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Shopping for a Trojan Horse

ALSO INSIDE:

Stop the world, I want to get off
 AV = Adding Value

PLUS:

Case studies featuring the latest
 Avondale transactions

SELL OUT TOUR EVENT:

Book Your Place at the definitive
 sales, mergers and acquisitions
 workshop

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 adding value to you and your business

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Welcome to AV

"Would you tell me, please, which way I ought to go from here?", asked Alice. "That depends a good deal on where you want to get to", said the cat. Lewis Carroll

Our lead article, 'Shopping for a Trojan Horse', shows that if you know where you want to be, it is far easier to work out how to get there. It confronts some of the most common pitfalls and outlines the real opportunities that a well-planned acquisition brings.

Business acquisitions are carried out for a wide variety of reasons, from individuals seeking to invest in their future to financial investors or existing trade businesses responding to changes in their market, generating cost-savings or providing important integration or cross-selling benefits. Most trade acquisitions are driven by buyers seeking to increase market share, profits and shareholder value.

It is essential to take account of expectations in terms of earnings and security of income, and intangibles such as longevity of the businesses life cycle, economic trends as well as the suitability for integration into any existing operations. By the same token, it is also vital to consider carefully the ability to manage the sale process and any post-acquisition integration without a detrimental impact on your existing business(es).

In this edition of AV magazine, we take a look behind the scenes of successful sales and acquisitions projects based on our unique experience. Our other articles focus on the art of negotiation, case studies and a feature on Avondale's new Sell Out Tour workshop, designed to give you an insight into the elements that make a successful deal from the perspective of both the buyer and the seller.

For further information on any of the issues raised here or to discuss specific transactions or opportunities, please contact us at:

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Shopping for a Trojan Horse?

"A poor buy is like bringing a Trojan horse into your own business. It will under perform and impact on your bottom line, so it's better not to buy at all."

Kevin Uphill, managing director of business sales, mergers and acquisition specialists, Avondale, discusses how best to prepare for takeovers.

Buying and searching can take up far too much time if you let it. One way to shorten the process dramatically is through preparation. Create a shopping list, make sure it details your ideal acquisition and then try to stick to it. Set time aside to paint as accurate a picture as you can of the size and type of business you are searching for.

Of course, the shopping list needs to include seeking economies of scale and business synergies that offer growth prospects, but what else? Often buyers concentrate on the target company's wish list. However, the best shopping lists are created after internal introspection.

What are your strengths and weaknesses? Buy based on this. What are your cultural values? Match the target to these.

A poor buy is like bringing a Trojan horse into your own business. It will under perform and impact on your bottom line, so it's better not to buy at all.

More than half of acquisitions fail to meet the buyers expectations post-sale and the biggest reason for this is a failure to change or manage the people. Essentially, the buyer could not get a handle on the culture and therefore realise

change. Arrogance also contributes as confident successful buyers can underestimate the task. All the thinking and the time is spent on the deal itself and none on what happens after. Due diligence should not just be about assessing the business; it should also help create clear and effective plans for post acquisition.

Your strategy should also include creating choice. Thorough research and strong targeting, using an intermediary, helps create a volume of potential sellers. It is more likely you will match your shopping list in this eventuality.

Once you have your list, draw up a timetable, employ the right help and stick to it. Charm the vendors even if you disagree; it makes the whole process more pleasant and likely to succeed. Negotiating to buy is not an adversarial process but a listening one.

Create a shopping list of criteria that suit your organisation and objectives and stick to it. For example.

- Secure cash flow
- Dynamic culture
- Expandable
- Key location
- Realisable economies of scale

Business News from Avondale



The Reel Deal

Collins Youldon

The Vendor, Collins Youldon Ltd, manufactures hose reels, cable drums and related products, supplying both the fire and the vehicle tanker industries. Their products lead UK and European markets with 40% of revenues generated through exports.

The purchaser Asfare Group PLC is a specialist supplier of products and services in the Emergency and Security markets.

Turnover of Youldons to year end 30th June 2005 was £2,752,000 with adjusted pre tax profits of £320,000. The business sold for an undisclosed sum in June 2006,

part cash part deferred cash. Tim Wightman, chairman of Asfare, commented on the acquisition: "We are delighted to be purchasing Collins Youldon. It has excellent synergies with our existing business and will be a natural partner for AS Fire and Rescue. The quality products and customer relationships that Collins Youldon enjoys will both consolidate our existing position in the UK markets and further our desire to expand into Europe."

Avondale acted for the Vendors. Chris Youldon, the senior retiring shareholder, is looking forward to perfecting his golf swing after providing a short handover to the purchasers.

Book Review



Who Moved My Cheese?

Who Moved My Cheese? is a simple parable that reveals profound truths about change. It is an amusing and enlightening story of four characters who live in a 'maze' and look for 'cheese' to nourish them and make them happy. 'Cheese' is a metaphor for what you want most in life – whether it is a good job, a loving relationship, money, a possession, health or peace of mind.

'The Maze' is where you look for what you want – the organisation you work in, or the family or community you live in. In the story, the characters are faced with unexpected change. Eventually, one of them deals with it successfully, and writes what he has learned from his experience on the maze walls. When you come to see 'The Handwriting on the Wall', you can discover for yourself how to deal with change, so that you can enjoy less stress and more success. A recommended read!

AV=Adding Value

Avondale's vision is to be unquestionably the market leader in commercial SME deals by helping business owners realise their dreams. We are achieving this through our track record in delivering deals, but also by providing our clients real 'best advice'. We use the term 'best advice' at Avondale a lot but what does it really mean? Here are the Oxford definitions:

Best – In the highest degree, excellence or one's utmost endeavour
Advice – To counsel, give information and skilled opinion

The Avondale ten commandments of Added Value through 'Best Advice' are set out below:

1. **Listen** – Facilitate discussions to ensure focus on identifying needs of the client
2. **Be aware** – Actively seek knowledge and know where to look for information
3. **Be objective** – Consider client's needs and situation and give due consideration to the advice that you provide
4. **Keep records** – Take time to be methodical and document key information
5. **Seek and take advice** – Actively seek and listen to third party opinions to better your advice
6. **Be understood** – Communicate succinctly and tell it how it is, checking for understanding at every stage
7. **Lead** – Take personal responsibility for making things happen
8. **Care** and respect what your client wants and do your best to deliver it
9. **Deliver** – Do what you say you will, take control of situations and events.
10. **Exceed expectations** – Think four or MORE steps ahead. Reflect regularly on your own performance and modify your behaviour to achieve excellence

|| The concept is greater than doing your best, although that is part of it. It also includes doing the right thing when we say we will, listening, learning and communicating. By taking the time to deliver real best advice we also show excellence in our service. ||

The Big Adventure

Raise a Glass to 'Sale Success'

Exmoor Ales

Independent Brewery, Southern England

Exmoor Ales is a very strong brand in the South West producing a series of beers since it was founded in 1980. It is a leading Independent Real Ale Brewery supplying both cask and bottled beers. Its trademarked brand names include Exmoor Gold, which is reputedly the first ever Golden Ale, Exmoor Stag, Fox, Hart and Beast, along with seasonal specialities of Hound Dog, Wildcat and EXmas. The company was supplying nationwide and regionally to blue chip client accounts.

The potential purchasers introduced were from related corporate sectors, synergistic industries and private investors. They were attracted by the growing demand for "real taste", "local produce" and "real provenance". Avondale completed the project in May 2006.

The vendor, Peter Turner, had built the business over many years and having established a national brand and strong market position sought semi retirement. Mr Turner says, "I have had a fantastic time over the last 18 years and am very proud of the company and everyone who works there."

"After the successful completion of the sale of the brewery, I am writing to thank you for all your hard work in making the sale possible."

Avondale advised the vendor on the transaction throughout. "We have had a long involvement as you first prepared the information memorandum in December 2004 and a preferred purchaser was chosen in May 2005. He unfortunately pulled out of the deal and we started the whole procedure again in August 2005," comments Peter Turner.

He continues, "Throughout the process from our initial discussions through to completion, I have been very impressed with the depth of expertise and cogent advice that you (Avondale) have provided. Despite the difficulties that arose, your commitment, enthusiasm and professionalism have never wavered. I have also appreciated your good humoured persistence and personal support."

"I would be delighted to talk about the excellent service you provide with any potential clients."

The Sell Out Tour

How to develop, buy, sell and merge a business to realise capital and life wealth



Today, business owners and directors face a myriad of strategic options. No strategy is complete without frequent evaluation - are you considering expanding your business or are you approaching a time when you are looking for a tax effective sale? Whether business or personal reasons, we explore the motivations and the right time to sell your business.

'The Sell Out Tour' is a practical educative 1/2 day conference aimed at business owners or shareholders of SME companies who are:

- Potential vendors investigating exit routes from (or merger of) their businesses within the next 3 years
- Potential acquirers seeking to gain an understanding of the main issues involved in a transaction
- The programme has been designed to provide both parties with an holistic insight into the deal process and explanation of the issues involved to help you achieve your strategic goals.

How will I benefit from attending?

Whatever the size of your company, you only get one chance to make your business transaction a success. Attend one of 'The Sell Out Tour' events to benefit from:

- An insight into the current market. Put yourself in a stronger negotiating position by discovering why people are buying and selling today
- Expert advice on valuations - find out the factors affecting the value of your company or a business you are interested in
- Understanding how to effectively research and market your company to the right people, creating a competitive environment and achieving your best price
- Coverage of legal aspects of transactions - restrictive covenants, warranties and indemnities
- Advice on how to handle confidentiality, heads of terms and due diligence effectively
- Guidance on tax and financial issues

Sell Out Tour Schedule

15th November
Grims Dyke Hotel
Harrow Weald

16th November
Southampton
Hilton Hotel

21st November
Manchester
The Lowry Centre, Salford Quays

Tickets are priced at £95.00 plus VAT (Price includes a buffet lunch & FREE M&A audio CD).

Please call 01737 240 888 for further information or to register.

Business Listings

Please see examples below of just some of the Businesses for Sale and Acquisitions Wanted. Visit our web site www.avondale-group.co.uk to view more companies . . .

Businesses For Sale

Specialist Engineering Company Ref: 7125

UK Based Headquarters - Worldwide market leader - Multi application technology and products - Extensive range of patented products - Experienced and retainable management team - Approx 40% export sales worldwide - Turnover 2005 of £12,500,000 with an operating profit of £1.8m.

Niche Shopfitting & Construction Ref: 13198

UK - Outstanding Industry reputation - Skilled manufacturing and fitting staff - Blue Chip and independent client base - Significant opportunities for further growth - Unique opportunity to access exciting sector - Vendor prepared to stay with business and retain shareholding - 2006 Turnover £3.19M, Gross Profit £1.12M, Net Profit £850k .

Systems Integrator Ref: 7185

UK - Building management systems integrator - Turnover of circa £2.5M with an operating profit circa £345k - Project design, manufacture, installation and maintenance - Blue chip client accounts - Year-on-year growth in gross and operating profit for the last four financial periods - High levels of repeat business.

Precision Engineering Ref: 5032

S. England - Experienced team retainable - QS9000 - Long term contracts with blue chip and International clients - Turnover £1.37m, Gross Profit 26.8% - Production capability expandable within current location - Currently operating from 3 units totalling 14,000 sq ft inc. plant facilities, offices and stores - Modern plant equipment for specialist production.

Specialist Fire Protection Systems Ref: 12082

East Anglia - Long-standing blue chip clients - Retirement sale with full handover - NFPA, BFPFA and ISO 9002 registered - UK market sector leader with significant growth potential - Sales of £135k pa from contracted maintenance and call outs - Turnover £553k, Gross Profit 58%, Net Profit £159k (year ended 31/01/05) - Forecast work in hand with existing clients over £1.5 million during next 2 years.

Care Training Organisation Ref: 4015

Scotland - LearnDirect accredited training centre - Approved SOA Centre - Reputable company with established client base - Specialists within the care sector - Experienced and retainable staff - Re-locatable throughout Scotland - Forecasted turnover of £314k and net profit of £122k based on current management figures.

Contract Bus Company Ref: 4008

Scotland. Lucrative designated route. Loyal customer base. PCV drivers retainable. Established c 10 years. Turnover of circa £700k. Fleet of 32 & 55 seat buses.

Hazardous Waste Management Ref: 7501

S. England - Established 15 years - Outstanding technical expertise and regulatory knowledge - Turnover 2005 of circa £318k, Gross Profit £156K and Operating Profit circa £94k - Blue chip clients in sectors including Aerospace and the Oil Industry - Retainable directors with over 40 years experience in the industry - Relocatable

Multi-Branch Estate Agency Ref: 3504

SE. England - 5 branches - Retainable Senior Management - Residential sales and financial services - Excellent reputation with strong brand image - Member of the National Association of Estate Agents - Turnover to 31/05/06 of £1,257,530, Adjusted Net Profit of £333,485.

Specialist Facility Vehicles Hire Ref: 12007

SE. England - Market sector leader - Full handover available - Operates UK and overseas - Trained and efficient established pool of drivers - Comprehensive fleet of custom-built facility vehicles - Turnover £3.4 million, Net Profit £437k (year ended 31/07/04).

Toy & Leisure Goods Distribution Ref: 7178

S. England - Import & distribution of toys and leisure products including own brand goods - Turnover of circa £10.5M and a gross profit of 38%, EBITDA circa £1m - Exclusive distribution agreements - Blue chip client accounts - Experienced senior management retainable History of innovation and product development.

Maintenance & Refurbishment Ref: 13173

Midlands / Central England - Established 1972 - Blue chip client base - Diverse project range - Turnover of circa £1.7M and a gross profit of 20% - Long standing experienced and retainable management & staff.

Landscaping and Fencing Ref: 4001

Scotland - Enviably reputation - Skilled, experienced and loyal workforce - Operating from leasehold premises - Retirement sale, handover available - Turnover £1.5 million, gross profit £65k

Accountancy and Book Keeping Ref: 7500

E. Midlands / E. Central England (incl East Anglia) - Established 30 years ago - Excellent reputation for quality, service and flexibility - Turnover 2005 of circa £248k, Gross Profit £246K and Operating Profit £157k - Year-on-year growth in sales and profitability in the last three annual financial periods - Over 300 clients with strong level of client loyalty and recurring fees - Re-locatable.

Niche Retail & Mail Order Business Ref: 30281

SE. England - Specialist supplier of radio controlled models. - 60% mail order, 40% retail. - Niche market sector generating repeat business. - Excellent accessible premises available leasehold or freehold. - National and international customer base built up over 30 years. - Ongoing commitment to marketing ensuring further future growth. - £2.4 million turnover at 29% gross profit margin. Net profit under management £270,000.

Plastics- Injection moulder Ref: 3251

UK - ISO 9001. - Quality reputation. - Start to finish process. - Experienced senior management retainable. - History of innovation and product development. - 80 experienced staff of which 70 are involved in production. - 50,000 sq ft plant facility with extensive equipment enabling high productivity.

Gourmet Food Manufacture Ref: 7179

S. England - Production of gourmet savoury foods. - Supply to food service and leisure industries. - Turnover of circa £1.2M and a gross margin of 44%, operating profit circa £210k - 17 experienced staff of whom 13 are involved in production/preparation. - Experienced senior management retainable. - Nationwide sales and distribution. - Operates from 7,500 sq ft premises, with production areas, refrigerated and chilled storage, offices and parking.

Sign Manufacturer Ref: 13158

NW. England (incl N. Wales) - Expansion potential - Long standing blue chip client base - History of innovation and product development - Experienced and retainable management and staff - Recent investment in latest technology enabling high productivity - 2006 Turnover projected to be circa £750k @ gross profit of 71%, and adjusted net profit of £200k.

Acquisitions Wanted

Industrial/Service Sector Ref: REINDSERV

in UK - Strong Growth prospects - EBIT at least £500,000 ideally higher - MBI sought with management willing to stay in business - 60 per cent acquisition sought. Target Value: £5,000,000 to £100,000,000.

Fencing Contractor Ref: Borders

NW. England (incl N. Wales) - Turnover £600,000 plus. Northwest based. Contract or domestic work. Ability to run under management. Some manufacturing ability ideally.

Pump maintenance Ref: Uplift

Strong acquirer seeks pump maintenance in South West & South Wales. Ideally with contracts and retainable management. Relocation considered. Value to £1 Million.

Food Manufacture Ref: Feast

N. England, Midlands / Central England or S. England To be run by existing management - Revenues in excess of £500k per annum. Target Value: £500,000 to £750,000.

Events Company Ref: Occur

England & Wales - Events / party planner / hospitality sales / event catering / corporate entertainment. Retainable staff - Retainable premises not essential. Turnover in excess of £350,000.

Computer Server Maintenance Ref: Liaise

UK - Operating in the supply of server maintenance (ideally HP, SUN, IBM) - Existing contracts in place (evergreen contracts acceptable) - Loss making or profit making - Strong sales & technology teams desirable. Target Value: £1,000,000 to £10,000,000.

Commercial Dry Cleaning company Ref: Press

NW. England (incl N. Wales) - Turnover £250,000 plus. Northwest based. Must have in excess of 75% commercial work. Ideally leasehold premises. Target Value: £100,000 to £650,000.

Medical Recruitment Ref: Refresh

SE. England - Large independent medical recruitment company is looking to acquire dentist, optician or other medical recruitment agencies - Profitable or non-profitable companies considered - Relocatable preferred - Knowledgeable employees. Target Value: £200,000 to £1,000,000.

CCTV / Access Equipment Ref: Overview

NW. England (incl N. Wales) or Midlands / Central England Retainable staff - Minimum turnover £500,000. Target Value: £500,000 to £1,000,000.

Domiciliary Care Agency Ref: Support

NW. England (incl N. Wales) Based in Yorkshire and / or surrounding areas - Minimum turnover £500,000.

Stop the World, I Want to Get Off!

Entrepreneurs usually measure success in financial terms, however increasingly there is an awareness that this should not be "at all costs". A balance in life is necessary. Here we explore some of our thoughts on this balance and why, more and more, this is leading business owners to the decision to sell up.

Success! Your long hours and hard work have lead to high self-esteem and an enviable social position. People look to you. They believe in you and they want you to show them the way. You are responsible. The buck stops with you. Happy days . . .

Of course, life is frantic and you have a demanding schedule, so you don't have the time to take as many holidays as you might like, if any. Also, the family are a bit fed up with the long hours and this makes your relationships rather strained. They cannot understand why you can't stop thinking about the business and just enjoy life a bit more.

With the long hours and responsibility for others, you don't, of course, have time to do the things you want. You would like more time with your friends or on the golf course. You want to travel for six months.

Perhaps you did get that holiday, but then because your self- esteem comes from being responsible for people, you didn't really enjoy the second week because you felt guilty about being away from the business. Also you like to control, so you worried that others were not up to the job whilst you were away. With success, you have of course earned a bit of money. You have done well for yourself. Hopefully, you have not spent it all, or lost it in a divorce brought on by the long hours. Perhaps, because the business has taught you how to be canny, you have invested it wisely.

So the score is:
Business wealth - 1
Personal wealth - 1
and Life wealth - 0

Evening the score

Your business success is a significant achievement, but should running it now be your life sentence? Indeed can it survive your life sentence? Can you keep changing it, adapting it, keeping it fresh and competitive in a faster moving environment? If you are exceptional, you probably can.

You might even be able to remove, or suppress, your control gene and get in a good, strong management team - allowing you to semi-retire whilst enjoying an investment income from the business.

There is also a third alternative. Sell the business and capitalize on what could be your biggest asset for financial and personal life wealth. This is highly tax-effective. Anyone who has owned a business asset for more than two years is usually charged tax at just 10% on any capital gain.



"Its never too late to be what you might have been"
George Bernard Shaw

Selling?

Yes, it's shocking, isn't it? But if a job is not for life, why should your business be? In an age with longer, healthier lives there is time to:

- Build up and capitalise on 2 or 3 businesses in an entrepreneur's life
- Take breaks between ventures for you, family, travel and other goals
- Pursue another career you have always wanted. With no mortgage you don't need to earn as much
- Use the capital for financial security or bank some and reserve the rest for future ventures with new challenges.
- Invest some of the proceeds and do a bit of consultancy in what you enjoy doing.
- Continue working with the new owners in a consulting capacity.
- Retire or other . . .

A sale can allow you to fulfill your existing goals and gives you the time to develop new ones.

"There is no such thing as work hard, play hard. By dividing our lives in this traditional way we will probably always struggle because we can probably only effectively concentrate on one at any time. The focus should be to work continuously on life wealth, which balances work/success with heart (relationships), mind (you) and body (health)."