Issue 5

gamBIT CORPORATE FINANCE

Succession Planning

'Establishing your legacy'

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Value Maximisation Review

The VMR's main objective is to identify and implement '***enhancers***', maintain '***preservers***' and eliminate '***eroders***' of equity value.

Respect "preservers"

Avoid "eroders"

Seek "enhancers"

Why choose Gambit ?

- A team of highly experienced specialists
- Commercial attitude
- Dedicated research function
- International reach through partner network
- Deal and risk minimisation
- 24/7 availability

Added Value

- Prevents management time being distracted from running the business
- Positioning the opportunity
- Profit preservation
- Competitive tension

Services

- Succession Planning
- Management Buy-Outs/Buy-Ins
- Mergers and Acquisitions
- Company Disposals
- Fundraising
- Private Equity Portfolio advisory
- Developmental Capital
- Value Maximisation Review
- Stressed and Distressed Situations
- Research and Deal Creation

Client's Testimonial

'The VMR carried out by Gambit proved an invaluable tool in identifying where operational changes and improved monitoring of key performance indicators will deliver significant enhancements to the value and attractiveness of our business.'

'We have a clear action plan which we are in the process of implementing with Gambit's assistance and have already delivered tangible benefits to processes and performance.'

Andy Dixon and Steve Haines of Facilities by ADF

What is a VMR?

A value maximisation review is a business valuation assessment developed by Gambit designed to identify key operational and strategic initiatives that will enhance your business value in preparation for:

- Selling or transferring business ownership, or
- Raising capital to achieve liquidity, or
- Growing organically and/or through acquisition, or
- Making an acquisition.

Why have a VMR?

The VMR is a tailored process that provides a number of benefits:

- A clear understanding on the drivers or impediments to business value being created or compromised.
- An understanding of what the business is worth currently and how value gaps can be bridged.
- A clear strategy and action plan to address the key opportunities and challenges to maximise shareholder value.
- A business which is investor or investment ready.

What a VMR involves

The program takes a holistic view of your business, including, but not limited to:

- Evaluation of Shareholders' aspirations and objectives.
- Assessment of current and projected valuation.
- Recommendations to address any shortfalls in valuation metrics and the business model.
- A sounding board for executive management and healthy challenge in a safe environment.
- Identifying strategies to bridge value gaps.

VMR: A Clear Path to Improving your Business's Value

Once the VMR process is completed you will receive a report and a prioritised action list with defined responsibilities to address the business's strategic, operational and transactional issues.

Business Considerations:
- Corporate / Legal
- Operational
- Strategic
- Market & Industry
- Sales & Marketing
- Exit Options

Valuation Considerations:
- Historic Performance
- Growth & Forecast
- Debt Capacity
- Industry Fundamentals
- Financing Markets
- M&A Cycle

Case Study: *Project Yellow*

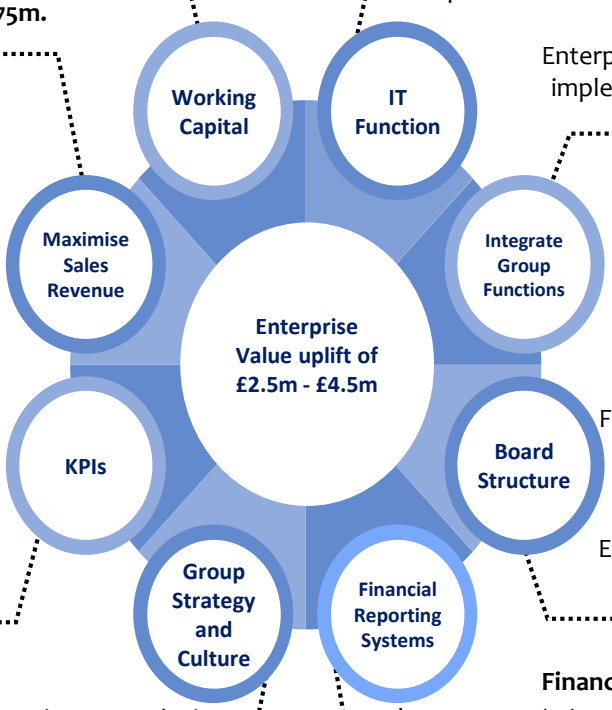
One of the fastest growing retailers of bicycles and accessories comprising three standalone businesses. The VMR analysis identified strategic, operational and transactional improvements projected to increase equity value by £4.5m to £17m. Actual sale outcome was over 50% uplift to an initial consideration of £18.4m with total proceeds of over £25m.

Improve Working Capital Management
Equity value uplift, if resolved, net of implementation cost, est. **£0.5m - £0.75m.**

Maximise Sales Revenue
More effective upselling and cross-selling to customers will generate additional revenue, increase market share and customer loyalty.
Premises improvements, discount structure resolution and management structure accounts for ***£0.6m - £1.2m*** *of expected uplift in Enterprise Value.*

Key Performance Indicators
KPIs should be developed and monitored to better understand ongoing financial and operational performance.
Benefit - reduces volatility in P&L.

Promote Group Strategy and Culture
Current shareholder structure and culture is not conducive to optimising Group decision making and financial performance.
Undetermined uplift in value in addition to that quantified.



Improved IT Strategy and Support
Improvements needed in level of IT support provided across the business and prioritisation of projects and resources.
Enterprise Value uplift, if resolved, net of implementation cost, est. **£0.7m - £1.5m.**

Integrate Group Functions
Removal of duplicated functions will lead to cost savings and expected uplift in Enterprise Value of **£0.7m - £1.2m**

Formal Board Structure
Formal Board structure needs to be put in place to improve decision making and optimise commercial opportunities.
Enhances attractiveness to acquirer and multiple achieved..

Financials and Management Information
Improvements to relevance and timeliness of monthly management information will improve understanding of financial performance and corrective actions taken.
Preserved value through punctuality and monitoring.

How long should I wait?, When should I exit?

Exiting your business raises the key questions - *"How long should I wait?", "When should I exit?"*

Let's begin with a general rule: the earlier you start to prepare for an exit, the more likely it is that you will have a successful one, for the simple reason that you need *time* to develop the qualities that a buyer or successor looks for in a potential acquisition or transfer of ownership.

The result of numerous surveys, post event, reveal the following:

- Owners frequently underestimate the difficulty of exiting their business and being able to exit while they are still young enough to enjoy the proceeds.
- Market cycles can last five years or more, during which time valuations may go up and down and the window of opportunity may open and close quickly.
- Circumstances beyond your control inevitably play a role in determining the best time for an exit. A deal happens when all factors around it come together – current market conditions for money, existing market conditions for your product or service, the acquirer and the vendors' stages of development, and so forth.
- Timing has nothing to do with whether you want to do it then or not. It's just the right time to exit. The market dictates the opportunities, not you. Leaving the business when it suits you, runs the risk of leaving precious money on the table.
- To put it another way you're virtually assured to be leaving money on the table if you haven't put in the required time to prepare. The amount of time obviously varies from business to business but in most instances we are talking years.

Capital gains tax - Entrepreneurs' relief changes in 2019

Two key changes to Entrepreneurs' Relief were announced in the 2018 Autumn Budget, as follows:

- An extension of the qualifying holding period from one year to two years (introduced for disposals on or after 6 April 2019);
- A tightening of the rules governing the share rights an individual must benefit from before they qualify (introduced with immediate effect) requiring the claimant to have a five percent interest in both the distributable profits and the net assets of the company;

Appropriate transaction structures and consideration payment terms will influence the ability to positively benefit from entrepreneurs' relief.

Tax Rate and Allowances

	Individuals	Trusts
Entrepreneurs' relief/Investor's relief rate	10%	10%
Entrepreneurs' relief	£10m	£10m
Investors' relief rate	£10m	£10m

- The 10% rate is applicable to certain trusts in specific circumstances.
- Entrepreneurs' relief and investors' relief have a cumulative lifetime allowance that, on submission of a claim allows qualifying gains, up to the lifetime limit, to be taxed at 10%. Gains in excess of the limit are taxed at the standard or higher rate.

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Future Topics:

- *Business Owner Insight Post Sale Survey,*
- *Life After Exit.*

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