WHAT'S MY RECRUITMENT BUSINESS WORTH?

I don't know about you, but I'm super excited about 2024 and beyond, and that we will see businesses all build back value quickly and put in place more checks and balances, giving better resilience than ever before.

To sell or not to sell, that is the question many are asking themselves right now.

I was asked the question the other day "is it the right time to sell my recruitment agency and what could I get for it". The answer as always is what was or is your exit strategy and plan? How much and by when? After an elongated pause there's usually a head scratch and a seven figure number starting in a 1 or 2 usually jumps out and multiply that by each director/owner. Then it's a case of is that net or gross and to complications of ever changing tax rules.

Before I start to talk about what generates enterprise value... lets get one thing straight. If you don't have a 3-5year strategy, you need one, if you don't have a 12 month plan, you need one, if you don't have a people plan and a BD plan aligned to those... you might want to think about those also, and don’t forget about having the right supplier and partners not just for now but to be part of that journey with you.

What mechanism is best for me and why? Trade Sale? Full MBO? Partial MBO? ETO?

A great place to start is at the very beginning and maybe you know and maybe you don’t or things have changed but ask yourself that simple question:

How much by when?

Everything should hang from that, be that just one person’s input to that answer or maybe many more director shareholders with differing timescales and exit cash expectations… but the job to be done is to find a strategy that will meet all stakeholders needs and that’s what I love doing and feel free to reach out if you want to discuss or need help with establishing your strategy and then turning it into reality.

So where do we start? Well we all have heard of ‘multipliers’. You now that mythical number that is used to calculate how big a cheque gets written… do people still write cheques?

What decides multipliers and where do they come from? Well they come from a number of things and it not just a simple matter of saying that you’re x/y/z so you get 2x or 3.5x adjusted PBT… if only! There are some ‘rules of thumb’ but valuation can be very nuanced indeed.

In effect your business is like any other asset you own, a car, a house, a horse, a nice piece of jewellery, some very decent Bordeaux… hell maybe you have all of these and much more. Two rules:

1. The value of your business like anything else can go up as well as down
2. Your business is only worth what someone is prepared to pay for it

We need a buyer magnet to get the best possible price. So what we need to think about is **how do we maximise enterprise value?**

Before you sell your car, if you're smart you'll get your car MOT'd, valeted, any little 'dings' sorted some good tyres on it and a nice air freshener in it. You'll repaint your house, get some new carpet down, de-clutter and tidy the garden and get you photos done on a sunny spring day before starting the process of selling your house. WHY? To make those assets more attractive to more people and to stop potential buyers being put off buying by small little things to fix and use that to hammer you down on price, or just be put off buying.

So we need to think about applying that approach to a business? The reality is you can and should; it's just the pre-sale prep takes longer, a lot longer...

Many things will contribute to a business's enterprise value, and here are just some and questions to get you thinking:

Financial performance:

- Goes without saying but has the business got a sustainable model?
- Is the performance (GP, OP, PBT) of a level that will attract the right buyers?
- Is there a good mix of income from different sectors and services, spread across a decent number of clients?
- What are the overheads like, too much fixed overhead can be an issue.

Great People:

- Are you and the other director shareholders 100% dispensable?
- Have you got great KEY people in the SMT that will be staying post deal, tied down and fully engaged?
- Are your team great and can you demonstrate they value to the business?

Strong Culture:

- Do you know what it is?
- Is it across the business?
- Are people living and breathing the same values?

Clear Proposition:

- Have you got anything unique or demonstrably different in your offering?
- Have you got great tech in situ and a sales and marketing machine that running smoothly?
- Do you have strong stakeholder advocacy and can you prove it with something like NPS?
- Do you operate in a niche that's hard to penetrate?

Solid Operations:

- Do you have standard operating processes and procedures across the business?
- Are there clearly laid out in an operations &/or quality manual, do you have version control in place on all your docs and processes, are you working to or have ISO9001?
- What's in place driving performance, not just financial results but organisational performance in a culture of continuous improvement?

Quality Brand:

- Does it carry weight; are you recognised, known, respected, and leader in your space?

Untapped potential:

- Your business will usually need to be profitable, but remember that many business will acquire before a target becomes too profitable and too successful as to many its about the future worth and value add not the here and now. So if your business is at the top of the curve with nowhere else to go but plateau or slip down then other factors depending it may not be as attractive a deal for an buyer as you might first think

Contracted clients:

- If you've got great clients (large organisations with good credit rating help) then tats positive, but are you in a contracted agreement or just some loose uncommitted PSL arrangement or maybe not even that? If the latter, then start to think about getting that clients 'signed up' to a more meaningful commercial commitment. Long term contracts are worth their weight in gold.
- Have you got a place on framework agreements that are tough (expensive/time consuming) to get on?
- Do you deliver more than just a contingent model? Do you provide more of an outsourced service (MSP or RPO), and if not could you?
- Guaranteed recurring revenue is game changing!!!

Getting sale ready

So let's assume for one minute that someone comes knocking and expresses an interest, out of the blue, uninvited... it happens you know! Maybe you've been planning things for some time and you are exiting as part of a grand plan.

Either way, your house needs to be in order. The business will be put under the microscope, and if a buyer does it right, then they will have people dedicated to the exercise of 'Due Diligence'. Much more than type kickers, they are likely to take a forensic approach to looking at the business, lifting every lid and looking under all the floorboards. DD needs to be a positive experience all round, and making it easy will breed buyer confidence and ensure a quicker and easier DD process.

Expect them to look at you through a Financial, Legal and Commercial Lenses. They want to be able to dissect the business are really get it, so have everything under control, easily accessible and simple to understand. Its why if you run the business from a quality led perspective with processes and procedures in place; maybe you have a dashboard of key performance indicators and with focus across all aspects of the business not just financially bias reporting. A set of well-presented professional accounts is a given, but even those will be scrutinised heavily.

Getting the deal done will be another matter altogether and having the right structure that works for you and the buyer will unusually be a bit of an arm wrestle, and there's a whole other blog or article that can be written on that process, but right now, before getting ahead of ourselves its about working hard to create that pot of gold for ourselves, putting in place and investing in the right things to realise the potential value that the business has.