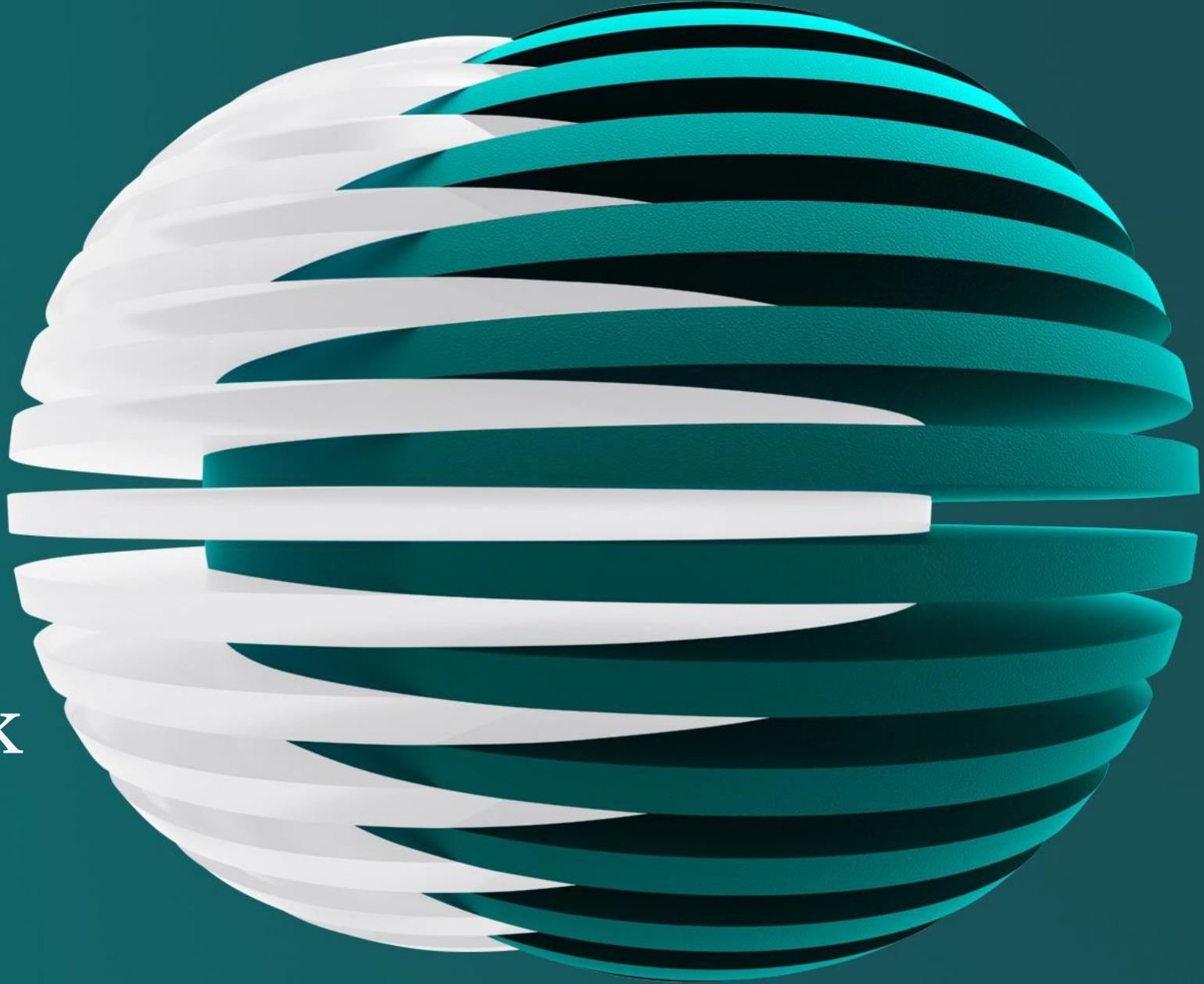




# M&A Advisory Sell-side Playbook

BY BEN BUGG



# Introduction

With the energy market consolidating, suppliers are engaging in M&A activity to achieve their targets and keep pace with fast growing suppliers. This presents an immediate opportunity for those wanting to exit the market.

However, many initiatives suffer from poor strategy and delivery due to a lack of M&A experience, and not knowing who will value your whole business, not just your portfolio.

This playbook outlines all of the M&A stages you need to plan and deliver to be certain your sell-side initiatives will deliver the benefits you have promised to stakeholders.

The guidance provided here has been developed by BFY over many years supporting M&A programmes for retail energy clients. In the last year alone, we have supported 13 successful M&A transactions in the energy market.

We hope this playbook will be of use to you in your M&A planning. If on reading it you feel you need outside M&A support, please contact us. Our sell-side advisory team would be delighted to meet you.

Many thanks,  
Ben

**Ben Bugg | Principal**  
Strategy & Transaction Advisory

# Sell-side stages

When selling you want to be acquired, not just sold. Sell side initiatives deliver that outcome across three stages.



# Strategy Stage

- M&A Strategy
- Valuation Analysis
- Acquirer Mapping



## STRATEGY STAGE

DO YOU WANT TO BE FOR  
SALE OR DO YOU WANT  
TO BE ACQUIRED?

## M&A STRATEGY

**Developing an exceptional M&A disposal strategy is centred on management having a clear understanding of what your potential acquirers expect to gain through an M&A transaction.**

Companies typically complete M&A transactions to achieve two distinct objectives:

- Strategic buyers transact to gain market share, obtain products and intellectual property, and open-up access to new markets
- Financial buyers transact for financial return such as increasing operating cashflow and improved margins

Maximising the value reached from a disposal is accomplished by your business being acquired and not by being for sale. This is achieved by having a deep understanding of the market dynamics and knowing how your business can create value for potential acquirers.

### **What you will need:**

- Prepare your M&A disposal strategy having first defined your goals, objectives, and timelines
- In-depth understanding of current energy market themes and insights on the strategies energy suppliers are following
- Create a profile of your ideal acquirer based on your business assets, and define the M&A criteria that will be used to access potential acquirers

## STRATEGY STAGE

# DO YOU KNOW YOUR VALUE TO A POTENTIAL ACQUIRER?

## VALUATION ANALYSIS

**Knowing the key valuation drivers of your business provides you with insight on what value can be created for acquirers and the assets that will deliver it.**

Energy market business valuations are not derived from future cashflows alone. Having an understanding of the different drivers to achieve growth and sustainable profitability, plus knowing what the market currently perceives as value, will help you understand the true value of your business and the premium potential acquirers will offer.

### **What you will need:**

- Complete a valuation of your business using a range of different financial valuation methods, including discounted cashflow modelling and multiples, as well as based on alternative acquisition structures, for example equity, or assets, or portfolio
- Review your business to understand the value drivers within your portfolio mix, including how your operations could support an acquirer to achieve their Target Operating Model, the value of your team and brand, and how your customer acquisition strategy can be used to deliver above-average market growth
- Build business forecasts and financial projects that hold up to due diligence assessment and provide the glide path to profitability
- Articulate how your business is differentiated from the competition, and how this enables an acquirer to create new value through revenue, cost, and financing synergies

## STRATEGY STAGE

# DO YOU KNOW WHO IS A REAL CONTENDER FOR ACQUIRING YOUR BUSINESS?

## ACQUIRER MAPPING

**A list of potential acquirers is identified from the market landscape based on your M&A criteria and each is assessed by a high-level alignment score.**

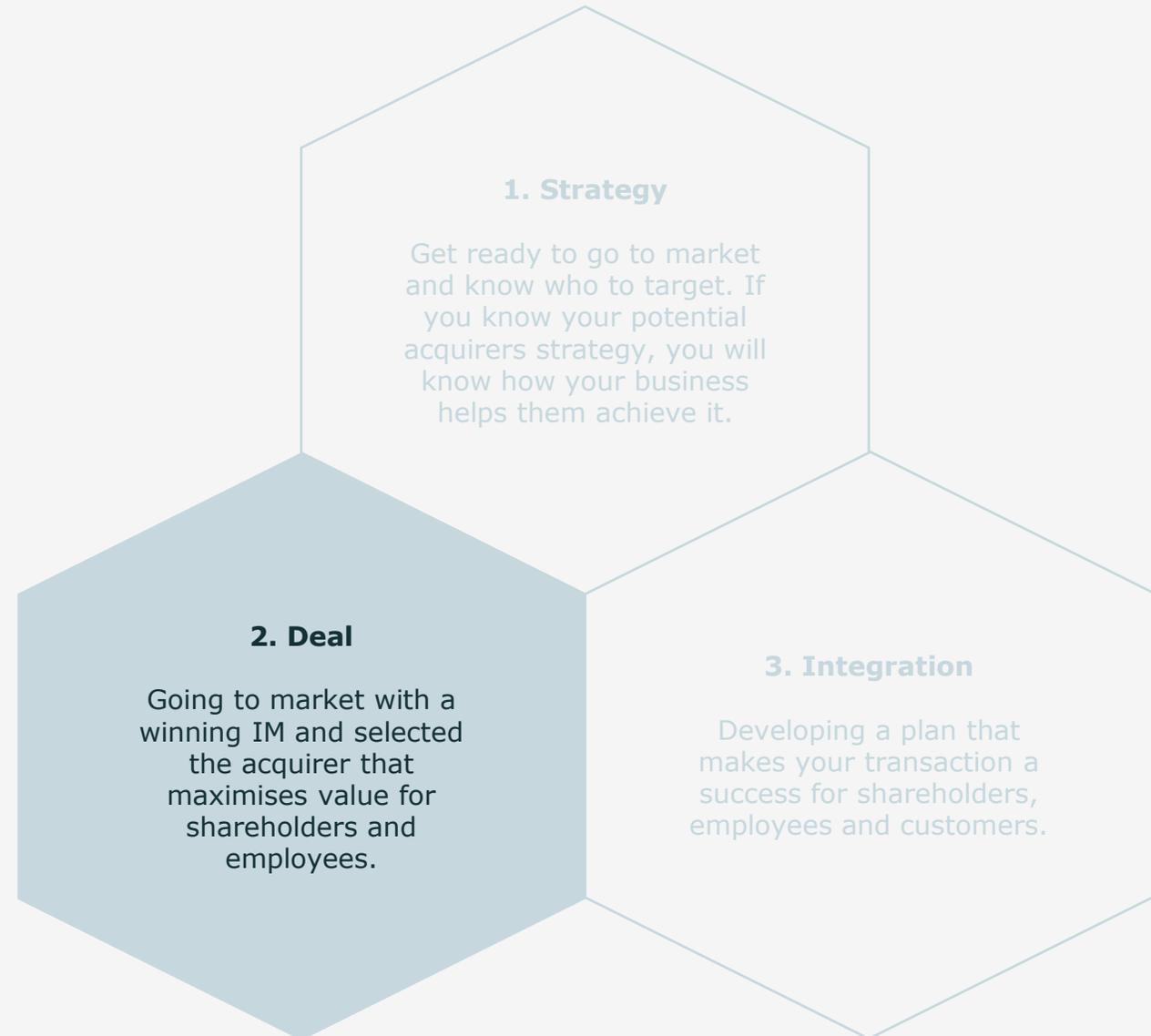
Market research is used to ascertain the full list of companies that are potential acquirers and each is evaluated against the M&A criteria. Insights are generated on each potential acquirer's business model to develop a sense of strategic fit and to create an outline view on potential synergies to articulate the value they can create by acquiring your business.

### **What you will need:**

- Comprehensive intelligence on the financial, operational, and trading performance of all potential acquirers
- An initial list of potential acquirers that meet your M&A acquirer profile, and ascertain how your business will accelerate their strategic objectives and create added value through potential synergies
- Undertake research to understand the financial standing of the suppliers and evaluate the COVID-19 impact on their ability to successfully complete an M&A transaction
- A final list of suitable acquirers based on an alignment score to your M&A disposal strategy

# Deal Stage

- Information Memorandum
- Engagement Strategy
- Evaluate Offers
- Due Diligence and Negotiations



## DEAL STAGE

# DO YOU KNOW HOW TO CREATE A WINNING INFORMATION MEMORANDUM?

## INFORMATION MEMORANDUM

**Your Information Memorandum will be the first opportunity for acquirers to learn about your business. It needs to highlight your value and uniqueness.**

The Information Memorandum states the reasons why your business is an attractive acquisition prospect. For most potential acquirers, this is the first opportunity to learn about you. Therefore, consideration should be taken to ensure it delivers an effective message, creates a competitive bidding environment, and maximises the initial non-binding offers.

### **What you will need:**

- Know what your potential acquirers value from their acquisitions
- Create an Information Memorandum that speaks to your potential acquirers and highlights the elements of your business that will meet their target criteria, including the synergies that they can develop, and the value they can create by the acquisition

## DEAL STAGE

# HOW DO YOU PLAN TO ACHIEVE YOUR M&A DISPOSAL STRATEGY?

## ENGAGEMENT STRATEGY

**A strategy is needed to define the key decision points and effectively manage the bidding process while minimising market noise.**

Companies usually use one of two ways to engage the market for potential acquirers:

- An **open** market approach is where all companies identified as potential acquirers are invited to participate in a structured process. This has the benefit of further potential acquirers identifying themselves in order to participate so creates a competitive bid environment. However, it can create unwanted market noise and lead to strategic games where bids are entered with the intention to remove competition prior to due diligence.
- A **closed** market approach engages a small number of suppliers at once, ranked by their alignment scores, to participate in a less structured process. This has the benefit of controlling market noise, but can limit the competitive bid environment.

### **What you will need:**

- Determine the optimal engagement strategy to approach the potential acquirers based on your M&A disposal strategy, the current market environment, and the strategic alignment of your top three potential acquirers
- Engage directly with potential acquirers, ensuring NDAs are signed and potential acquirers follow the process
- Conduct initial meetings with potential acquirers and invite only those that have credible intent to speak with your senior M&A leadership team

## DEAL STAGE

# DO YOU KNOW HOW TO VALIDATE THE OFFERS YOU RECEIVE FROM ACQUIRERS?

## EVALUATE NON-BINDING OFFERS

**Non-binding offers need to be assessed on their alignment to your M&A Disposal Strategy. Only those with the greatest suitability should be selected to continue onto the due diligence stage.**

Non-binding offers you receive will not be directly comparable, as the premium offered will reflect the assets they want to acquire and the transaction structure (equity, or assets, or portfolio). Each of the offers will need to be assessed on their viability to successfully complete the transaction. You will need to know the drivers for the valuations to ascertain the variance of the non-binding offer vs the potential final offer. Finally, you will need to model the total and final financial result for your business's shareholders based on the alternative bid submission structures.

### **What you will need:**

- Assess each of the non-binding offers to test the validity of the offer and confirm the source of acquisition funds
- Evaluate the total and final financial result for your business's shareholders once all aspects of the transaction are incorporated (i.e. wind down costs for a portfolio only offer)
- Collaborate with the acquirers management teams to determine their valuation drivers and the potential risk of the final offer being significantly reduced following due diligence (there is also the possibility that the final offer could be increased)
- Decide which potential acquirers are best suited to proceed to the due diligence stage based on their alignment to your M&A disposal strategy

## DEAL STAGE

# HOW DO YOU PLAN TO MANAGE THE DUE DILIGENCE AND NEGOTIATIONS?

## DUE DILLIGENCE AND NEGOTIATIONS

**You will need to support acquirers by confirming the assumptions and information shared with them so they become fully aware of the uniqueness and value in your business.**

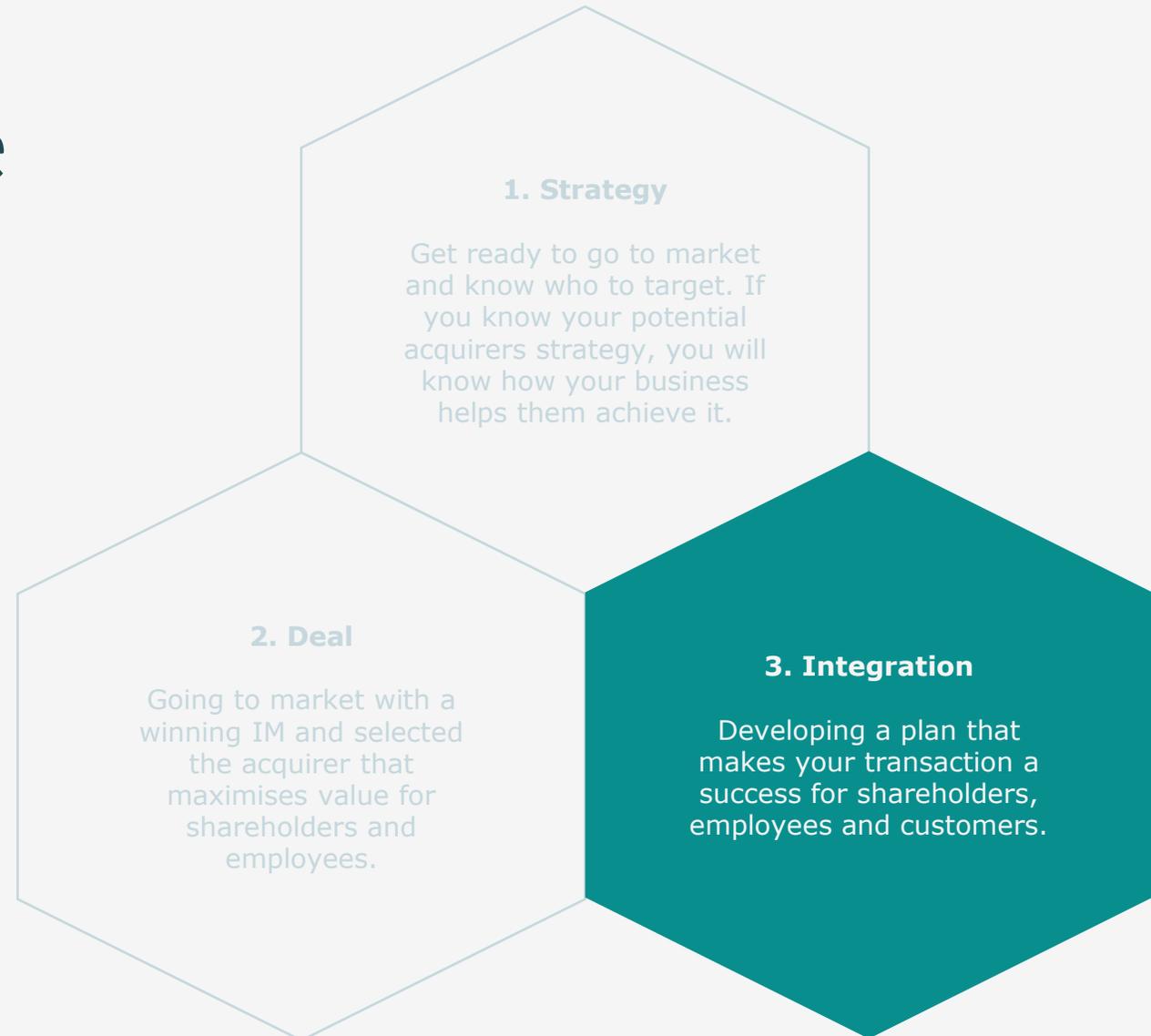
At this stage, your potential acquirers will want to delve deeper into details of their key valuation drivers and uncover any issues you are experiencing. They will submit a Request For Information (RFI), which is often cumbersome to complete and will require management and appropriate resource to ensure completion. Once your potential acquirers have completed their due diligence, a period of negotiations will commence.

### **What you will need:**

- Produce in advance the majority of the information that will be required in the due diligence stage
- Understand how you we will rapidly find and provde the answers for any unforeseen requests
- Develop your initial strategy to start the negotiation process and map out the sequence of events to be used during the negotiations
- Confirm acquisition price bounds for alternative scenarios (equity purchase, or asset purchase) to ensure you enter with a strong negotiating position
- Ability to evaluate the risks of the acquirer’s counter-proposals and the transaction details proposed

# Integration Stage

- Contracting
- Transition Planning



## INTEGRATION STAGE

# WHAT EXACTLY IS BEING SOLD AND WHAT TRANSFER PROCESS WILL BE EXECUTED?

## CONTRACTING

**The contract you execute will detail exactly what is being acquired and how this will be transferred to the new energy supplier.**

A contract is drawn up by the acquirer detailing the purchase agreement being entered into (i.e. trade, or asset sale). For energy suppliers, the critical elements relate to the transfer mechanism of customers, the go-live date for acquired customers, how to handle failed customer change of supply and the agreement on regulatory matters and policy costs.

### **What you will need:**

- Ensure the contract provides you with clarity on the portfolio transfer mechanism
- Define a realistic go-live date with methods prescribed to deal with issues commonly experienced and a clear understanding of how regulatory matters and policy costs will be settled.
- Work in closely with your solicitors to ensure the energy market matters are incorporated into the final contract

## INTEGRATION STAGE

### WHAT PLAN DO YOU NEED TO MAKE YOUR M&A TRANSACTION A SUCCESS?

## TRANSITION PLANNING

**Having a plan that considers all aspects of the transition eliminates uncertainty and ensures you can follow the best path to integrate two businesses effectively and efficiently**

The best transition plans are simple and focus on executing the must-haves flawlessly. 'Legal Day 1' is followed by 'Customer and Employee Day 1'. This focuses on the technical transfer of customers and a stakeholder communication strategy. Your full transition plan should be tailored to your transaction structure and would be aligned with your acquirers plan.

### **What you will need:**

- Highlight key decisions needed for day one to help you focus on the most important areas
- Define the best customer integration methods to deliver the priorities based on the systems and historical service performance of the acquirer
- Design the final customer journey and communication plan to ensure the transfer happens as smoothly as possible for customers which will reduce unnecessary distractions for your team
- Depending on the transaction structure, create a final 90 day plan to close down your business
- Work collaboratively with your acquirer's integration team to ensure both businesses have an aligned plan to deliver an effective and efficient transition

# How can BFY help?

BFY has supported clients across all of the required elements to deliver a successful M&A strategy as defined in this sell-side playbook.

In the last year alone, BFY has supported 13 successful M&A transactions in the energy market. This included an accelerated disposal of a B2C challenger supplier for their senior secured creditor, which was completed within eight weeks and mitigated £20m of potential losses.

If you need help to manage an M&A process to deliver the outcomes you've promised to your shareholders, please get in touch.



# Our Senior M&A Team



**Ian Barker / Managing Partner**

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## CAREER HISTORY

Ian has over 15 years' consulting experience across energy, water, and financial services. New engagements leverage the extensive board level network he has built during this time

## RELEVANT EXPERIENCE

- Leadership of 24 M&A engagements within UK energy market
- Carve out of domestic supply portfolio for multinational electricity company
- Accelerated disposal of a profitable energy supplier on behalf of the senior secured creditor



**Ben Bugg / Principal**  
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## CAREER HISTORY

Ben heads up our Strategy and Transaction Advisory Team and leads our M&A engagements. Before joining BFY, Ben was Associate Director at HSBC, Vice President at Nomura and a City Analyst at Legal & General.

## RELEVANT EXPERIENCE

- Worked on strategy for Burberry and EasyJet, and supported the IPOs for Prada and Glencore
- Since joining BFY, Ben has led 16 transactions within the energy market and has been both a sell-side and buy-side advisor

# Thank you.

If you have any questions about our energy M&A advisory capabilities, please do not hesitate to contact Ben Bugg on:

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