THE PRACTICAL PLAYBOOK FOR SMARTER DEALS

BUYING A BUSINESS

A Practical Guide to Finding, Evaluating and Acquiring the Right Company

STEP-BY-STEP

BUY WELL
NEGOTIATE SMART
BUILD VALUE

MARTIN O'DONOGHUE

MBA-QUALIFIED M&A LAWYER

Contents

How to Use This Book 1

Introduction 2

Chapter 1 - Why Buy a Business? 5

Chapter 2 - Defining the Right Acquisition: What Are You Actually Looking For? 15

Chapter 3 - Finding Acquisition Opportunities: Building Deal Flow Without Being Sold the Wrong Deal 28

Chapter 4 - Getting Yourself Ready as a Buyer: Capital, Credibility and Decision-Making 42

Chapter 5 - How Business Acquisitions Actually Happen: Processes, Sellers and Leverage 54

Chapter 6 - Reading the Seller's Story: Early Information, First Questions and Initial Judgement 67

Chapter 7 - First-Pass Screening: How to Tell Whether a Business Is Worth Buying 81

Chapter 8 - Valuation Without Illusions 100

Chapter 9 - Deal Structure and Offer Terms 117

Chapter 10 - Negotiating Heads of Terms: Agreeing the Deal Before You Spend Serious Money 137

Chapter 11 - Due Diligence That Matters: Testing the Business Before You Own the Risk 160

Chapter 12 - Acquisition Finance: Funding the Deal Without Starving the Business 180

Chapter 13 - The Share Purchase Agreement in Plain English: Where the Deal's Risks Are Actually Allocated 199

Chapter 14 - Completion and the First 100 Days: Taking Control Without Destabilising the Business 219

Chapter 15 - When to Walk Away: The Discipline That Protects Your Capital . . . 236

Conclusion - Buy the Right Business, Not Just Any Business 249

Introduction

Buying a business is not simply a financial transaction. It is a decision to take responsibility for customers, staff, cash, contracts, reputation, risk and future performance. The buyer is not only asking whether a company has traded well in the past. The buyer is asking whether that company can be owned successfully after the seller leaves, the price is paid, the funding is in place and responsibility has transferred.

This book is written for business people who want a practical way to think about acquisitions: entrepreneurs, owner-managers, founders, searchers, investors, family businesses and people buying or selling their own companies. It is not a legal textbook and it is not a corporate-finance manual. Legal, tax and financing concepts are included only where they help the reader make better commercial decisions.

The organising idea is the Sound Ownership Case. A business is worth buying only where six elements work together: the business itself is attractive; the buyer is a suitable owner; the price reflects maintainable earnings and risk; the structure allocates uncertainty sensibly; the financing leaves the company able to trade; and the transition can be managed without destroying value. If one of those elements fails, completion may still be possible, but ownership may not be sound.

Sound Ownership Case

A good target becomes a sound acquisition only when all six elements work together.

BUY THIS BUSINESS ONLY WHEN THE OWNERSHIP CASE IS PROVEN

1 Buyer fit

Skills, role, time and risk appetite fit the deal.

2 Transferable business

Customers, staff and know-how can move beyond the seller.

3 Maintainable cash

Profit turns into cash after normal costs, working capital, capex and tax.

4 Price and structure

Price and terms reflect risk rather than unproven upside.

5 Finance headroom

Debt and seller payments leave room for stress and investment.

6 Execution readiness

The buyer can complete, take control and transition without destabilising the company.

If one element is weak, reprice, restructure, protect, investigate further or walk away.

Use this framework when the deal looks attractive but the ownership case is not yet proven.

Figure 1. Sound Ownership Case Framework. A sound acquisition is not simply a good business. It is a business this buyer can own, fund, transition and improve on terms that make sense.

The visible deal can easily dominate attention: the headline price, the multiple, the offer letter, the financing and the completion date. This book keeps returning to the less visible questions that determine whether ownership will work: who really owns the customer relationships, what cash is needed to run the business, what the seller does that no one else does, whether the financing leaves enough headroom, how unpaid price is protected, and when the buyer should walk away.

This book follows the acquisition journey from strategy to ownership. It begins by defining the right acquisition and building the buyer's readiness. It then explains how to find opportunities, read seller materials, screen businesses, value them, structure offers, negotiate heads of terms, conduct due diligence, finance the transaction, understand the SPA, complete without destabilising the business and, where necessary, withdraw.



Figure 2. Acquisition Journey and Decision Gates. A disciplined acquisition process reduces uncertainty one decision at a time.

The aim is to help the reader behave like a disciplined acquirer. That does not mean being timid. Good acquisitions require ambition, judgement and a willingness to take risk. The discipline is to know which risks are acceptable, which should change the price, which should change the structure and which should stop the deal. A successful acquisition is not one that merely completes. It is one that creates a sound ownership case after completion.

Chapter 8

Valuation Without Illusions

The business has survived your first-pass screen. It is still interesting. The revenue appears understandable. The seller's reason for sale is plausible. The main customers have been identified. The profit adjustments need work, but they are not absurd. The seller is important to the business, but not obviously impossible to replace. There are issues to investigate, but nothing yet says you should walk away. Now the conversation turns to price.

The seller wants £1.35 million. The broker says this is based on a little over four times adjusted EBITDA. The business made £320,000 of adjusted EBITDA last year. The seller believes there is growth potential. The information memorandum lists several opportunities: new products, better marketing, improved systems, a larger sales team, supplier rebates, geographic expansion and the chance to professionalise the management structure. The broker says similar businesses have sold for four to five times EBITDA. A lender has said informally that the business may be fundable, subject to due diligence.

At this point, many buyers reach too quickly for a multiple. If the business makes £320,000 and the market multiple is four, perhaps the business is worth around £1.28 million. If the seller wants £1.35 million, perhaps the gap is not too large. If the buyer can negotiate the price down slightly, maybe the deal works. That is a dangerous way to think about valuation.

Valuation is not simply a number multiplied by another number. In private business acquisitions, valuation is a judgement about risk, cash flow, transferability, funding, structure, negotiation leverage and the future the buyer is actually buying. Two businesses with the same EBITDA can be worth very different amounts. Two offers with the same headline price can transfer very different levels of risk. A price that looks reasonable on a multiple can still be unaffordable. A business that looks cheap can still destroy value if the earnings are not maintainable.

This chapter is not designed to turn you into a valuation expert. It will not teach investment banking modelling, discounted cash flow theory or private equity valuation methodology in technical detail. Those topics have their place, but they are not what most entrepreneurs, owner-managers and first-time acquirers need when deciding whether a business is priced sensibly.

The purpose is more practical. It is to help you understand what valuation is really trying to answer, why headline profit can mislead, how risk changes price, how cash-free, debt-free pricing works, when net asset value matters,

how earn-outs can reduce valuation risk, and how to avoid paying today for improvements that you still have to deliver yourself.

A buyer does not need to know the perfect value of a business at the beginning. They need to know whether the price is credible, whether the assumptions are sensible, whether the business can support the deal, and where the valuation could be wrong.

Valuation is not certainty

Valuation often feels more precise than it really is. A seller states a price, a broker quotes a multiple, an accountant produces a schedule and a buyer builds a spreadsheet. Each step can make valuation look like a technical exercise with a correct answer, when in most private acquisitions it is a reasoned judgement about imperfect information.

The seller may value the business based on what they need for retirement, what they have built over many years, what a friend sold for, what the broker suggested, or what they believe the business could become under a new owner. The buyer should value the business based on maintainable earnings, cash generation, risk, funding capacity, required investment, management transition and the return needed for the capital and effort involved.

Those are different perspectives. Neither side is automatically dishonest. The seller often sees history, effort and potential. The buyer must focus on transferability, risk and future cash flow after completion. The seller may think, "This business has made me a good living for 20 years." The buyer must ask, "Will it produce reliable cash for me after the seller has left, the deal debt is in place, and the risks have transferred?"

Valuation is also where optimism enters the deal. Sellers may believe the business is ready for growth. Brokers may present adjusted profit in the most favourable light. Information memoranda often highlight attractive opportunities that management has not pursued. Buyers may convince themselves they can improve margins, professionalise systems, win new customers and replace the seller without difficulty. Lenders may be interested, but only on terms that alter the economics. Advisers may provide analysis, but the buyer still has to make the commercial decision.

The discipline is to treat valuation as a test of assumptions, not a hunt for a perfect number.

Price, value and affordability are different questions

Buyers often use price, value and affordability as though they mean the same thing. They do not.