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How can I sell my business?

The state of the mergers and acquisitions market for private companies in the UK

Is there hope on the horizon for entrepreneurs looking for an exit?

Not much, it seems. The national statistics and the mood amongst corporate finance professionals show the same gloomy picture for M&A activity. Q2 2010 saw only 47 UK acquisitions of independent UK companies over £1m[1] – perhaps one for every four law firms specialising in this work!

There is little doubt that the UK corporate sector is recovering from recession. In many sectors, notably those manufacturing for export, modest profitability and stability has returned[2]. But that is not fuelling acquisition activity, and it remains very hard to sell your business.

The key to the problem is bank lending. UK banks continue to be extremely cautious, and are generally not willing to support expansion through acquisition, nor to provide leverage for private equity investment. That destroys the investment model for private equity – without a high level of debt, the investor cannot make the equity returns needed. Bank lending is focused on supporting existing customers and avoiding driving businesses under.

Almost all buyers need funding, and there are still no obvious alternatives to the banks. As most of the world has the same problems, there has been no influx of foreign lenders. In the old days the fall of sterling might have attracted them, but not now. Nor are foreign buyers flocking to the UK. Cash buyers should be able to pick up bargains, but those with cash are hoarding it, perhaps concerned about whether they will be able to raise finance for their own businesses over the next few years.

[1] Office for National Statistics Statistical Bulletin: Mergers and acquisitions involving UK companies 2nd Quarter 2010

[2] Eg CBI press release 18 November 2010 *Demand improves for UK-made goods*

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In the past, rising stock markets have led to booms in acquisitions by listed companies, but that isn't happening either. The record sums being raised are going to bolster corporate balance sheets and reduce dependence on bank funding. There are some signs of personal or corporate cash balances being used to provide debt funding to corporates, cutting out the banks as middlemen, but not on the scale needed to make a difference.

Uncertainty and lack of business confidence make potential buyers or private lenders just as wary as the banks' credit committees, so prices are driven down and even good businesses struggle to convince investors of their prospects. The uncertainty flowing from the public spending cuts is particularly destabilising.

In the SME market there is now a backlog of entrepreneurs looking to exit or retire, and few prospects for realising value. Most deals we are seeing are self-funded partial exits, with vendors handing over to a new generation of management for a deferred price paid out of the company's cashflow. Inevitably that limits the price the seller can expect for his lifetime's work, and leaves him with much of the risk while sacrificing the upside. The beneficiaries should be the next generation of management, who can gain ownership with little personal risk and good long-term prospects. We keep hoping for an improvement, driven by competition from outside the UK banks, but it isn't here yet.

So for the time being there are bargains to be had, but few buyers with the resources to pick them up.

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