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HART SHAW

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The Adviser

Business disposals

Welcome to the exit planning issue of the Adviser.

In this issue we will cover some of the key issues in respect of exit planning alongside the review of a recent disposal that saw our client achieve significant value for their business.

In addition to the deal review we will also highlight how we work with our clients to enhance shareholder value. The specialists within the Corporate Finance Department have considerable experience of acting for both vendors and acquirers and can therefore help you to consider:

- What options are available?
- What is the value of my business and how can it be maximised?
- How can I structure my business so that it is attractive to an acquirer?
- Do I need to take specialist taxation advice?

At Hart Shaw we are committed to delivering true value to our clients and look to establish long term relationships as your business partner.

We hope that you find this special edition of interest and we welcome your feedback.



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Which way now?

The business community has been hit over the last twenty four months by unprecedented turmoil in the economy. With a number of banks passing into public ownership and all banks being highly selective over new business, the UK banking market has been in disarray and is only now entering a period of comparative stability.

As a leading, independent firm of business advisers we recognise the need to work closely with our clients to ensure we provide a proactive, value added advice. The economic turmoil has challenged many businesses and we have supported our clients through this process by providing strategic advice with a key focus on identifying personal and business targets.

The ultimate aim of many business owners is, at some point in the future, to realise the value of their investment. In many circumstances the business will be the most significant asset owned by an individual and therefore the decision to sell will be the single largest financial transaction completed in a lifetime. In order to guide our clients through the disposal process we have put together a simple three stage process.

Stage One: We meet with you to review the current business performance along with your personal and business goals. At this point we discuss the likely timescale for disposal along with key strategies for improving the value of your business.

Stage Two: Following the initial discussion we prepare a headline valuation for your business to present alongside an outline strategy for the disposal process. This strategy would include an outline of the process of researching potential acquirers.

In working as part of your team we invest our time in these two stages, resulting in no initial cost to the Company. Our willingness to invest this time underpins the belief in our ability to enhance your shareholder value.

Stage Three: This would be the formal disposal process which will include the formal targeting of potential acquirers and managing the disposal process.

The above offer is available to both existing and new clients of Hart Shaw. If you would like to meet and discuss the above strategic development process on a no obligation basis please contact Steve Bell, Head of Corporate Finance on T: 0114 251 8867 or email: steve.bell@hartshaw.co.uk



Real value generated from strategic plan



In 2005 Hart Shaw were retained by one of our clients (GRI Group) on an acquisition search. The key criteria of the search was to find a chemical business that would fit into the existing group portfolio, but would also offer significant opportunity for growth. After an extensive search Harmer Personal Care Limited, a company in financial difficulty was identified.

After extensive negotiations with the Administrator the assets of Harmer Personal Products were purchased for a price of c£1m. At the point of acquisition Harmer had turnover of £8m and was making a loss. The acquisition formed a key stage in the development of the GRI Group.

A key strategy within the business development plan was to strengthen the business but also provide a corporate structure that would allow the ultimate disposal. In 2010 GRI was approached by a key European chemical business and an offer made for the Harmer business (now trading as Hallam Beauty Limited). In 2010 GRI sold a 70% stake for over £18m, valuing the whole business at over £25m.

The significant increase in value was driven by a number of factors. The initial acquisition of under-performing, and undervalued assets was important but alongside this a clear business strategy, strong and experienced management team and strong financial controls were the clear drivers for value.

Swiss Cosmetics Company Acquires Hallam Beauty

YORKSHIRE personal care products producer Hallam Beauty has been acquired by a European cosmetics giant. Mibelle, a subsidiary of Swiss conglomerate Migros, is one of Europe's biggest personal care companies and has acquired the £37m turnover business Hallam Beauty to further build its presence in the UK.

Bradford-based Hallam, a subsidiary of Sheffield-based GRI Group, is one of the largest manufacturers of its kind in the country and supplies its white-label hair, skin, sun and baby care products to a number of leading UK supermarket chains.

GRI Group, which has £104m turnover, will continue as a significant shareholder. Graham Royle, chairman and chief executive of the GRI Group, said: "In evaluating Hallam Beauty's five-year strategic business plan for 2010 onwards, we identified that its continued growth would benefit from the major synergies derived from partnering with another technically strong, European based business from the same sector."

Sheffield based advisers, law firm Halliwells and accountants Hart Shaw, acted on behalf of GRI Group.

Neil Thompson of Halliwells said: "This is the first project we have worked on for GRI Group, who bought the business of Hallam Beauty from the administrator of the former owners in 2005.

"The sale therefore, of a 70% stake to Mibelle generating over £18m, plus the potential for an equivalent amount again on the exercise of options over the remaining shares, is truly phenomenal and testament to the strategic management skills of Graham Royle. He tells me he's back on the acquisition trail and I can't wait for that ride to start."

Steve Bell, Head of Corporate Finance at Hart Shaw said: "At Hart Shaw we take great pride in our involvement in what is a fantastic success story. Hart Shaw has been an adviser to GRI Group since 2002 and advised on the acquisition of Hallam Beauty in 2005. In the time since, Paul Dawson, our relationship partner, has provided continuing support.



Beautiful deal: (l-r) Chris Sellars, former corporate finance partner at Hart Shaw; Paul King, senior associate at Halliwells; David Kearns, finance director at GRI Group; Graham Royle, chairman and CEO at GRI Group; Neil Thompson, managing partner at Halliwells Sheffield, and Paul Dawson, managing partner at Hart Shaw.

"The disposal of Hallam Beauty to Mibelle clearly demonstrates the outstanding job the management team has done in turning this business around and growing it in the last five years. To be involved in both the original acquisition and what has proved to be a very successful exit is very rewarding."

Mr Royle added: "This development represents a fabulous opportunity for Hallam Beauty's customers to benefit from an even wider range of product offerings, helping them to cost effectively achieve further growth through technology-driven range expansion.

"We are looking forward to working alongside Mibelle to take Hallam Beauty to the highest possible level for both our UK and international customers."

Strategic Steps to Success

It always surprises us how many times we meet successful business owners who do not have an 'exit' strategy. After all the hard work to build up a successful business, isn't it logical to spend some time planning for how to maximise its value when the time comes to pass it on? Whatever the reason for seeking an 'exit', the common theme for all business owners is usually the desire to maximise the value of the business. Even if the sale is a strategic disposal, driven by the objective of enabling the company to compete more effectively, you as owner will still want to achieve the best possible price.

The exit process can be split into a number of stages, the first stage in the exit planning process is to determine your objectives as well as your capital and income needs following the sale. Whatever your objectives, the reasons for selling should be thoroughly explored: is it the right time? What are the business' immediate and future prospects? Will its value increase or decrease over the next few years? Do you need to raise capital to live comfortably in retirement or are you already financially secure? There are many issues to consider and it would be a shame not to maximise the proceeds on the sale of the business because the exit was not as well planned and managed as the business itself.

The next stage is to consider the obstacles to a successful exit. These can be many and varied, but could include management succession, personal tax planning, removing any assets that are not required for the business, identifying all the financial, tax and legal issues that could prevent or hamper the sale. A key element of our ongoing strategic support is to identify these issues and work with owners and their management team to reduce their impact on any potential disposal.



The third stage is to identify the options for a successful exit. Although not an exhaustive list these may include a trade sale, a management buy-out, going public on AiM or another public market, or a purchase of own shares (often called a share buyback).

Working with you we will discuss the likely route to exit and structure our work accordingly, taking into account any specific issues that would affect the disposal. Irrespective of the specific route to exit the fundamentals of the business will be the same, strong financial management; a management team with clearly identified responsibilities; clear business strategy and an appropriate corporate structure. In all these matters we would work alongside you, guiding you through the process and ultimately achieving a successful exit.

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Adding real value in turbulent times

Our straight talking approach eases clients in to a deliverable transaction strategy, whilst ambitious individuals, businesses and management teams can progress with confidence, safe in the knowledge that they have access to our complete range of support services. Within the team we have the experience to deliver a full range of Corporate Finance services including MBO's, MBI's, Mergers & Acquisitions, Disposals and Refinancing.

Call NOW for a free consultation



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Art or Science?

It is said that valuations are more art than science with their being numerous approaches to valuation. Ultimately it is said that a company is only worth what someone is willing to pay for it.

It is too often the case that the Vendor has a price in mind based on historical information that would be out of date, or a value they feel they need in order to retire or live out other aspirations. This value may not reflect the true worth of the company.

As professional advisors there are a number of options to base a valuation including: multiples of profits; net asset valuations; recurring revenues; cash generation; price /earnings ratio. This is only a starting point and in order to value the business fairly, it is important to understand not only the financials but also how the company operates and how it fits with a potential buyer. These have a bearing on what the value of the company is perceived to be and what a buyer would be willing to pay.

It is important to ensure that consideration received is structured in a way that suits both the seller and the buyer allowing them both to achieve their plans with risk allocated accordingly.

In achieving a successful exit there will be a balance between the formal valuation and the ultimate value achieved. The final value will take account of the negotiations between the parties. Working as a key member of your team our experience in business valuation and disposal means we have the ability to enhance your exit value. A successful disposal starts with a clear vision of the likely exit and it is a fundamental truth that forward planning enhanced by professional advice and support will deliver real value added.

Thinking about retirement? Forthcoming events

How and when to pass on the family company is something that should be considered well in advance of an individual's actual "retirement" from the business.

The question of whether you intend to sell the business for as much as possible or pass it down to your family is a fundamental one.

Passing on the company to family members as a gift will generate no proceeds, whereas a future share sale will generate funds either for your retirement or for another business venture.

With proper tax planning, either route can often be done with minimal tax consequences due to CGT and IHT tax reliefs available on the transfer of business assets.

Consideration should be given as to how and when to pass shares on. The use of Trusts can be an important tool for deferring tax and as a means of giving away shares whilst retaining a degree of control of the company.

The relevant issues to consider in minimising the capital gains tax payable are as follows:

- i) What is the level of other income and therefore will the gain be chargeable at the basic rate of 18% or higher rate of 28%?
- ii) Will the disposal qualify for Entrepreneurs Relief and a reduced 10% capital gains tax rate?
- iii) Is it possible to reduce the capital gains tax liability further by transferring shares to family members?

When negotiating a share sale, consideration should be given as to whether the proceeds receivable will be in the form of cash or deferred in any way, either by a share for share exchange or the inclusion of "earn out" rights. Deferral may achieve higher sales proceeds but, without careful planning, could result in an increased tax liability.

A sale of the shares could create a potential IHT problem by swapping shares, an asset that qualifies for an IHT exemptions, for cash which does not.

Early planning is sensible and can be very tax effective. We would be pleased to discuss exit planning with you to ensure that you are the main beneficiary, and not HMRC.

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Hart Shaw runs a variety of seminars throughout the year aimed at helping business owners get to grips with a variety of issues affecting the successful management of a business.

In the past few months we have held seminars on cash flow management, exit and succession planning, business risk, business strategy and taxation with a number of our key financial, law and marketing business partners.



Our recent 'exit and succession' planning seminar with the FD Centre and Nabarro proved to be a great success with business owners around the region attending to gain an insight into how to successfully develop a long term exit strategy.

In most cases, disposing of a business is done only once so it is vitally important to ensure you get advice from people who know how and when to prepare and how to maximise the price whilst minimising the hassle.

For many entrepreneurs, the idea for starting their business was to make a difference. Not just a difference in the eyes of customers and peers, but also a difference to their own financial well-being. Whether your business is based around generating an income or for building growth, there will come a time when disposing of the business is the right thing to do.

Due to the exceptional demand for this seminar there will be additional dates in the diary later on in the year so please keep an eye on the 'forthcoming events' page of our website to be kept up to date with all future seminars at Hart Shaw.

You can also find details about the past seminars we have run via the 'seminars' page of our website, which also gives you access to the presentation slides which are available to download.

If you require any further information about any of these topics, have any suggestions for future seminar subjects or would like to attend an event please get in touch with Brendan Hall, Marketing Co-ordinator on T: 0114 251 8872 or email: brendan.hall@hartshaw.co.uk

Meet the team



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