

# Business principles

Ten principles govern how a business is acquired, how it is financed and how the company conducts itself towards sellers, employees, co-investors and lenders. The reasoning for each is given so that anyone dealing with Pennine can judge whether it is being kept.

## 01 Ownership for the long term

Pennine acquires a business in order to own and operate it. No financial model the company prepares depends on a sale, and no price offered to a seller depends on one. Pennine is not a fund and has no date by which it must sell; it holds a business for as long as holding it is in the interests of the business, and a sale would be considered only where it served the business and its employees. The owners Pennine approaches have usually spent decades building their businesses and prefer to see them continue than to see them absorbed by a competitor; a buyer that can show that the name, the employees and the customers will remain is therefore in a different position from one that cannot.

## 02 Price from evidence

The price Pennine offers is based on earnings already achieved, as shown in filed accounts, management accounts and VAT returns, and not on a forecast. The multiple applied reflects the trade, the business's dependence on its owner, the spread of its customers and the condition of its balance sheet. Where the seller's view of earnings and the evidence differ, the company prefers to bridge the difference with a deferred or contingent payment than with a higher headline price, so that the seller is paid in full if the earnings are achieved and the business is protected if they are not.

## 03 Research before contact

No owner is approached until the company's public record has been reviewed in full and a view formed of its scale, its ownership and its balance sheet, and no meeting takes place until a financial model has been built and a list of questions prepared. The owners Pennine approaches have received letters from brokers and buyers who knew nothing about their businesses, and the first conversation is more productive when the buyer has prepared.

## 04 Straight dealing with sellers

Pennine sets out in writing, at the outset, how it intends to conduct the transaction, and adheres to it. It does not make an offer before the finance for it is arranged, and it does not occupy a seller's time with a transaction it does not intend to complete. Where it decides not to proceed, it says so promptly and gives its reasons.

## 05 Continuity of staff

In the trades Pennine has chosen, customer relationships rest with supervisors, engineers and technicians rather than with the owner, and a change of ownership that unsettles them reduces the value of the business acquired. The company's practice is therefore to make no change that a customer or an employee would notice in the first year after completion, to increase the manager's remuneration from the first day, and to agree terms with the people on whom the business depends before the transaction completes.

## 06 Alignment with co-investors

The founder invests personal capital in each acquisition on the same terms as its co-investors and draws no salary from an acquired business until the deferred part of its price has been repaid. Co-investors receive quarterly accounts and a written report, hold the information and consent rights set out in a shareholders' agreement, and are not asked to give personal guarantees.

## 07 Financing within the business's means

Debt is sized as a multiple of the business's earnings rather than of its price, and the company does not pursue any structure in which the cash available for debt service falls below 1.2 times the amount due in any year of the plan. The finance for an acquisition is arranged before an offer is made, and the company does not borrow against a business until it has owned it long enough to know its earnings.

## 08 One acquisition at a time

Acquisitions are made in sequence. A further business is considered once the previous one has been owned for long enough for its earnings under Pennine's ownership to be known, ordinarily two to three years, and is financed with new equity and a facility secured on the business acquired, together with cash from the businesses already owned where that is prudent. Pennine does not acquire in order to consolidate and does not merge the businesses it owns.

## 09 Communication

Sellers, employees, co-investors and lenders are told what the company is doing and why, in writing, at the appropriate times: a seller before heads of terms, employees on the day of completion, co-investors quarterly, lenders as the facility agreement requires. Adverse developments are reported promptly and in full.

## 10 Profitability

Pennine intends to earn a return on the capital it invests and says so plainly to sellers, who are entitled to know that the buyer intends to profit from what they have built. The return is expected to come from repaying the debt used to acquire each business out of the earnings the business already generates, so that the equity comes to own a business free of acquisition debt; growth, where it occurs, is additional.

---

Write to [acquisitions@pennineholdco.com](mailto:acquisitions@pennineholdco.com) or telephone 0808 255 4308. Calls that are not answered are returned the same day.

---

Pennine is a trading name; a limited company will be incorporated as the acquisition vehicle before any agreement is entered into. Nothing in this document is an offer, an invitation to invest or financial advice. Information sent to Pennine is held in confidence. pennineholdco.com