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How to sell your education business

You've hit a certain scale and want to sell on, but how do you get started? Sunniva Davies-Rommetveit gives a step-by-step guide to selling your education business

Selling up is an attractive prospect for many owners of education businesses, be they proprietors or investors. The demand for education assets is high and assets are scarce, explaining some of the staggering multiples we've seen of late (think the College of Law or Cambridge Education Group).

But selling an education business is seldom simple and deals don't always get off the ground. Hotcourses took itself off the market in February 2014 after a deal with Inflexion Private Equity fell through. And Sovereign Capital and Bowmark Capital couldn't agree over price when it came to the Brighton Institute of Modern Music last December, meaning that deal tanked too.

In reality, for a sale process to go smoothly there are a number of hoops to jump through. Emulating the good deals and avoiding the bad, therefore, takes skill. Here, we unpack a typical sale process and list the 'dos and don'ts' of successful deal making.

Suss out the market

Before even considering what to include in a 'teaser' – the ad sent to prospective buyers (see below) – it's important to assess the possible demand for a business like yours. First look at it from a macro perspective, says Cairneagle Associates partner Ian Koxvold. Parties might be more wary than usual about higher education at present, for example, given the political uncertainty in the run up to May 2015. "Processes are much harder when the environmental conditions are uncertain – such as before an election – as both vendors and sellers want to be sure it's the right time to do the deal."

It's also important to analyse the micro trends of your particular sub-sector. If, for instance, there is another business that could pull a lot of attention away from your own company, it is probably best to postpone your sale for a while. Similarly, if it transpires that market interest for your type of business is low or worse still non-existent, sit on the asset until that changes.

To auction or not to auction?

The difference between a 'closed' or 'auction' sale process is a question of numbers. Auction the business and you'll attract numerous bidders which can generate a much better asking price, although the process can be lengthy and expensive. Do the deal 'off market' and you'll sell quicker and keep your costs down – although you'll probably end up selling your business for less.

Tim Nye, partner at law firm Trowers & Hamlins, believes the ultimate decision should rest on market dynamics. "It's all about supply and demand in the market. At the moment private nursery and education businesses do attract a lot of attention from private equity. On that basis, if someone approaches you to buy the business you wouldn't necessarily agree a price and sell it to them, you would more likely open it up to the market."

As a rule of thumb bigger businesses should opt for auctions, because they're more likely to get the best price going down that route, and they tend to have the funds to pay for the advisers (legal, corporate finance and commercial due diligence) required during a typical process. They can also endure sunk costs better if a process falls over. A smaller business may find more merit in courting one or two potential buyers off market to build a relationship before a sale.

Preparing for auction

If you've decided to go down the auction route, you must then consider what it is you want out of the process. A decision to break off from the firm completely or stay involved afterwards will make a big difference when deciding who to involve – be it private equity or trade buyers.

Appointing corporate finance and legal advisers to help with such decisions and conduct a strategic review

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of the business is vital, and the sooner the better. It is a good idea to appoint them up to six months before launching a sale process. The more time they have to research your business, the less likely it is that obstacles pop up to knock a sale off course.

Always ensure that these advisers will be a good fit for the type and size of your business though. If, for example, you get approached by a huge investment bank with very little recent experience in your specific education sub-sector, think twice. Sometimes it's better to go with smaller advisers who will be almost guaranteed to pay full attention to your business.

Throughout the preparation period it is also important to ascertain whether your managerial team envisage the same future for the firm. Organise a meeting/s which outlines your goal for the company in future, and make sure to address any concerns they have in full before proceeding. As John Healey, corporate finance adviser at UNW, says: "By the time you talk to potential investors and if relevant the shareholders, you should have the board behind you and a near-perfect idea of what you want from the deal."

Pricing

Pricing is a sensitive matter. Simply put, a company's optimum price is the highest and most reasonable amount of money your preferred bidder/s are willing to pay. If, for instance, your business is priced at £20 million, and there are two or more bidders willing to come in at that price, it's likely that the price is too low. However, if there is a big gap between the highest and second highest bids, you may be priced too highly. The top bidder may realise they're ahead of the market and pull out.

Deciding on price should be done through an accountant, with some of the most important factors being: strong and accurate financial records demonstrating good recent financial performance; a diversified client base; sought after products or services; a strong management team; good brand and reputation.

Private equity or trade buyers?

Throughout the preparation process, you should become more aware of what you and the management team want from the process, which will make it a lot easier to establish which sort of investor to approach: private equity or trade. There are pros and cons with each strategy, and it's vital to research potential buyers to ensure you pick the right one.

Private equity

According to Koxvold, private equity (PE) investors "are professional investors – used to sticking to planning a process whether during the process or post-acquisition". Very good ones support the management team without interfering too much, he adds.

Sunil Jain, an investment director and education specialist at PE house Sovereign Capital, says he looks for four main things in an education business: a "strong and focused" management team, business vision, growth opportunities and a stable business model.

"We are investors rather than operators, and that naturally means that the partnership we wish to create is only as good as the strength of the people we partner with. The outlined vision and past achievements of the management team within the business are a strong indicator for future success," he explains.

Sovereign also supports portfolio companies with further capital to conduct buy and build strategies, whereby an asset expands by making 'bolt on' acquisitions. "This is easier if the business has predictable key performance indicators and financial performance from which to develop," Jain says.

Problems to be aware of with private equity investors are that they can have a short-term business outlook, sometimes as little as three to four years. Horror stories, involving asset stripping for example, are thankfully seldom heard of in education. However, if your company needs a longer-term focus you should ensure that the PE house you're interested in is definitely on the same page.

Trade buyers

Opting for a trade buyer is beneficial if you want to combine forces with a like-minded company. Look out for whether the prospective buyer's firm has complementary assets which could accelerate your business' growth, or indeed prop up any part which needs support.

Dig as deep as you can into the trade buyer's own commitment to the plan. Acquisitions that depend on synergy or collaboration are much more likely to suffer from management getting distracted and failing to keep investment promises, Koxvold suggests, so it's important to get the fit right. "The worst case scenario is that the trade buyer has other operations and executives that actively conflict with their newly-acquired business post-sale."

IPO

Deciding to list can be a somewhat risky affair in the education sector. There are many disruptive factors – including being at the mercy of political decisions and suffering from technology-driven change – that can make a firm's profits less stable than in other markets. Koxvold adds that that explaining operational under-performance or moves in the share price to shareholders can be a huge distraction to management.

Pre-sale marketing

At this stage in the process you should have a clear idea of what route you wish to take, a solid business plan and an idea of which bidders you'd like to include in the process.

The teaser is the first thing to write, and is a five to eight-page document detailing what is attractive about the business and why.

It should include the following: an introduction to the company including when it was founded and what services/products it offers/sells; what type of transaction the company wishes to pursue; the industry categories and geographical areas you sell into; a succinct but detailed financial summary for the past four years and 'investment highlights' (for example the firm achieving operating profit growth three years in a row).

Once this is sent, it's up to you as owner of the business to gauge investors' reactions to it, so proactivity at this stage is key. The main way to do this is for the management team and advisors to have so-called 'fireside chats' with potential bidders. These are designed to whet potential investors' appetites without going in for a hard sell.

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While reassuring investors, it helps you in two ways. Firstly, it gets everyone on the same page. As Koxvold says, “Ask potential bidders whether or not they’re interested and what this depends on, what timeline they can work to and what price they are considering. It’s vital to keep everyone aligned in the process, as it becomes very tough when one bidder has put in an offer when others are still working through the due diligence.”

Secondly, it’s an excellent way for you to ascertain who to send the ‘information memorandum’ (IM) to – a longer document providing a more detailed overview of the company.

The information memorandum

Getting the IM right can be tricky, Healey says. “Whatever your business, make sure you explain it well. Never assume investors know everything and present it so that they really understand its value.”

The IM’s length is also something to think about. Avoid too much pointless waffle as that could put prospective investors off. Likewise, don’t send it out to too many bidders, as if they feel as though they have no chance due to excess competition, they are less likely to put a bid in.

Following the IM you should hold management presentations with those who are interested. Make sure that you are absolutely honest with these bidders at this point: glossing over details that matter could mean the deal falling through in its final stages.

Bids in…

When first round bids are in, it is up to you and your advisers to shortlist a small number of parties who you feel sure will get funding and go ahead with the deal if they are the victors.

As you approach the second round, keeping up the relationship with all of them is key; the more regularly you stay in contact the more likely you are to catch wind of a change of plan. If a bidder begins asking less detailed questions, for example, it could be a sign that they are not as committed as they once were.

Finally, the goal is in sight and you’ve reached exclusivity with one party. Only ever award exclusivity, though, when you’re absolutely certain that a higher price can’t be reached (bidders can become more demanding if they realise they’re the only one with skin in the game). Also ensure that you keep a good working relationship going with the other parties, in case of a last-minute breakdown in the present agreement.

Now all that’s left to do is sit down with the investor and advisers to figure out who will be funding the transaction and how long buyer legal and corporate due diligence will take. From preparation to exclusivity, the process should take up to a year depending on the firm’s size.

Never cut corners when undertaking a sale process as it is much more likely to get you to that all-important exclusivity finish line.

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