based in the UK.

Q4. Are perm businesses valued differently to temp & contract businesses?

Yes. As perm recruitment businesses have less visibility of revenue than a temp/contract recruitment business they typically attract a lesser multiple on sale.

By way of example:

- a majority perm business with £500k EBITDA will likely attract a multiple on sale of around 3
- a majority contract/temp business with £500k EBITDA will likely attract a multiple of around 4-5 times.

Q5. My relationships with clients are very strong and "I" could be seen as the business. Would this put off potential purchasers?

- If you are planning to remain with the business after sale, then no.
- If you are planning to exit the business on sale, then it probably will.

Q6. Should Recruitment Owners worry about the team they are leaving behind? hence MBO Vs Trade Sale – what are the pros and cons

Yes, as a buyer will only want to acquire your business if they can see that they will inherit a team that can run the business day to day.

Clearly, an MBO is only possible if you have a management team in place who would want and have the financial ability and business acumen to buy the business – if you don't have a management team in place than a trade sale may be the best or only option.

Q7. Does a sale take into consideration the Director salaries?

When calculating adjusted EBITDA for valuation purposes the salary for all directors involved in the day to day running will be calculated at a market rate, regardless of what they are actually paid. This may see your calculate value rise or fall.

Q8. How can you extract money but show a large profit to make the business "more valuable"?

Dividends don't impact EBITDA and therefore extracting remuneration this way will not only be tax-efficient but will present the highest possible profit number. In turn, this will attract buyers to the business.

That said, if you are involved in the running of the business day to day, but take all your remuneration by way of dividend, the buyer will account for that. They will want to adjust the EBITDA to allow for a market rate, ongoing salary via PAYE. Thus ensuring the right Adjusted EBITDA number is used for valuation purposes.

Q9. Can you send me details on this 'Members Voluntary Liquidation' please?

We don't have a PDF in this regard, however further details can be found on our website.

Q10. Are in-house Recruiter teams killing the recruitment world in terms of trade sales?

Not at all, as evidenced by the large number of transactions completed during 2019.

Q11. Do you have any advice for a business in the early days on what will help lay good foundations for the longer-term plan?

For a business to be attractive to a buyer it must be scalable and therefore needs to have a number of things:

- Good systems and procedures.
- Financial governance (i.e. month management accounts, financial forecasts, etc).
- A clear business plan.
- Along with an experienced and capable management team.

Q12. We own a small 5-person recruitment firm and our ambition is to exit in 5 years' time. What is the most realistic exit strategy for us?

Great question – your options will include a trade sale of the business or a sale of the business to the management team. Assuming there was a management team in place capable of running and buying the business in 5 years' time.

For the business to be of interest to a trade buyer in 5 years time it will have to be:

- Profitable
- Well run
- With a good team
- Focusing on a high growth market
- Ideally with approximately 66% or more of its turnover coming from contract/temp placements.

Q13. Does appointing an external MD make you more or less attractive?

If you can appoint a capable MD with a great set of credentials and can demonstrate that they are able to continue to grow the business beyond the current shareholder structure, then this would make the business more attractive because it is more scalable.

Work hard to make yourself redundant from your own business as that is when you have got a business that can be sold, until then it's just a lifestyle business.