

# Is an auction the most profitable way to sell your business?

*The sale of Phones 4 U to Providence, a private equity group, highlights the trend towards putting businesses up for sale through an auction. The potential financial benefit for the vendor is clear, but, as Charles Whelan, managing partner with HW Corporate Finance, explains, an open auction is not necessarily the only way to secure a sale*

Selling a business is fraught with challenges – such as getting the valuation right. Putting the business up for auction addresses this issue – the vendors and their advisers can feel confident they have achieved the best possible price, because the business will have been promoted to a large number of potential buyers who will have been given access to an Information Memorandum and asked to bid their best price. Further, these contenders will then have been short-listed with those making the second round being given access to more detailed information. At this stage, the highest bidder may be accepted, or, if competition is strong, there may be a race between the two strongest bidders.

But when compared with selling to a single buyer, the costs are much higher. Further, quality bidders may be put off and it's not uncommon for potential purchasers to mislead in order to get through to the second round. As a result, the best buyers may be excluded and there is also a

higher chance of a breach in confidentiality, while the process is time consuming and distracting for the management team.

#### So what are the alternatives?

Negotiating with a single buyer is one. Here, information is released to one party – possibly already known to the vendor – and direct negotiations take place. Costs will be lower, timescales shorter, confidentially assured and the deal focused. But there's always the nagging question of whether there's someone out there willing to pay a higher price. Nevertheless, successful sales of this type can generate considerable shareholder value – such as the purchase of Skype by ebay.

If, however, you're not comfortable with the single buyer option, a middle route may be a limited auction. Whelan's fellow partner at HW Corporate Finance, Richard Hall, agrees: "Striking the right balance between speed, confidentiality, and cost management, a limited auction



Charles Whelan: managing partner, HW Corporate Finance



Richard Hall: partner, HW Corporate Finance

can also prove highly effective in maximising the value of the business. Particularly for those vendors who have information that they may not want widely distributed or want the reassurance of knowing that their business will be in good hands going forward, a limited auction offers a great halfway house."

A limited auction is managed closely, with a maximum of four high quality bidders being invited to take part. This means that it's possible to consider the "softer" issues, as well as the financial drivers. The Information Memorandum is circulated and an indication of where pricing must begin is given. From then on, the process is similar to that of an open auction.

Whichever route you choose, it's

important to plan ahead. "A controlled auction should ideally be planned a good year in advance," said Whelan. "Get your adviser to test the water with potential buyers to see what they are looking for, then groom the business to meet those needs and maximise price. Above all, find a good adviser: together you can devise the best game plan."

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