

In this final article on management buyouts, Brian Cummings looks at life after the deal and what it takes to secure a successful exit transaction for the management team and investment partners.

Boxing clever post-MBO

Having identified what makes a good MBO candidate company and addressed how to make the deal happen in previous issues, this final article considers what it takes to make the MBO work once the ink has dried - especially when external investors are involved and the team starts to operate outside the safety net of its previous ownership structure. Doing the deal is often seen as the 'sexy' stuff, but the clever and often more difficult aspect is how to exit well.

Having been committed to getting the deal done, (which may seem like an end in itself) and completed all the legal paperwork, the business will enter a highly sensitive period when the management team will be able to return full-time to the day-to-day management of the business. It's to be hoped that they won't return to uncover any trading issues that could undermine the assumptions on which the business plan was built!

Ideally where investors are involved, such as venture capital firms, the management team will be able to build credibility in the period after the completion by not producing any unpleasant surprises and that early trading will match or exceed budgets.

As the business settles down, an investor will be looking for monthly management accounts to gauge if there are any problems or opportunities not reflected in the numbers. They will also want to check if the assumptions on which the business plan were based are holding firm and therefore, will be sensitive towards competitor activity and market intelligence. Of course, businesses rarely run exactly to plan, but over the first few months, investors will be keen to see that the basis for the plan hasn't significantly shifted.

THE BOARD

If private investors are involved in the deal, it is reasonably common for a two-board structure to be installed. The investor will most likely sit on the main board alongside the managing director and finance director and may also appoint one or more non-executive directors with experience of the sector or the type of transaction. The main board will be tasked less with operational issues which the operating board, comprising the heads of department, will be responsible for, and more with strategic direction and performance-related issues

which will hopefully contribute to the growth and development of the business. For the board to work successfully, major issues need to be identified and tabled at the outset with a sound post-buyout strategy developed. Going forward, making it work ultimately comes down to trust. In order to maintain trust and get over the various problems that will no doubt arise, it is essential to communicate clearly, early and honestly. The inclusion of the investors and/or non-executive directors on the main board can bring a different perspective to the company as they will typically know a little about a lot of things, but more specifically: strategy, corporate governance, financial advice, management recruitment and lastly, exiting.

EXITING

The buyout is more than the initial transaction, and its success cannot be measured until it is completed by achieving an exit - something that needs to be a regular item on the main board's agenda and thought about from day one. The main board must consider what shape the business needs to be in to facilitate a successful exit (typically in three to five years' time). With a venture capital investor on board, the management team is likely to be better equipped for the exit, having gone through a due diligence exercise and gained experience from presenting its performance to external scrutiny. Assuming that the business performs as expected, timing the exit is critical to its success. There are broadly four possible exit options: trade sale, stock market flotation, secondary buyout, and re-financing the business. Ideally, a compelling trading performance (with further potential upside) will be matched with a market on the look-out for acquisitions or initial public offerings. With the exit strategy firmly fixed on the main board's agenda, the following questions need to be asked (which can influence the choice of exit route):

- Is the company performing strongly and is it strategically well-positioned in its markets?
- Are the markets in which it operates steady, if not growing?
- Are acquisitions being made in the sector and are pricing levels favourable?
- Is the stock market welcoming new issues?
- Would the business be attractive to



(another) venture capital ownership?
 • Is the debt market favourable for re-financing?

Having been part of the team that managed Survitec Group's successful exit from its venture capital owners, in my experience, the real key to maximising the exit value is in the planning. That's about more than just 'cleaning the company up' and making sure that its achievements are well marketed or finding reasons to talk to potential buyers. Securing the maximum premium upon disposal is dependent on establishing a value proposition that shapes the business in such a way that its appeal is maximised to the exit options available. Having done the initial deal, the management team will be well aware of what's involved in the exit transaction. If all has gone to plan, the team will be realising the fruits of their labour and their lives should change for the better. Hopefully, from then on, going to work could just be for fun.

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