

Chapter 4 - Making the right decision on your buyer

Speakers

Russell Prior

Managing Director and Regional Head of Family Governance, Family Office Advisory & Philanthropy, for HSBC Private Banking in EMEA

Andra Ilie

Senior Adviser, Family Governance, Family Office Advisory & Philanthropy, for HSBC Private Banking in EMEA

Alisdair Hillis

Senior Director, Financial Sponsors Coverage, HSBC UK

Purvi Amin

Head of UHNW Solutions Group UK, HSBC UK

Peter Golden

Head of Tax and Private Client, FieldFisher

Mike Tillson

Partner, Corporate Finance, Grant Thornton UK LLP

Susie Mullin

Partner, Blick Rothenberg

Transcript

Russell:

In our final chapter, our experts discuss the steps that business owners might take to ensure they make the right decision when deciding who to sell to.

Alisdair:

Business owners should, to the extent possible, identify potential buyers or successors through a systematic approach. Start by defining the objectives of the sale to help understand the ideal buyer profile, engage advisors, such as M&A consultants or investment bankers to leverage their networks and expertise, and to assist with conducting targeted outreach to strategic and financial buyers.

Susie:

I would say that if you're thinking about selling your business, work out what you're trying to achieve. Selling your business is a very emotional journey and it's very difficult.

Alisdair:

They should also use industry contacts, attend relevant trade events and conferences. Confidentiality is maintained through non-disclosure agreements during preliminary discussions, ensuring a secure and professional process for finding the right buyer.

Andra:

Listening to our experts before deciding who to sell to, it's important to define your personal, financial, and business objectives, but what can happen if these objectives clash?

Peter:

We do see a clash between personal and commercial objectives on transactions from time to time, and it really depends upon the buyer and their team as to which one takes precedence. We do find that those who want to maximise their return will normally take the commercial objectives over the personal ones, but we also see certain buyers who have got very key strong personal drivers in relation to why and how they're selling, and that those do sometimes override certain commercial and value objectives.

Susie:

I definitely see personal and commercial objectives clash. Last year for the first time in a long time, I saw a founder pull out of a deal with a private equity house, because he came to realise that he didn't want to work with that private equity house for three to five years. He thought it would fundamentally change his business, and he wasn't willing to do that.

Russell:

Really important insights from Peter and Susie, stressing the importance of carefully considering personal and commercial objectives during a sale and making sure they align to your goals, not only now, but in the future. Next, we asked our experts: "How do different exit routes impact valuation?"

Alisdair:

Different exit routes can significantly impact the valuation of businesses. An IPO can offer the highest valuation due to market dynamics and investor demand, but involves significant costs and regulatory scrutiny. Strategic buyers might pay a premium for synergies and strategic fit, potentially offering a higher valuation compared to financial buyers who focus on return on investment and cash flow.

Andra:

Alisdair has clearly explained the impact of valuation for IPOs and strategic buyers, but what about private equity and management buyouts - what are the valuation implications of these types of exit?

Alisdair:

Private equity buyers may value the company based on growth potential and the ability to implement operational improvements. A management buyout might offer a lower valuation, but ensures continuity and a smoother transition similar to other internal buyers, such as Employee Ownership Trusts, family, etc.

Russell:

Our experts have spoken about the different types of internal and external buyers, their motivations, common pitfalls, and the implications of different exit routes on valuation. So to close our third episode on The Buyer Universe, we asked them: "What critical piece of advice would they give to owners looking to sell with regards to finding and choosing a buyer?"

Peter:

The key piece of advice I would give to a business owner who's looking to sell or to exit is to make sure that they've got the right advisors around themselves.

Susie:

It's really important to get to know people in the market, to understand who the buyers are, and understand who the advisors are.

Purvi:

Outline your objectives. Be really clear going into that process: what is it that you want to achieve from the process?

Alisdair:

The most critical piece of advice for any business owner considering an exit is to conduct thorough research, to understand the different types of buyers and their motivations.

Andra:

Some excellent closing pieces of advice from our experts. When it comes to selecting the right buyer for your business, preparation is crucial, and that means due diligence is vital, ensuring you conduct thorough research on the different types of buyers, and seeking advice from professionals to help guide you through the process.

Andra:

We hope you've gained lots of invaluable advice from our experts from what's been an incredibly insightful episode on the buyer universe.

Russell:

Understanding the buyer universe is crucial for a successful exit. Not only does it increase your chances of finding the right match for your business, but can help you secure the optimum sale price and arrangements for years of hard work.

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