

How a price is arrived at

Pennine bases its price on the earnings a business has already achieved, as shown in its filed accounts, management accounts and VAT returns, rather than on a forecast. This document sets out how the earnings are established, what decides the multiple, and how the price is paid.

BASIS Earnings achieved Adjusted earnings shown in the accounts and VAT returns, rather than a forecast	ON COMPLETION The larger part Paid in cash on the day	DEFERRED Owed with interest Paid over the following years, which also keeps the seller's interest in a clean handover	CONTINGENT If earnings hold Used where the seller's expectation of earnings runs ahead of the evidence
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THE EARNINGS

Earnings already achieved

The starting point is the earnings shown in the last three years of filed accounts and the management accounts for the current year, checked against the VAT returns for the last eight quarters. A price based on earnings needs a record, and the record is the accounts.

The adjustments

The earnings are adjusted for the owner's own remuneration and benefits taken through the business, and for items that will not recur. Each adjustment is accepted where there is a payslip, an invoice or a ledger entry behind it, and a market salary for the manager who takes on the owner's hours is deducted.

The multiple

The multiple applied to the adjusted earnings depends on the trade, on how far the business depends on its owner, on how its customers are spread and on the state of its balance sheet. It is explained to the seller line by line. The price is on a cash-free, debt-free basis: the cash in the business, its borrowings and a normal level of working capital are dealt with separately at completion.

THE PAYMENT

On completion

The larger part of the price is paid in cash on the day of completion. The finance is arranged before an offer is made, so that a seller is not taken through a process that cannot complete.

Deferred

Part of the price is commonly deferred, owed to the seller with interest and paid over the following years. The split between what is paid on completion and what follows is agreed with each seller around their position on tax and timing.

Contingent

Where the seller's view of the earnings and the evidence differ, Pennine would rather bridge the gap with a payment that depends on the earnings holding than with a higher headline price: that pays the seller in full if the earnings are real and protects the business if they are not.

In writing, before any solicitor

The price, the split and the handover are set out in a written view and then in heads of terms, before solicitors are instructed on either side. No term is offered that the financial model does not support.

Write to acquisitions@pennineholdco.com or telephone 0808 255 4308. Calls that are not answered are returned the same day.