



KERR CAPITAL
business brokers & advisors

YOUR GUIDE TO ACQUISITIONS OF SMEs



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Your Guide to Acquisitions of SMEs

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INTRODUCTION



There has never been a better time to acquire SMEs (small & medium sized enterprises). Buyers are in short supply, values are down, business finance is tight and there is a very large and growing pool of SMEs that are:

1. Already on the market often at an inflated asking price, but struggling to find buyers with cash;
2. Planning to go to market but just starting to realise what a time consuming, intense process it will be;
3. Not planning to go market and hoping that a buyer will miraculously appear!

Given the sheer number of SMEs on offer across a range of industries there are some highly attractive acquisition opportunities.

However, while there are many opportunities, the SME business sale market place has its own unique characteristics, which need to be understood before embarking on any acquisition program.

*There has never
been a better time
to acquire SMEs.*

YOUR CHALLENGES



If you are a medium to large sized organisation with a growth plan based on acquisitions here are some of the challenges you will face:

1. **Lack of quality information on pricing** of recent transactions – this can lead to significant misunderstandings and misguided expectations on the value of SMEs;
2. **SME owners unfamiliar with advisors and the processes** typically encountered in a sale process – most SME owners will only ever be involved in one business sale;
3. **Lack of sale readiness** of many SME businesses – you will normally need to allow a longer period for due diligence to enable a proper evaluation to be done;
4. **High level of emotional connection** to the SME by the owner – this needs to be understood and managed;
5. There can be a **range of financial & non-financial factors** that will be important to the SME owner.

At Kerr Capital we work with SMEs and their owners day in and day out, advising them on sales, valuations and exit planning and are very familiar with what it takes to successfully acquire SMEs.

*At Kerr Capital we
work with SMEs
day in and day out...*

YOUR OPPORTUNITIES



Medium and larger companies unfamiliar with these subtleties may be missing out on some attractive opportunities:

1. While not perfectly investment ready **many SMEs are poised for strong growth** and can be acquired on an immediate, price accretive basis
2. Often **simple risk mitigation measures can be put in place** for the

common challenges found in SME:

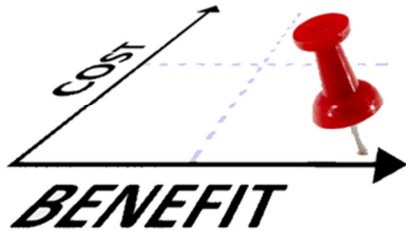
- Reliance on the outgoing owner can be overcome through structured **earnouts** and **vendor financing** which can both be used to 'lock-in' an outgoing owner through an extended transition period;
- Poor documentation of key agreements and internal processes can be overcome with a cooperative approach from the buyer during the owners exit planning.

Done properly, it will be a **time consuming** process with transactions taking longer than you will anticipate. This will most certainly impact your internal resources, who typically have competing and sometimes time sensitive internal matters to manage.

There are a range of benefits from acquiring SMEs that make the investment in a structured acquisition

So you need an experienced SME advisor to drive the process for you.

YOUR BENEFITS



There are a range of benefits from acquiring SMEs that make the investment in a structured acquisition program worthwhile:

1. **Choice** - a well-run process can often present acquirers with a choice of acquisition opportunities that are competitively priced and packaged;
2. **Rapid capability building** - good performing SMEs can be a very quick and effective way of developing capabilities (as compared with an internal build) and 'getting to market';
3. **Immediate access to human capital** - acquisition of quality, human resource talent;
4. **Increase of market share** - SMEs can represent good 'bite size' increases in market share and can sometimes be financed with a component of deferred vendor financing.

HOW WE CAN HELP

Kerr Capital can help you with your acquisition planning and execution by:

1. Developing an appropriate set of criteria that aligns with your corporate objectives;
2. Finding and evaluating acquisition opportunities that match the agreed criteria;
3. Providing dedicated project management resources to run the acquisition program;
4. Running a highly structured, well proven acquisition process drawing on its own IP and experience developed over more than ten years;
5. Providing highly professional and discrete approaches to target companies that will minimise the chance of inflated price expectations that typically occur with direct approaches from large and medium sized companies;
6. Providing high level research and analysis capability to develop understanding that bridges the divide between small and large business;
7. Validating growth strategies;
8. Anonymising the acquirer's identity until the appropriate time in an acquisition so that the acquirer can maintain the maximum commercial advantage and, particularly in intra-industry engagements, preserve their reputation;
9. Supplementing the acquirer's industry knowledge through the discussions Kerr Capital has with the various industry participants.

*Kerr Capital can
help you with your
acquisition planning*

OUR TYPICAL ENGAGEMENTS



Type	Situation	Target	Approach
One-to-One	<ul style="list-style-type: none"> You know your target 	<ul style="list-style-type: none"> A competitor; Key supplier; Key customer 	<ul style="list-style-type: none"> Discrete; Broad exploratory or quite specific criteria for acquisition
One-to-Many	<ul style="list-style-type: none"> You have a capability gap; You are not sure about your target; You are not sure about potential fit 	<ul style="list-style-type: none"> Usually from the industry; May not be known 	<ul style="list-style-type: none"> Anonymous; Usually exploratory with broad criteria for acquisition

Table 1: Our Typical Engagements

OUR TYPICAL PROCESS






	Activity	Time, weeks	Parties
1	Establish strategic rationale for acquisitions	1-2	Joint
2	Develop acquisition criteria	3-4	Joint
3	Develop key terms for Heads of Agreement	3-4	
4	Research industry and identify prospects	5-8	
5	Validate prospect list with acquirer	5-8	
6	Initial approach to targets	9-12	
7	Initial meetings with targets	10-14	
8	Qualify targets with acquirer (with joint visits)	12-16	Joint
9	Issue Heads of Agreement / Offer	14+	Joint
10	Negotiate offer	16+	Joint
11	Complete acquisition	16+	Joint

Table 2: Our Typical Process

OUR TYPICAL TERMS



1. Professional fees for first three to six months to cover:
 - a. Development of acquisition strategy and criteria
 - b. Development of acquisition program and timeline
 - c. Market research
 - d. Approaches to targets
 - e. Regular reporting back to CEO
2. Additional success fee component on completion of acquisition.

HOW WE WORK AT KERR CAPITAL

- ✓ We will act as an **outsourced** and external division of the acquirer (which enables the identity of the acquirer to be preserved until the appropriate stage of the transaction).
- ✓ We can also work with an existing **in-house M&A team**.
- ✓ We will typically report to the CEO or Head of Corporate Development.
- ✓ We will work with legal and accounting advisors on both sides in the role of **commercial facilitator** to ensure the transaction is completed.
- ✓ We can be re-engaged to assist with **post acquisition integration** (this can work very well, given we usually have a good understanding of the business and the outgoing seller who may well be involved in an ongoing transition).



OUR CASE STUDIES



MAJOR INDEPENDENT BOOK RETAILER

Kerr Capital was engaged to facilitate the acquisition of an independent book store. The acquirer and the target were well known to each other and so the acquirer wanted a trusted third party to run the acquisition process to a pre-agreed timeline.

The acquirer asked Kerr Capital to undertake a thorough financial and commercial evaluation of the opportunity and to negotiate an acceptable deal with the target.

Kerr Capital prepared a formal evaluation of the target, had detailed discussions with the target and documented a basic Heads of Agreement to reflect the commercial agreement prior to both parties involving respective legal and taxation advisors. A successful transaction was concluded.

MAJOR CORPORATE SERVICES GROUP

The acquirer was a fast growing services company. The board identified some significant potential business risks resulting from the lack of internal capabilities in key business processes.



These key business processes were currently outsourced.

If those outsourced providers went out of business, were acquired by a competitor or failed to invest in key technologies, then the future growth plans of the

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acquirer could be severely affected.

Kerr Capital was engaged to work with senior management to develop a detailed understanding of the industry and the company's growth plans. As a result, a set of criteria was developed that enabled an efficient evaluation of acquisition targets and a rapid phase of research and evaluation of potential acquisitions.



NATIONAL EDUCATIONAL GROUP

The acquirer did not have much experience with acquisitions previously and also needed an expert, outsourced resource to ensure the project was

managed to a deadline. The first stage of Kerr Capital's engagement was to lead the development of the business case for the acquisition which needed to meet a range of internal criteria. This involved extensive discussions with both the acquirer and the target.

The second stage was to discuss, validate and distil the key deal terms for both parties into a workable Heads of Agreement to reflect the commercial agreement. The acquisition was based on an extended transition period with deferred, performance based payments and so the Heads of Agreement incorporated a workable but comprehensive financial formula for calculation of the deferred payments.

ABOUT US



Kerr Capital is professional business broking and advisory firm that specialises in the small and medium sized business market segment.

The firm was established in 2006 by Michael Kerr (B.Comm, MBA). Since then we have undertaken a diverse range of

engagements:

- ✓ Business Sales
- ✓ Business Acquisitions
- ✓ Business Valuations
- ✓ Business Succession Planning
- ✓ Commercial Advisory Services

Kerr Capital has extensive experience in a number of industries including:

- ✓ Information Technology
- ✓ Web Technology products and services
- ✓ Telecommunication Services
- ✓ Financial Services
- ✓ Large Retail
- ✓ Media and Publishing
- ✓ Information businesses
- ✓ Corporate Services
- ✓ Machine and Office Equipment
- ✓ Sales and Rental.

Your Guide to Acquisitions of SMEs

WHO SHOULD USE OUR SERVICES



1. Small & medium sized listed groups;
2. Large & medium sized private businesses;
3. International MNC located offshore;
4. VC's / Private Equity Groups.

GOT QUESTIONS?



Call

1300 53 77 22

for a confidential discussion today.