# Nursery sector – sale considerations

**Mike Tillson**
Partner
07425 634562
Mike.J.Tillson@uk.gt.com

**Andrew Frame**
Director
07771 580 125
Andrew.A.Frame@uk.gt.com


## Key value drivers

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|---|---|
| **Size** | • As a general rule, larger businesses transact at higher multiples<br>• We would expect a clear delineation between businesses with profits under £2m and those over £5m for example<br>• Larger and high quality 'platform' businesses would expect to transact for >10x EBITDA, whereas companies sold as a 'bolt-on' to a larger player would likely attain a mid-high single digit EBITDA multiple |
| **Growth** | • High growth rate drives an increase in profit multiple<br>• Both historic track record and expectation of growth are important<br>• Clear business plan and articulation of growth drivers will enhance the multiple, such as:<br>– Further maturation potential of sites<br>– New sites secured/identified which can expand the group<br>– Possible capacity extensions at sites<br>– Potential acquisitions identified and cultivated<br>– Potential for fee increases |
| **Sustainability of revenues** | • Stability of occupancy levels and low churn demonstrates quality of offerings and maintainability of revenues<br>• Presence of waitlists supports existence of demand<br>• Security of sites (e.g. freehold sites, or long leaseholds) underpin the ability for a buyer to pay a fuller multiple |
| **Compliance** | • Ofsted 'Good' or 'Outstanding' is critical<br>• Strong historic track record of compliance provides comfort to the buyer<br>• Use of CMS software can assist keep accurate records |
| **Location quality** | • Demographics of the local area support demand and potential for price rises, which would be attractive<br>• Strength of local competitor offerings will be considered<br>• 70+ place settings generally preferred<br>• Higher private (vs funded) mix generally preferred |
| **Team/staff** | • Perceived capability of the management team to execute on the business plan and drive growth will be critical<br>• A buyer will need key management team members motivated and incentivised to stay<br>• Training level of staff will be vital for quality of delivery<br>• High staff churn and significant reliance agency staff would likely concern buyers |
| **Brand** | • A buyer will assess perceived reputation for quality<br>• Word of mouth referrals support demand and quality |

## Key preparation items

- Audited accounts
- Quality budgets / forecasts
- Housekeeping in order
- Quality operational data
- Optimised tax structure
- Clean group structure

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# Select sale transaction options

**Mike Tillson**
Partner
07425 634562
Mike.J.Tillson@uk.gt.com

**Andrew Frame**
Director
07771 580 125
Andrew.A.Frame@uk.gt.com


## Sale to a Trade (corporate) buyer already in the sector

### Benefits

- Ability to achieve a full and clean exit
- Synergies and other strategic value can support premium price
- Streamlined due diligence process
- Business and employees benefit from being part of a larger organisation
- Acquirer could leverage your offerings / capabilities across a wider customer base
- A trade buyer might be the natural long term home for the business

### Considerations

- Management may lose operational control and ability to set future strategy
- Need to rigorously vet potential buyers to ensure they are the right cultural fit
- Trade buyers can often prefer earn out structures
- Potential staff and management unrest over being sold to a competitor
- Owner/CEO would typically be required to stay on for a transitionary period (e.g. 1 year)

## Partial sale (typically 30-70%) to a Private Equity investor

### Benefits

- Provide meaningful 'cash-out' to the existing owners to partially de-risk
- Flexibility for certain shareholders to fully exit, whilst others keep a retained stake
- Continuing shareholders benefit from future growth of the business
- Ability for management team to attain / increase equity stake
- PE can bring additional capability and experience to the Board
- PE can support a buy and build strategy (with capital and skillset)

### Considerations

- PE would typically put additional leverage (debt) into the business
- Requires a management team which is committed to remaining with the business for a further 3 - 5 years (but will be rewarded for the additional value it creates)
- Robust business plan required to underpin a PE's due diligence and investment thesis
- Whilst not hands-on in running the business, PE typically will require certain control rights in the shareholders agreement

## Release cash from the business via a debt refinance

### Benefits

- Use debt to fund cash-out to existing shareholders and / or fund growth
- Could be used to buy certain shareholders out, and / or some cash-out to others
- High street banks are a source of relatively cheap debt (although will usually lend less, and like assets to support borrowing)
- Debt funds are likely to provide flexibility on capital repayments (e.g. non-amortising facilities) and higher leverage, but are more expensive than high street lenders

### Considerations

- High street lenders would likely cap out at 2x to 2.5x EBITDA
- Debt funds could stretch to 3x to 4x EBITDA (i.e. higher cash-out)
- Debt funds often seek an equity 'kicker' (small shareholding)
- Any paid interest and / or amortisation of any new debt will negatively impact on cashflows
- Cash-out may not qualify for CGT (and attract income tax rates). Typically some dilution of shareholding is required to achieve CGT treatment

## Sale to an Employee Ownership Trust (i.e. your employees)

### Benefits

- EOT enables you to transfer future benefit of ownership to employees (51%+ must be sold to the EOT)
- Transaction can achieve 0% CGT
- Current owner could continue running the business or step back
- Little to no disruption to staff and general business operations
- Ability to control the outcome and take away the uncertainty of dealing with a third party buyer
- A subsequent sale of the company can take place in the future, and attract 0% CGT for the employees

### Considerations

- Day one cash-out limited by the ability to raise debt and the amount of excess cash available
- An owner would typically receive part of their consideration in loan notes ('IOUs') from the company, which would be paid out over a number of years
- Repayment of loan notes dependent of future profits of the business
- The EOT must retain control of the company for 12 -24 months post deal

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