CREATING VALUE AND EXIT PLANNING – FIVE TOP TIPS FOR SEARCH FIRMS

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There is no doubt that the executive search sector is one of the most entrepreneurial industries in the country – if not the world. However, many still fail to deliver significant turnover and value in line with the owners' vision.

That's the view of Tim Connolly, founder of ALC, a human capital consultancy, dedicated to the executive search industry and which regularly brokers merger deals between firms. "Year three is often the crucial stage when the owner may have have had a great year 1 and 2 and so feel justified in over-rewarding themselves for all their hard work rather than investing in a war chest for future growth. What's really important is maintaining sufficient working capital to meet not only your liabilities but also requirements for future growth – cash really is king."

This is a view shared by corporate finance manager David Nixon of Chartered Accountancy firm Ryecroft Glenton who points out that adjustments made for cash debt and working capital are often the most overlooked factor when considering a company's value. "Put simply when arriving at a value for a business an acquirer will add the cash in the business to the enterprise value while deducting any debt. A further adjustment is made for normalised working capital – i.e. the difference between the working capital requirement and the actual working capital at the time of completion."

Connolly and Nixon have five top tips for search firms who want to build for sale or merger:

• Build your war chest - cash is king not just in terms of facilitating future growth but also to deal with any short-term problems
• Outsource non-core activities as much you can – this is often cheaper than buying in the resource and the money you save can be invested in revenue generators
• Make sure the business isn't centred all around you – you need a succession plan which means building a strong management team around you otherwise the value walks out of the door when you do
• Build an infrastructure that is fit for purpose – that means a decent CRM rather than a black book of contacts storied on a spreadsheet - and ensure that you are nurturing and ringfencing the relationships that really matter in terms of being able to not only demonstrate maintainable earnings but also a future pipeline.
• Review your contracts; client relationships and supplier agreements regularly
• Have your numbers at your fingertips – always. Do you know your daily cash position? Are your borrowings at the most competitive interest level? What does your debtors book look like?

"The PE multiple that you will achieve will be based on several factors ranging from sector specialisms, countries of operations, a reliance on certain clients or staff members through to track record of billings and accuracy of forecasts," adds Connolly. "Getting the basics right from the start is therefore crucial."

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Tracey Barrett
BlueSky PR
01582 790702
tracey@bluesky-pr.com