



Who is my ideal buyer?

ONE to ONE
CORPORATE FINANCE

INTRODUCTION

Every company has an optimal moment to sell. It is vital to try to understand when that moment will be in order to avoid making mistakes, and to optimise the outcome of the operation. Once the decision to sell has been made, every entrepreneur should prepare their company to achieve the best possible sale.

If the entrepreneur is surrounded by good advisors, they will prepare the company to improve its value, make it more attractive to buyers and increase the probability of success, remove obstacles that would hinder the sale, and minimise the tax impact and equity consequences of the sale.

One of the main objectives of the preparation process will be to identify the key areas for improvement, in order to act on them and reduce the potential risks that would be perceived by a potential buyer. The more attractive you make the company to the buyer, the more you can ask for, and the more you will receive for it.

If, as an entrepreneur, you ask yourself the question "Who is my ideal buyer?", it is because you have embarked on the process of selling your business.

OBJECTIVES

The aim of this manual is to communicate, in the simplest and most practical way possible, the concepts that revolve around **the buyer of a company**, the ideal types of buyers, as well as the key to understanding who is the best buyer having embarked on the process of selling a company.

All the information comes from **ONEtoONE Corporate Finance Group** who, as an advisor in hundreds of sale and purchase transactions for more than sixteen years, have enough experience to help you in one of the most important processes of your life.





TABLE OF CONTENTS

1. REASONS FOR SALE

2. FIRST CONTACTS WITH INVESTORS

2.1. INVESTORS FOR EACH STAGE OF A COMPANY

3. WHO IS MY BUYER?

4. THE IDEAL BUYER

4.1. IDEAL TYPES OF BUYERS FOR COMPANIES

5. UNDERSTANDING WHO YOU ARE OF INTEREST TO

5.1. SWOT ANALYSIS

5.2. PORTER ´S FORCES

5.3. THE BOSTON BOX

6. CONCLUSIONS



1. REASONS FOR SALE

An entrepreneur only asks himself the question "Who is my buyer?" once he has embarked on the process of selling his company. But why sell? There are many reasons for which an entrepreneur might consider selling his company.

Some of the following circumstances may make it appropriate to sell, or to look for investors:



Personal reasons: The entrepreneur is preparing for retirement; wants to do something different in life; wants to change business or simultaneously pursue other more profitable businesses. They may have health problems, or perhaps the end of an upward economic cycle has come.



Family reasons: There are discrepancies and conflicts between family members over management. There is a lack of interest or preparation for the children to continue with the management of the company.



Corporate reasons: A conflict of interest may arise between shareholders. Financial investors at a certain point in time decide they want to exit or there may be different financial capacities between partners.



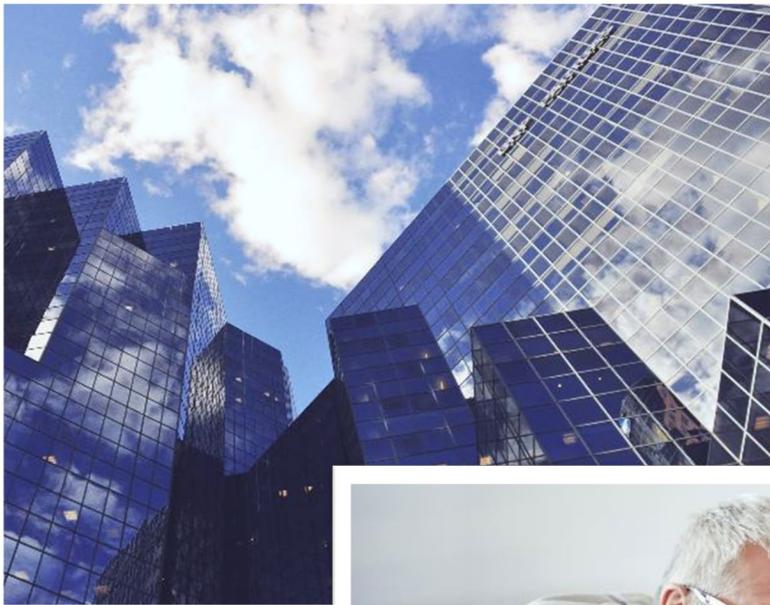
Economic reasons: The company needs a new injection of resources; technological obsolescence; divestment of divisions that are not profitable; receipt of a good offer; the value of the real estate assets on which it operates is higher than the value of the business...



Competitive reasons: The entry of a powerful competitor; offshoring; loss of human capital; loss of important customers; declining profitability; the emergence of new players; a peak value stage in the sector, or the emergence of substitute products.



Legal reasons: There are changes in the regulatory environment of the sector or in tax and fiscal policy.





2. FIRST CONTACTS WITH INVESTORS

Having listed the circumstances that may lead an entrepreneur to sell his business, it is necessary to explain how to look for and contact the investors.

To embark on this process, it is essential that the seller has a team of specialist advisors who advise and guide him throughout the process and help him make the best decisions.

The advisor, as a professional expert in the field, makes initial contact with the decision-maker in the prospective acquiring company. Depending on the size of the company, this person may be the owner, the CEO, the Managing Director, or, in larger companies, the Corporate Development Director of the relevant division.

Establishing personal contact with the investor is not easy and requires first identifying them, then knowing how to overcome filters, being consistent in your calls, and, finally, being interested in them. If there is an interest, then you consult them, validate the reasons and ask for an explanation of their investment capacity. If they are not interested, we also ask why, as this will give us clues as to whether we are focusing our search for investors correctly.



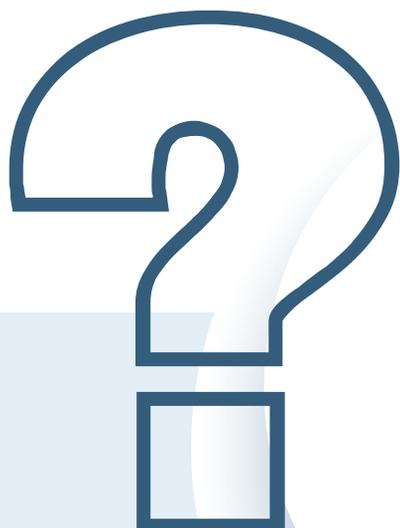
Should the answer be affirmative, a confidentiality agreement is sent to the recipient that guarantees the proper use of the information that will be provided.

This stage is slow due to the professional level and lack of time available with the people that need to be spoken to, as well as the significant follow-up effort required to get a personal interview with them. One reason for using advisors is that they take the workload off the salesperson by handling the sales process themselves.

Once the signed confidentiality letter has been received and there is an assured interest in moving forward in the process, a meeting is arranged for the delivery and presentation of the sales booklet.

With regard to potential foreign buyers, we contact them directly. It is the advisory team's task to investigate the potential investors, what their track record has been in other acquisitions: prices, multiples, payment formulas and to understand what strategic reason this acquisition would have within their growth process. In addition, it is also important to get answers to the following questions:

Knowing how to answer these questions will give us the advantage of being able to improve exposure.



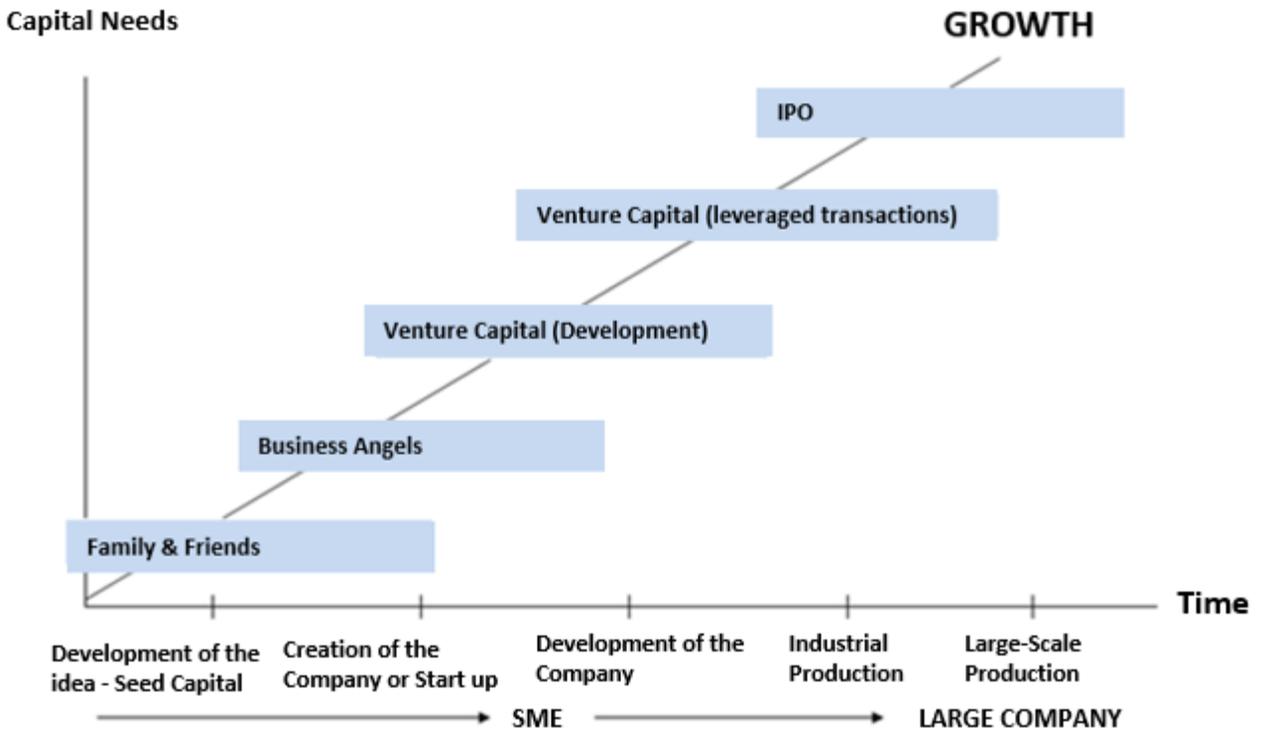
- *How has your company evolved this year?*
- *What has been its trajectory and history?*
- *In which geographical areas are you present?*
- *Who are your customers and suppliers?*
- *What is your growth strategy?*

2.1. INVESTORS FOR EACH STAGE OF A COMPANY

If you, as an entrepreneur, are looking for investors, you will have to approach different actors, depending on the evolutionary stage of your company:

- **Seed capital:** This consists of betting on a business idea without a business structure at the moment. The idea for a new company is usually the result of a fascination, a concern or an obsession.
- **Start-up:** These new companies (also called start-ups) are starting to function and are attracting their first customers. In many cases the founders do not have the resources to finance the growth of the company, they do not have the support of financial institutions, and they need investors to put money in or the company will not be able to continue growing. In this situation, when the project is robust and well sold, a new investor may appear:
 - **Business angels:** figures with an increasing presence in our country, usually a former entrepreneur or a private investor who is committed to investing in start-up business projects.
 - **Pledge funds:** This consists of a group of professional investment experts who bring together a number of entrepreneurs in an investors' club.

The graph below shows the different stages your company may be in. It is at this point that you should choose the right investor for you.

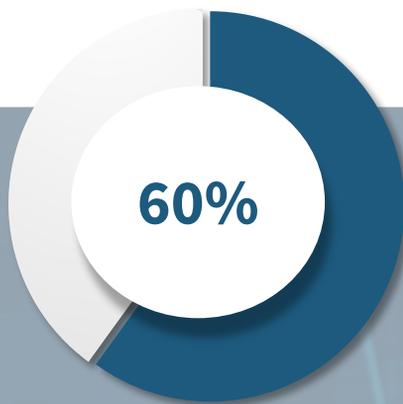




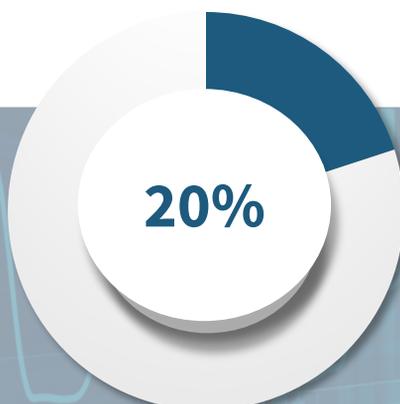
3. WHO IS MY BUYER?

In Spain, there are approximately 3,000 company buy-outs per year. We are not talking about businesses, but about the sale of organisations with a business structure that can live perfectly well without the presence and management of their current shareholders.

These are the different buyers that exist, according to percentages:



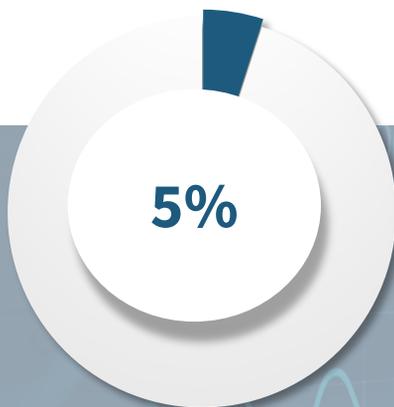
Other companies



Venture capital investors



Family offices



Banks or savings banks



Executives of the company or outside management teams

When analysing who might be the best buyer for your company, we will demonstrate how to review the competitive environment. This allows you to discover which entity will be able to obtain the most value by acquiring your company, and therefore will be able to share that value with you. As we will see, competitors are often not the logical buyers, nor are they the ones who would pay the most for your company.

Before we start looking for a buyer, we need to understand who we are creating value for. Keep in mind that the decision to buy a company is not an easy one. It involves a lot of effort and tasks for the internal teams in the study of the operation. They will have to hire legal, financial and tax advisors, they will have to assume the contingencies, debts and risks that your company has, and they will also have to pay money! Therefore, to convince the potential buyer, you have to show them that they are going to win, and win a lot. As your advisors, our mission will be to:



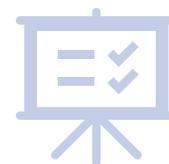
Analyse which companies may be interested in your acquisition at this point in time.

Identify those who perceive the most value in your organisation and, within those, those who have the most buying power.



Locate the decision-maker within these buying companies.

Properly present (sell) the idea of the acquisition to him and the benefits it would bring to his company and to him personally.



Encourage him to study the operation in depth and to make an offer.



4. THE IDEAL BUYER

Many entrepreneurs sell their company to the first person who calls them and makes them an offer. This is a big mistake. If you have been growing a business for many years, taking care of every detail and creating value, don't sell it to the first person who wants to buy it. Plan the sale and look for the ideal buyer.

Undoubtedly, finding the ideal buyer requires effort, it requires applying a search methodology and studying all the possibilities. Nevertheless, it is worth it as the difference in price can be substantial.

The most common tools used by M&A specialists to determine who are the best candidates to acquire your company are SWOT (Strengths, Weaknesses, Opportunities, Threats and Opportunities) analyses, Boston Boxes, Experience Curves and Porter's Forces Chart. In the following sections we will show just how useful of a reflection tool they are for finding buyers for your company.

Perhaps you believe that only you can know who the ideal buyer is for your company, since you know your sector of activity very well, and perhaps on an occasion a company has approached you to make a purchase proposal. However, how do you know if there are better buyers who can make much better offers, without doing a good analysis and a good search? We take care of it.



The search for the ideal buyer will help you answer the following questions: Could it be a supplier? Maybe a customer? A foreign company? An investor not linked to the sector? What documentation do I need to prepare? How do I make my company more attractive? How do I maximise the value of the company to achieve the highest price? And how do I find it?

4.1. IDEAL TYPES OF BUYERS FOR COMPANIES

SUPPLIERS

One of your suppliers may become your ideal buyer. In most cases, a supplier usually acquires a company with the intention of vertically integrating and gaining access to a relevant customer of the acquired company. For example, an automotive components company that only sells to secondary manufacturers may be interested in vertically integrating upwards by buying from a customer that sells directly to the brands.



CLIENTS

A client's interest in acquiring a company stems from the need to guarantee a secure supply in its favour, while controlling prices at source. This has been seen in the citrus fruit distribution sector. Distribution companies without their own production buy from the producing companies in order to guarantee their supply and not be at the mercy of the auctioning of the product by the growers.



FOREIGN COMPANIES

On other occasions, the ideal buyer may come from abroad. Many multinational companies seek growth by entering new geographic markets. Rather than starting up from scratch in our country, they prefer to buy similar companies locally, saving time and gaining market share quickly with local equipment already in place.

As advisors, when we have a sales mandate, our job is to locate these potential buyers and guide them with the possibility of acquiring a company in Spain, more specifically, that of our client, which could be you.



VENTURE CAPITAL

Venture Capital firms and funds are a community eager to enter growth sectors, or sectors with windows of business opportunity.

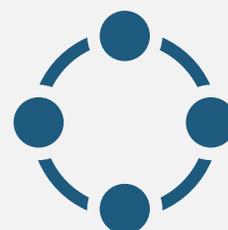
It is common for one of these entities to buy a company in order to consolidate a sector through acquisitions. It will therefore be interesting to contact those entities that have already invested in a competitor in Spain or abroad.



COMPETITORS

A competitor may be very interested in buying your company. Faced with the squeeze on margins that is causing them to have to deal with more competitive foreign companies, many companies are looking for ways to reduce unit costs through production synergies, or to obtain sufficient market share to generate economies of scale by buying other similar companies.

Consequently, many companies that have not considered the acquisition of a competitor, because they were comfortable with their organic growth, are forced to acquire other companies in order to survive themselves. Most acquisitions by such buyers are part of a competitive strategy, being defensive against the participation of larger foreign companies in the market.



COMPANIES IN ANOTHER SECTOR

The supply of potential buyers does not stop there. The dynamism of the markets is leading to the emergence of new competitors from related sectors. In the world of big deals reported in the newspapers, we also often see clear examples of this. In 2006, the online retailer eBay acquired the Internet telephony company Skype for USD 2.6 billion.

What do an Internet auction house and a telephone company have in common? Why would you pay so much for a company that was losing money?

The answer is that they are complementary businesses and one would help the other sell more or provide better service to its customers, i.e. give it competitive advantages. eBay customers, before deciding to buy a product advertised on the web, would choose to talk on the phone for free over the Internet and compare product features (this is especially important for purchases such as cars, travel or houses). This would lead to more and more important sales being made through the auction house: these are synergies.

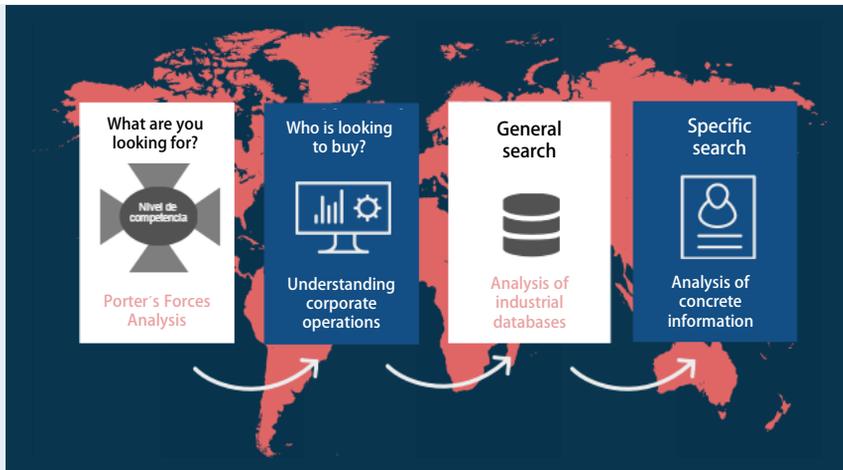




How to find the buyer who can pay the most for your business:

1. KNOW WHAT YOU WANT

Worldwide there are more than 120 million companies, more than 800 Venture Capital, and more than 50,000 Family offices. To get started, there are several steps to follow:



2. ANALYSE AND FILTER THE RESULTS



3. CONTACT THE COMPANIES

YOU WILL HAVE TO CONTACT



+200 COMPANIES

WHICH WILL TAKE YOU



300 WORKING HOURS

HOW DO YOU DO IT?



In total the whole process takes:



90 WORKING DAYS



FULL-TIME

You can do this all on your own, or you can professionalise the process by using us and consulting specialists.



You decide what you want for the sale of your company.



5. UNDERSTANDING WHO WE ARE OF INTEREST TO

As an entrepreneur, you have spent many years growing your business, investing time and money to make it the best it can be. You may think that no one knows your industry and the competition better than you do, but you are very wrong. Finding the right buyer requires a lot of planning and a specific methodology.

To find out whether a company might be of particular interest to a buyer, you need to have a thorough understanding of the following situations:

- **Industry trends and the buyer's participation in the industry.**
- **The distribution of the potential buyer's business lines.**
- **The weaknesses, threats, strengths and opportunities of the potential buyer.**

In order to access this information, there are different analysis tools that can be very useful.

Our job as specialists in corporate operations is to study the evolution processes of the sectors and to anticipate changes, as well as to detect potential buyers or sellers. To understand whether a company may need to make acquisitions and how yours fits into that strategy, it is necessary to know where its sector is heading (Porter's Forces) and how its portfolio of business lines is distributed (Boston Boxes). It is also extremely important to analyse its Weaknesses, Threats, Strengths and Opportunities (SWOT).



Keep in mind that there are three main reasons why companies make acquisitions:

1. To maximise their capabilities.
2. To distinguish themselves from their competitors.
3. To obtain higher returns on investment.

5.1. SWOT ANALYSIS

This consists of analysing the Strengths, Weaknesses, Opportunities and Threats (SWOT) of our own company, of the buyer company and of the sector in which each of them operates in order to find the right fit.

When it comes to detecting in which sectors to look for buyers, it is advisable to analyse the SWOT of that sector and see if our company meets any of its needs.

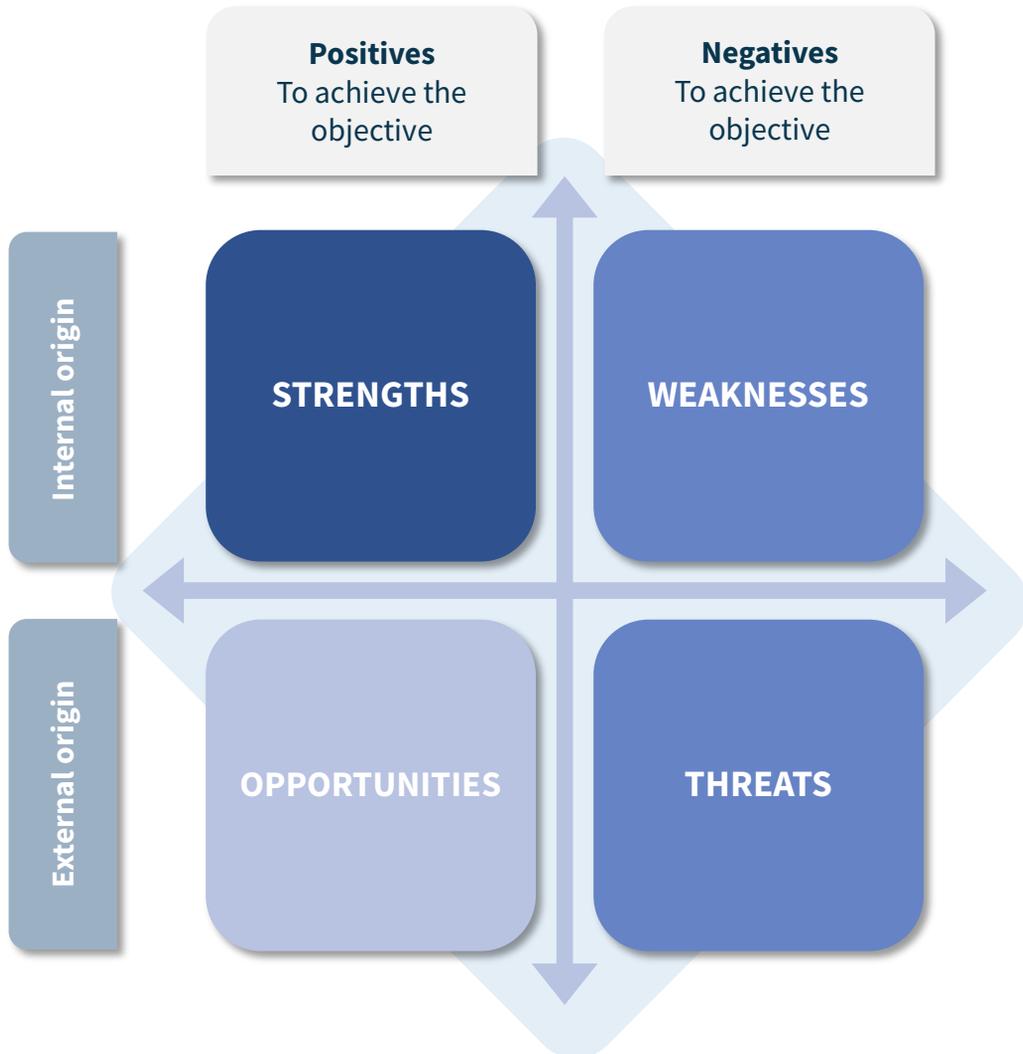
First, we must analyse our own company objectively. A well-executed acquisition is a quick solution to strengthen capabilities (creating a competitive distance) or to counteract the company's limitations.

This is why it makes sense to analyse what our differentiating strengths are. At the same time, there are buyers that have the ability to add value to our operations, as they have elements that we lack and that, if we had, would boost our results.

There are companies that are stronger in sales, others in branding, others in organising operations or in cost reduction. It is important to analyse well what room for improvement we have and who has the capacity to make those improvements, to take advantage of our opportunities or to complement our weaknesses.



SWOT ANALYSIS



It is important that during the SWOT analysis we know how to answer these questions objectively as they can provide us with a lot of information and facilitate the process of finding a buyer:

What do we have that can be useful to others? For whom? Why? What capabilities do we lack that would make us much more profitable? Which companies in our sector or related sectors are experts in these capabilities?

What are our strengths: Our products? Distribution capabilities? Marketing strength? Technology? Location? Engineering? R&D? Low costs? Management capabilities? What real value do we bring to a buyer to reinforce theirs or counteract their weaknesses?

5.2. PORTER 'S FORCES

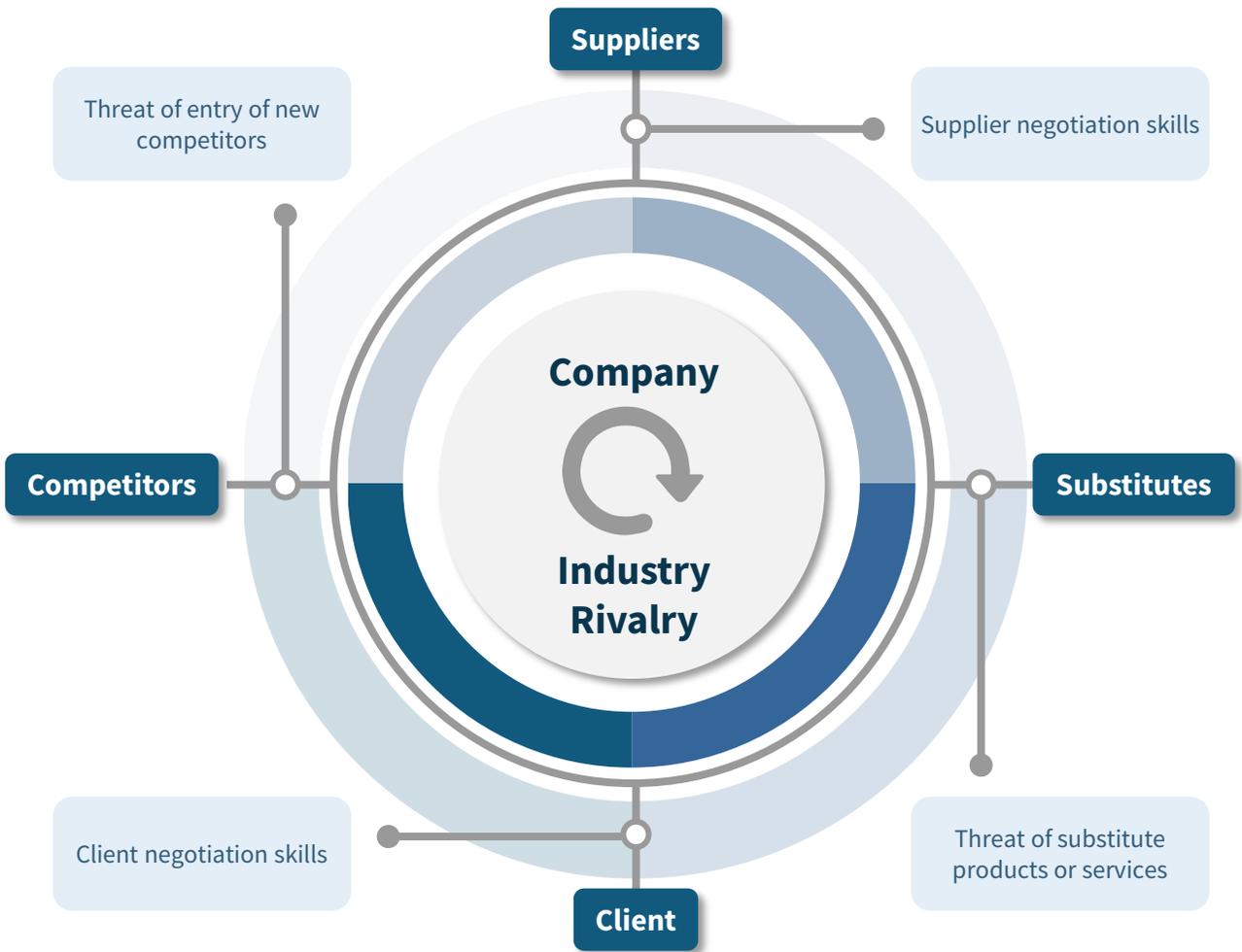
Porter's 5 Forces were developed in the 1980s by Michael Porter. They help to analyse and try to understand the future attractiveness of each sector and to decide whether it is worth investing in that sector or, if it does not pay off, whether it is better to get out of it.

Let us look at how Porter's Forces can affect the attractiveness of companies as targets for corporate operations:

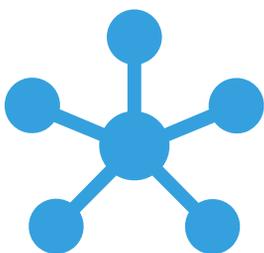
- 1. Barriers to entry:** Logic suggests that if companies in an industry are earning high returns, others will want to enter to compete to capture those returns as well. There may, however, be barriers to entry that make it difficult for other players to enter that sector, and this means that those in the sector continue to earn high returns. Companies that are in sectors where there are high barriers to entry are more attractive to a buyer.
- 2. Client power:** the power of clients determines the profitability of companies in the sector. In those sectors where clients have great power, margins are tight for supplier companies and clients set the rules of the game in terms of price, payment methods, service levels, etcetera.
- 3. Power of suppliers:** When raw materials are scarce or the number of suppliers is small, they set prices and condition the profitability of their customers.
- 4. Threat of substitute products:** Substitutes can condition the prices of products in the market or even make it unprofitable to enter the market..
- 5. Competitors behaviour:** Sometimes a powerful competitor will break prices in order to drive others out of the market and cause any buyer to lose interest in companies in that sector.

PORTER'S FORCES

Companies are forced to keep an eye on related sectors and new products and services from sectors or markets that were not previously competitors.



Fuente: Michael Porter



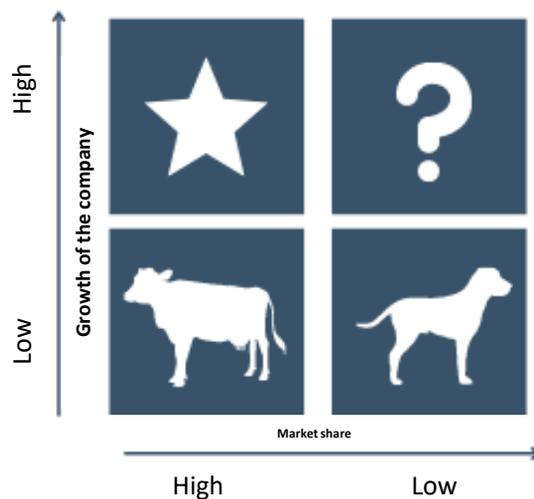
*What is your industry like?
Are there barriers to entry?
Are your customers powerful?
Are you threatened by substitutes?*

5.3. BOSTON BOX

The Boston Box is an industry growth/share matrix. It was developed by the Boston Consulting Group in the 1970s to show business groups their strengths or weaknesses and how to act on them.

The basic idea is that large groups have different lines of business and each serves a purpose. The matrix helps them to understand whether their portfolio of companies is well balanced and where they have needs. It helps to find out whether they need to make acquisitions or divestments.

This tool is useful to analyse potential buyers who are business groups and to detect whether your company fits their needs. It is interesting to analyse the business mix of the most important players in your sector worldwide and the origin of your larger competitors, seeing how they have ended up in your sector to detect potential buyers that tend to enter it.



The cows finance the other businesses and serve to turn the question marks into stars. Companies acquire cash cows or question marks always in search of a financial balance for the whole group.

This figure helps companies to see their overall competitive position and decide where they need to invest in order to have a balanced group of stars and cash cows.



STARS

- Companies that are part of the business group.
- High market share and growth.
- They need a lot of investment to sustain growth.
- Given their competitive position and potential, it is worthwhile for the group to continue to invest in the growth of these companies.



QUESTION MARKS

- Companies with small market share.
- Positioned in fast-growing markets.
- They need a lot of investment to finance growth.
- Not yet generating cash due to their poor competitive situation.



CASH COWS

- Companies in mature sectors
- Require little investment and generate consistent cash flows.
- Low growth companies.
- Providers of cash to buy other companies.



DOGS

- Companies with small market share.
- Consume few resources.
- They generate little cash.
- These companies have few growth prospects and are likely to be sold.



6. CONCLUSIONS



There may be many reasons for selling your company. From personal and family, to corporate, economic or competitive reasons.



It is essential that the seller has a team of specialist advisors who will advise and guide him throughout the process and help him to make the best decisions.



If, as an entrepreneur, you are looking for investors, you will have to approach different actors depending on the stage of development of your company (seed capital, start-up).



There are different types of buyers. 60% are other companies, 20% are venture capital investors, 10% are family offices, another 5% are banks or savings banks, and approximately the remaining 5% are management buy-outs or management teams from outside the company.



The most common tools used by M&A specialists to determine who are the best candidates to acquire your company are SWOT analyses (Strengths, Weaknesses, Opportunities, Threats), Boston Boxes, Experience Curves or Porter's Forces Chart.

Ultimately, choosing the right buyer for a company is a technical job with a lot of background research and strategy. We hope that this manual will help to lay the foundations of the ideal buyer.

At **ONEtoONE Corporate Finance Group** we remain at your disposal for any questions that may help you in your transaction.

ONETOONE, A SAFE ALTERNATIVE FOR FINDING THE IDEAL BUYER FOR YOUR COMPANY

ONEtoONE Corporate Finance has offices in Europe, the United States, Latin America and Asia, making us the largest global group specialising in advising on the valuation and sale and purchase of companies like yours.

At ONEtoONE we know that at least seventy percent of the result in the sale of a company will depend on finding potential buyers and talking to the key people, always within a confidential management of the entire process.

At ONEtoONE we work exclusively in the sale and purchase of companies, so all our human and technological resources, databases, experience and processes are focused on helping you to value and sell your company to the investor who can pay the most, wherever you are.

If you still have doubts about how you can find the best buyer for your company, in ONEtoONE we offer you a team of professionals who will be dedicated, with absolute transparency and confidentiality, to advise you during this process. Do not hesitate to contact our team.

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CORPORATE FINANCE

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