



Onward and upwards?

So you've made the decision to take your business to the next level ... maybe to grow its critical mass or to be able to bid – and win some of the big contracts. Or perhaps it's part of an expansion, succession or exit strategy and you've started to look for a serious investment partner – maybe one of the asset management or venture capital funds – or even a merchant bank. If you do, says **Ainsley Fraser**, prepare for some tough expectations and life might never be the same again...

When we added 'Asset Management' to SHM's forward features list, we did so precisely because we wanted to talk about some different aspects of commercial finance. We wanted to avoid simply covering off the same old ground about asset finance products and options all over again. Asset finance was covered in some detail in an expert opinion article last July. In addition, we ran through rental, spot and contract hire and leasing in the December / January issue... so we could be accused already of having done the subject to death.

Pause ...

All we thought we wanted to do here was to understand how 'they' might look at a business which aspires to move up to the next level ... maybe with their help.

Could we try to get under the skin of the people who benchmark, evaluate, validate and make investment decisions about companies they may support? What do they want to see ... capabilities, track records? What are their criteria ... what assessments and judgements will they make about a company before even considering more detailed discussions? Are there some established common themes which business owners need to know about – or things they need to have bang on right in their businesses, before even trying to set up that first meeting?

These seemed like some fairly basic questions – to which we thought at least some SHM readers would be interested in the answers. After all, applying some of the ideas and recommendations of seasoned, experienced investors is surely quite a good idea for any business?

Well ... we might as well have asked for the security codes to a bank vault. Clearly, we are not supposed to know what they might look for in our companies – as >

pre-conditions of their support. One company sent me a really helpful short e-mail to explain that asset management (as distinct from asset finance) is about looking after the investment interests of their high net worth clients – and as such, they would never be able to discuss criteria or respond or provide any details. Other requests for input didn't get a reply ... and even from one of the sector's leading institutions.

To be clear ...none of this is about applying for routine finance to buy new plant, equipment or vehicles – although that may feature along the way. This is about taking the business to a completely new level – and maybe includes major expansion or a three to five year exit strategy moving towards the company being sold. No business can stand still for ever – and thinking about the future and the 'what ifs' is what keeps business people awake at night.

From what we do know, let's start with a serious wealth warning. We are not offering advice and if any of the content of this feature starts you thinking about the future of your business at a completely different level, make sure you seek out and get the best qualified and specialist advice you can afford. These processes are not for the commercially faint hearted... success comes with stress, grief, a need for nerve, commitment, determination and resilience. But the rewards (or otherwise) at the end of it may be very exciting... or an unmitigated disaster – it can go either way – and what happens is really down to you.

So what will these guys look for? I think there is a myth that it's all about money. Sure, serious funding is involved in growing businesses and taking them to the next level. But investors have got the money – they can fix that... they are looking surely for inspired, capable and entrepreneurial management teams who run good, tight and successful ships. So that means that if you are in this space, looking for asset management based investors, there's a bundle of stuff you can do yourself and in advance. Remember, you and your business will be under a very high definition microscope – and that's before you even get to the stage of their formal due diligence process or their risk committee.

As a starter... the waste industry, by definition, is not conducive to particularly smart offices. Ours is a hard working

environment – but that doesn't mean that the site, yard, office, workshops need to look like a tip. What do your vehicles look like – clean, well maintained, smart liveried and professional?

What is the company's financial track record? Often, family members will be involved in financial administration – and the impact of an external investor may mean that you and they no longer have total control of finances – or indeed the equity. Then again, that in itself may be part of a carefully considered succession strategy for the future of the business. Simple things like... do you file your accounts on time... VAT returns – or have you had to pay penalties for late returns? Is there a lot of debt around... because many venture and asset based funds will want to buy that out in order to take control of the balance sheet.

Waste companies have to meet stringent operating requirements and strict regulations – so they are well used to the processes of compliance. Actually, companies in our industry probably have more experience of meeting difficult criteria than many other businesses. Audits are normal to us – not just financial ones but equipment, maintenance, tracking, analysis of operating and whole life costs of all equipment. Under scrutiny, these are all important aspects about appearing to be well run.

Like many people in our industry, I go in and out of many companies and initial impressions cover the full spectrum from 'WOW' to 'OMG'... and anything in between. The serious point is that appearances matter, especially initial impressions. Which brings us to some key questions... so let's start with where you want your business to be in five years time? Will you still own it... will the next generation of your family be running it? Will you have been taken over and consolidated into one of the big players? Is that what you want?

At the point where you want to step out of the business or sell it, will it have the 'embedded value' you want for it? Achieving that is a process, not an event – and it's not just about turnover and profit. It's about managing your assets before anyone else does. Asking yourself 'what is the exit strategy' is actually not a bad place to start – and even if you have no intention of selling, it's a good idea to have one.

So what's the end game? If you bring in an

external investor, don't be surprised if a three or five year exit is in the frame – even if initially, the financial love match made in heaven is based on an assumption – or even an agreement, albeit with some wriggle room. And if, for example, a VC has said it will look at a three year programme, expect that it will have itchy feet in two.

Also expect them to nominate at least one non-executive director onto your Board – typically a financially orientated member of their team – or maybe a non-executive chairman – an independent safe pair of hands. Neither of these need be a bad thing – because very often, somebody independent can look far more objectively at the business than you can – you are too close to it – every day.

Transitioning to the next level is not totally the domain of the large companies either – SMEs can make it too. Yes, there are commercial risks and not every case ends up in the metaphorical garden of roses. But there are some quite successful examples ... one company I know attracted a venture capital investment partner, which invested £2.8million in just under three years. At that stage, the company was sold for £25million – with the two owners trousering £5million each ... and the investor banking a cool £9million. Not a bad multiple. Others can fail!

Let's return to where we started ... if asset management funds and venture funds are in charge of the bar and they want companies to raise it, then it is reasonable to expect some clearly defined guidance to help businesses to aspire to the commercial capabilities, management processes and performance levels which they will demand.

Or is it more subtle than that? Is it the reality that these decisions are based more on gut feel and instinct... a bit like Dragon's Den? Actually, why not try applying a Dragon's Den test to your business – it might give you a shock or a smile... but either way, you will certainly learn something.

The bottom line is that, in moving your business to the next level, we are probably dealing with a mixture of all the above and there is an awful lot that you can do for yourself in the meantime. Managing your assets properly irrespective of whether you've got a wish or leaning towards an exit or a search for an investment partner (or not) still has to be good for the business.