The MGroup Corporate Finance LLP

Management Buy-Outs

THE MGROUP

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About us

The MGroup Corporate Finance LLP is an independent corporate finance team, partner to The MGroup – a leading group of chartered certified accountants and business advisers.

We offer specialist corporate finance advice to shareholders and management of companies and private acquirers, concerning:

- Management Buy-Outs
- Management Buy-Ins
- Exit Strategies and Company Sales
- Corporation Acquisitions
- Development and Replacement Capital
- Recapitalisation Equity Release (Cash-Out)

What is a Management Buy-Out and what are the benefits to me?

A Management Buy-Out, or MBO, is the purchase of a business from its current owner(s) by its existing management team; usually with the help of external funders.

MBOs exist in all manner of businesses including, multinationals, large corporate organisations and also small privately-run family businesses.

MBOs are ideal opportunities for existing management to satisfy their entrepreneurial aspirations and acquire the business or gain an equity stake in the company they've helped build up.

Many people have the ambition to own their own business, however, for most, opportunities are few and far between and when the opportunity does present itself, they don't have the confidence to pursue that ambition for fear of not knowing what to do.

If you are a company director or manager and part of an existing management team, and considering buying the business that you currently work in, with the right support and guidance, an MBO could be the best opportunity that ever comes your way.

Advantages of an MBO:

Independence and autonomy

It is your chance to influence the future direction of the company and make changes to ensure its financial success.

Capital gain

With your direction and leadership there is no reason why the business can't be as successful as when you took it over.

Benefits to the vendor

Most people would rather sell to an individual or management team they know will have the interest of the company and who they know will do a good job.

Quicker sale

The fact that you will already be familiar with the business and how it works will cut down on the initial stages of the sale and will be less disruptive to the business and sales.

More profitable deal

With relationships already formed between you and the vendor and with the benefits of a speedy sale, vendors are more likely to sell the business for a good price compared with making a trade sale.

Supportive management

The existing management team and organisation will be more likely to support you, as you will be more likely to keep the company structure and culture intact.

More appealing to funders

Potential funders will be reassured that you will know how to increase profitability, how to manage risks and recognise strategic opportunities to grow the business.

The MBO Process

Undertaking an MBO is a time consuming and complex process and involves many different phases in order to complete the transaction successfully. The whole process may take three to six months to complete and can involve negotiations with many parties before an agreement can be made.

Stages of the MBO process include:

Feasibility

- Analyse opportunity
- Assessment of viability
- Initial funding views

Agree a deal

- Negotiate deal with vendor
- Draft and sign Heads of Agreement

Funding

- Prepare business plan
- Prepare projections
- Prepare presentation
- Approach funders
- Comparison of funding offers
- Negotiation of terms with funders
- Select preferred funder(s)

Completion

- Due diligence
- Legal process
- Working capital
- Tax planning
- Covenants
- Management of funders
- Management of other advisers
- **Champagne!**

Post deal

- The hard work begins
- Cash management
- Covenants
- Completion accounts
- Conditions subsequent

Why do I need to appoint a Finance Adviser?

Once the initial MBO interest has been established, appropriate advice and guidance is crucial when embarking on such a complex and life changing transaction. You may find yourself under immense pressure and severe time constraints, as well as having to fulfil your continuing management responsibilities, so it is always advisable to appoint an experienced and expert adviser to guide you through the process and ensure that the transaction runs smoothly.

A Corporate Finance Adviser will be able to evaluate your best chances of success at the outset; helping to avoid any unnecessary disputes and challenges you may encounter along the way. Assuming the chances are good, then you will work closely with your adviser to come up with a plan as to how and when to best approach the vendor and make your offer.

An adviser should be appointed right at the start of the process and will be fully involved in all aspects of the transaction until completion. They will work very closely with you and the team throughout the whole process, so it is vital to appoint an adviser you can trust and who will provide the necessary experience and support when the time comes.

Key areas where a Finance Adviser will be involved include:

- Assessing the feasibility of the MBO.
- Advising on the format and content of the business plan.
- Valuing the business.
- Deciding on the nature of the approach and negotiating the best deal with the vendor.
- Selecting suitable funders.
- Arranging and attending meetings with the proposed funders.
- Negotiating the best possible funding structure and packages.
- Introducing the management team to other advisers such as lawyers and tax advisers etc.
- Monitoring deal costs.
- Project managing the entire transaction through to completion.

Why use The MGroup?

The MGroup Corporate Finance LLP is an independent corporate finance team, who specialise and focus exclusively on small and mid-market transactions. With many years' experience in achieving successful MBO sales, we are confident that with our experience and expertise, we can ensure a smooth and positive outcome for your MBO.

By appointing The MGroup Corporate Finance LLP as your Finance Advisers, we can offer:

- An excellent track record in acquiring and selling businesses.
- A professional and personal approach to the MBO process.
- An entrepreneurial outlook with only your best interests at heart.
- Regular and direct contact with a large pool of funders.
- Experience of creative deal structures that are guaranteed results.
- Well planned and executed deals that deliver results.
- Exceptional drive and determination for the best deals for our clients.
- Commitment to client satisfaction, standards and performance.
- Specialists in MBOs with no conflict of interests.

CASE STUDY

Fit-out and maintenance business

The vendor was looking for an exit plan and wanted to benefit from paying Entrepreneurs Relief (10% tax) on the surplus cash balances held. The trade sale offer was declined due to the need for continued employment of the vendors to manage the business on their behalf. Management were young and relatively inexperienced with no capital to invest.

Solution:

- The transaction structure involved cash bought out on reserve cash balances.
- The vendor retained 20% of the new company and took a charge over transferred shares.
- A vendor loan was established, which qualified for tax relief.
- Vendor remains on the Board, and protective 'step in/veto' rights were established.

Accountancy

Business Development

Registered Auditors

Computer Solutions

Taxation

Corporate Finance

Software Development

Financial Services

Darren Green
Partner
Specialist areas:
IT, Technology, Manufacturing and Start-Ups

Penny Casterton
Partner
Specialist areas:
Forensic Accounting, Property and Private Client

Mark Crossfield
Partner
Specialist areas:
Corporate Finance, including Acquisitions, Sales and Fund-Raising

Geoff Lane
Partner
Specialist areas:
Education, International Corporate Work and Manufacturing

Peter Smith
Partner
Specialist areas:
Charities, Retail and Start-Ups

Richard Clayton
Partner
Specialist areas:
Construction, Property and Agriculture

Oxford Office:

Cranbrook House, 287/291 Banbury Road,
Summertown, Oxford OX2 7JQ

Tel: **01865 552925**

Witney Office:

Harvestway House, 28 High Street,
Witney, Oxfordshire OX28 6RA

Tel: **01993 776476**

Vist the website:

www.theMgroup.co.uk

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