

EXIT MATTERS...



By Nigel Cook, ceo of Evolution Capital

As an industry matures, it tends to consolidate. When my father bought his first house, a meeting of the Building Societies Association would have needed a venue about the size of the Albert Hall. Today, the tearoom at Paddington station would be more than adequate.

Our industry is, undoubtedly, consolidating but it is a gradual process. Your cash generative SME, comfortably growing organically, could be well placed to buy other small companies and contribute to the consolidation tide. The challenge is to spot a bargain, and remember that a bargain cuts two ways. It has to leave both sides happy.

You first have to crunch the numbers to work out how much you should pay. Then comes the judgement familiar to poker players. Is the business coming apart at the seams or does the owner have a compelling desire to do something else? I suggest that you call in a professional who knows the industry and understands that valuation is an art as well as a science.

Before you start, you must be sure of funding. A good track record and a bank manager who understands the industry – and is in tune with your vision for expansion – is vital. Make sure that you have introductions to decision makers at the level you aspire to play in.

If you're new to valuing and negotiating a purchase it's important to do your homework. There are books to track down, websites to visit and courses to take. Before you invest, investigate. Don't be hypnotised by cash flow projections – they're easy to massage. Study the books for several years back. Take a view on the owner's real reasons for selling, assess competitive activity and don't forget to look at regional development plans. Finally, never, ever, overpay for goodwill. It's intangible. The cash you get from your bank isn't.