

A woman with long brown hair and glasses is looking at a laptop screen. A man in a dark blue suit and tie is pointing at the screen with his right hand. They are both smiling. The background is a blurred office setting with green plants.

Mergers & Acquisitions

For Owner-Managed and
Family Businesses




Forrester Boyd

CHARTERED ACCOUNTANTS

Opportunities for Growth

Mergers and acquisitions (M&A) offer owner-managed and family businesses unique opportunities for growth, expansion, or even exit strategies. Whether you're looking to expand your business through acquisition, merge with a competitor, or sell your company to a larger player, understanding the M&A process is critical for success.

This guide, created by the Forrester Boyd Corporate Finance team will walk you through the essential steps and considerations, helping you navigate the often-complex M&A landscape with confidence.



Mergers and acquisitions involve the consolidation of companies or assets. For owner-managed and family businesses, M&A can offer several strategic benefits:

Growth and Expansion:

Acquire new markets, technologies, or customer bases.

Succession Planning:

Use an acquisition as an exit strategy for retiring business owners.

Operational Synergies:

Merge with a competitor to reduce costs, streamline operations, and improve profitability.





Significant Trends

In 2023, mergers and acquisitions (M&A) activity in the UK saw some significant trends, particularly within the small and medium-sized enterprise (SME) sector, which includes many owner-managed and family businesses.

A key driver for increased M&A activity among SMEs was the growing number of baby boomer-owned businesses looking to exit the market. Many business owners, especially those aged 60+, are accelerating their exit plans due to political uncertainty and fears over potential changes to the tax regime, with 65% of business owners actively pursuing an exit strategy. Ascent Mac Enness Global Mortgages

This has created a surge in opportunities for M&A, particularly as owners of businesses with turnovers of £5 million or more look to sell.

For SMEs, M&A represents a strategic opportunity to either consolidate by acquiring competitors at lower valuations (due to economic conditions) or find buyers in a market with relatively high demand. Despite overall M&A deal volumes in the UK dropping by 17% in 2023 the SME sector has remained more resilient, with mid-market deals proving more adaptable due to smaller financing requirements. [//www.investmentweek.co.uk/](https://www.investmentweek.co.uk/) Ascent Mac

“These trends indicate that, for owner-managed and family businesses, there are potentially some unique opportunities for growth or exit, driven by favourable conditions for smaller, mid-market transactions.” Mike Beckett, Corporate Finance Partner at Forrester Boyd



Is M&A Right For Your Family Business?



Mergers and acquisitions offer significant opportunities for owner-managed and family businesses, but they come with unique challenges. Whether you're looking to grow, diversify, or exit, understanding the process and preparing for the complexities of M&A is vital to a successful transaction.

For a smooth M&A process, engaging with financial advisors, legal professionals, and M&A experts is essential. A well-planned strategy, thorough due diligence, and careful post-deal integration will help ensure that the transaction is successful and beneficial to your family business in the long term.

M&A isn't just about numbers; it's about aligning cultures, values, and long-term goals, especially for family-run businesses



Types of Mergers & Acquisitions

There are several types of M&A transactions, each offering distinct advantages based on your business goals.



Horizontal Mergers

A horizontal merger involves two businesses operating in the same industry, often as competitors. By merging, the companies can benefit from increased market share, cost savings, and stronger competitive positioning.

Vertical Mergers

A vertical merger occurs between companies operating at different stages of the supply chain. The aim is to control more aspects of production or distribution.

Acquisitions

In an acquisition, one company purchases another, either by buying its shares or assets. Acquisitions are often used by family businesses as a strategic exit option.



Key Considerations

M&A processes can be complex, especially for family-owned and owner-managed businesses. Below are some key considerations:



Valuation

One of the first steps in any M&A transaction is valuing the business. This can be done through methods such as:

Asset-Based Valuation: Particularly important for asset-heavy business like manufacturing.

Income-Based Valuation: Useful for businesses with predictable cash flows, like professional services firms.

Market-Based Valuation: Compares your business to similar businesses recently sold in your industry.

For family businesses, valuations can be more complicated due to the involvement of intangible factors such as legacy, family reputation, and customer loyalty. Forrester Boyd have experts on hand to ensure whether you are buying or selling, the figures stack up.





▾ Cultural Compatibility

When merging or acquiring another business, especially in the family business space, aligning the two companies' cultures is vital. Family businesses often have deeply ingrained values, and ensuring that the target or acquiring company shares similar values and work ethics can avoid post-merger challenges.

According to a Harvard Business Review Study, 70% to 90% of M&A deals fail to achieve their financial or strategic goals due to misaligned cultures and poor integration.

▾ Tax Implications

M&A transactions can have significant tax consequences. It's essential to plan for:

- »» **Capital Gains Tax (CGT):** Payable on the profits from the sale of a business.
- »» **Stamp Duty:** Charged on the purchase of shares or assets.
- »» **Inheritance Tax (IHT):** If the business is passed on to the next generation, reliefs such as Business Relief (BR) can help reduce the tax burden.

At Forrester Boyd, we have highly experienced tax specialists on hand. Do get in touch early to ensure your deal is structured in the most tax-efficient manner.

Steps in the M&A Process



1 Planning & Strategy

Before initiating any M&A transaction, the business must clearly define its goals. Are you acquiring to expand into a new market, or are you selling for succession or exit purposes? Understanding your objectives will guide every decision in the process.

2 Identifying Targets or Buyers

If you're looking to acquire, identify potential targets that align with your strategic goals. If you're selling, identify potential buyers who value your business's unique strengths. Common types of buyers include:

- **Competitors**
- **Private Equity Firms**
- **Larger Corporations**

3 Due Diligence

Once a target or buyer has been identified, the due diligence process begins. This involves a comprehensive review of the target company's financials, legal standing, contracts, employee liabilities, and more. For family businesses, it's also important to assess intangible assets such as reputation, customer relationships, and intellectual property.

According to a Deloitte report, 33% of failed M&A deals are due to insufficient or flawed due diligence.

4 Negotiation and Structuring the Deal

At this stage, both parties negotiate the terms of the deal, including price, payment structure (e.g., upfront vs. earn-outs), and legal conditions. The deal's structure will impact future tax liabilities, so working with both legal and tax advisors is crucial.

5 Post-Deal Integration

Successful M&A transactions don't end with the signed agreement. The integration phase—where the two companies combine operations, staff, and resources—is critical to long-term success. Family businesses need to manage employee expectations and ensure cultural alignment to avoid disruptions during this phase.



Financing Your M&A Transaction



For family businesses looking to acquire another company, financing the deal is a key concern. Options include:

- **Debt Financing:** Bank loans or bonds.
- **Equity Financing:** Selling shares to raise capital.
- **Vendor Financing:** The seller offers deferred payment terms to facilitate the purchase.

Family businesses often prefer vendor financing as it reduces the immediate cash outlay and may offer more flexible payment terms.



Common Pitfalls To Avoid in M&A

Don't overpay for the target

It's easy to get caught up in the excitement of a deal and overpay. Ensure that the valuation is accurate and reflects the true worth of the business including any future risks or liabilities.

Ensure your integration does not stop when the deal is done

As noted earlier, cultural compatibility is a significant reason why many M&A deals fail. Ensuring that post-deal integration is handled carefully is key to long-term success.

Employee retention cannot be ignored

Key employees are essential to maintaining business continuity after an M&A deal. Implement retention strategies such as bonuses, equity incentives, or leadership roles to keep valuable employees engaged.



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