

	Client:	Systems Administrators Ltd ("SysAdmins")
	Sector:	ICT
	Activities:	IT support & applications development
Sale of Systems Administrators Limited	Acquired by:	Clearsprings (Management) Ltd ("Clearsprings")
	Consideration:	Undisclosed seven figure sum
	Date	April 2008

Overview

In April 2008 SysAdmins was sold to Clearsprings, a leading provider of accommodation and support services in the UK. Clearsprings, although primarily involved in the provision of accommodation and support services, had developed their own in-house *MS Sharepoint* operation, and wanted to substantially expand their capabilities in this area.

SysAdmins were advised by Prism Corporate Broking. The purchasers were also advised by an external Corporate Finance team.

This case study covers this transaction from the Seller side.

Background

SysAdmins was founded in Cambridge in 1999 by Faruk Kara and Ken Appleby. Nick Clarke was invited to join the business in 2001 as CEO, having a wealth of experience in larger technology businesses.

The business grew quickly and became established as a key provider of IT support and application development services both locally and nationally. In 2005 the business became a *Microsoft Gold Partner*.

As recruiting good quality staff became ever more difficult, SysAdmins started to consider outsourcing some software development. This culminated in the establishment of their own subsidiary in Sri Lanka.

Contemplating Sale

At the end of 2006, 5 years after Nick joined the company, he and Faruk recognised that further growth would require significant investment, so they considered either raising the necessary funds or selling to a larger partner.

Nick invited Peter Watson, Director of Corporate Finance at Prism Corporate Broking, to review the options and recommend a way forward. The result was that sale was considered the most sensible option, as long as the right partner could be identified. This would also allow both Nick and Faruk the option to exit the business in due course. They decided to proceed using Prism as their preferred advisor.

“Trust was a critical element of the partnership that we developed with Prism, and Peter Watson in particular. Working together from an early stage allowed that trust to develop, and when the heat was on, the strength of that relationship really counted.” **Nick Clarke, CEO of SysAdmins**

Sale Process

Working closely with Nick and Faruk, the team at Prism started to identify what SysAdmins needed to do to prepare for sale and maximise the valuation – the initial estimate being at the lower end of what Nick and Faruk considered to be acceptable.

SysAdmins is a well run business and the level of financial information and systems were high for its size. As an authorised *Microsoft CRM* provider, the business has made use of the capability to operate a pipeline management system, giving good visibility to the sales pipeline, something which was likely to be of particular interest to potential purchasers.

“Prism helped us prepare ourselves for selling the company. They were able to convey what was important to a potential purchaser, which is not always the same as what is important to running the company. For example, having just won a large contract which we believed was very significant to the sale price, Peter reminded us that whilst that was positive, the important thing was what is in the pipeline. Purchasers look forward not backward.

Prism asked tough questions of the shareholders, questions that might otherwise have been ducked. This helped form a realistic understanding of the business from a purchasers perspective which shaped expectations and the approach to the sale.” **Nick Clarke**

Prism decided upon the criteria to filter potential acquirers according to their size, sector, acquisitiveness etc. and then contacted approximately 300 businesses, of which about 50 expressed an initial interest. Further investigation reduced this number and three meetings were arranged. These resulted in further discussions with 2 out of the 3, with one serious offer being received. The low number of serious buyers is not unusual given the relatively small size of SysAdmins and the reluctance of many larger buyers to entertain smaller acquisitions.

Key Issues

The valuation and the structure of the deal were negotiated between Prism and their opposite numbers acting for Clearsprings. Prism used the very promising growth in the current year as a lever to elevate the valuation, supported by a strong order pipeline. The final Consideration agreed was over 4 times the original estimate.

“Getting the Heads of Terms right was, as always, vital and not primarily from a legal standpoint. We had to ensure that we had identified all the key issues to be addressed, without trying to negotiate the final agreement. Getting the structure of the earn-out right was particularly critical.” **Peter Watson, Lead Advisor at Prism**

During the negotiation period it helped that SysAdmins were able to start working with Clearsprings on a particular IT project, thus demonstrating the skills of the team.

“Finding a way of demonstrating the capabilities of the business, enhances credibility with the acquirer, and can serve to underpin the value of the business.”
Peter Watson

Once agreed, the Due Diligence (DD) process started in earnest. Due Diligence information was provided in an on-line data room using *MS Sharepoint*, which allowed rapid access for all parties to the information, but this did introduce some document control issues. Because the timescales were so tight, the decision was made to involve the senior management team in the process. This proved to be a very good decision.

Despite SysAdmins being well run and organised, DD put considerable strain on the business, particularly the management. There were countless conversations between Peter Watson, Prism’s lead advisor, and Nick Clarke, yet despite the considerable pressures, a sense of humour was retained!

“A deal has a necessary momentum, which if allowed to falter, can be difficult to re-establish. Our role has been likened to that of a sheepdog, moving round the deal, and keeping everyone on course.” **Peter Watson**

Without doubt one of the key issues for the Purchasers was managing Nick Clarke’s ongoing role in the business. Establishing and maintaining the relationship between Nick and the MD of the acquiring company was essential and emphasises the personal nature of most deals.

“Prism provided practical advice and counselling on the sales process and procedures ensuring we never felt alone or without the necessary experience to step through the sale.

Just because I understood how to run a complex company with a subsidiary in Sri Lanka, in the demanding world of IT that did not provide the experience of selling a company. Peter and his team brought that very welcome experience.” **Nick Clarke**

Timetable & Completion

Both parties were keen to proceed once the pricing negotiations were completed. With the Capital Gains Tax changes due to come into effect on the 6th April 2008, there was a considerable incentive to complete before this date.

The deal was finally signed on 5th April, just two months after the initial meeting.

"I believe that adding Prism to our team very early in our decision making to sell the company ultimately produced outstanding value for the shareholders. A job well done." **Nick Clarke**

Advisors to Vendor

Corporate Finance Advisors: Peter Watson (lead) & Robert Fiske, Prism Corporate Broking

Legal Advisors: Duncan Walker (lead) & Jenni Manning, Kester Cunningham John

Web Links:



www.sysadmins.co.uk



www.clearsprings.co.uk



www.kcj.co.uk