



Succession Planning

'Establishing your legacy'

Contents:

Business Owner Insight

Sound advice from those who have achieved a successful transfer of ownership

Case Study – Project Warrior

Gambit Corporate Finance advises on £7.0m VIMBO

Can a Company Live Forever?

Insight into business survival in a dynamic market place

Business Owner Insight

Selling a company can often be more than a business transaction – it can be a life-changing transition. It is very rarely simple for owners to walk away from a business that, in many cases, they have spent their lives building. A survey was conducted by approaching clients in the UK and USA (via **Corporate Finance International (CFI)**) who had exited their businesses. The key findings are set out below:

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

Corporate Finance International

- A partnership of leading independent investment banks and corporate finance practices
- Over 200 professionals
- A decade of collaboration focusing on market transactions between €10m - €250m
- Ranked 15th in Europe and 20th globally by Thomson Reuters for transactions value up to €200m in H1 2019
- Gambit Corporate Finance is the UK's sole representative in the CFI partnership

Client's Testimonial

"The business was offered to management to enable them to undertake a buy-out, but they were unsuccessful in their fundraising. That was when we got Gambit involved who identified strategic trade buyers and through a competitive process achieved a fantastic outcome."

Alan Rose, Founder & Former Managing Director, Hedges & Rose

The Decision to Exit

Reasons for exiting span both personal and practical considerations, most of which predominantly include:

- A feeling, or intuition that the timing was right
- Changes in competition and a view that finding the right buyer or investor would strengthen the company's future
- Capability and ambition of management team
- Family changes and health considerations
- Partner reaching retirement focus stage
- A personal objective to pursue other career choices

Understanding the Transfer Process

Understanding the transfer process is crucial in anticipating and managing unexpected surprises and preparing for each step of the journey:

- Establishing realistic expectations of the value of the business
- Creating a marketing strategy that effectively and confidentially communicates the transfer opportunity
- Overseeing negotiation strategies
- Closing the business transaction efficiently and managing effective communication with external and internal stakeholders

The Most Challenging Part

Owner managers were asked to reflect on the most difficult challenges of transferring their businesses. Not surprisingly, interviewees gave a broad range of answers, as follows:

- Understanding the fair value of the business, including how multiples are determined, deal structures and consideration components derived
- The transition from entrepreneurial to corporate culture
- Running the business while simultaneously pursuing a sale to a trade, financial buyer or management team
- Due diligence workload and commercial sensitivity
- Employee time involvement and communication
- Negotiating legal documents including disclosure warranties
- Understanding taxation implications

Top Tips for Exiting



Identify who would acquire the business

Enables the owner to build a business which is easier to sell



Be patient

Don't rush into the transfer process until the business is investor ready



Look after the details

Professionalise the systems and structures inside the business for ease of transition and integration



A new lease of life

Choosing the right trade, financial buyer or a backable management team to take the business to the next level



Hunt down the right advisors

It will take time to find and build a relationship with the professionals who can help transfer the business satisfactorily



Let go

Make sure that the business does not rely on the owner to function, build a management team capable of creating succession options



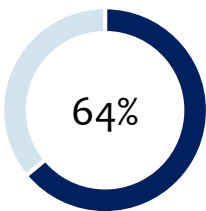
Adjusting from owner to corporate life

Many owners struggle with the constraints of having to work for the acquirer, definition of role and co-existence timeframe is vital to both sides

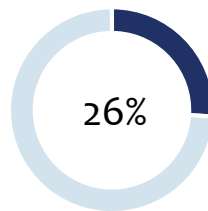


Understand how to build value

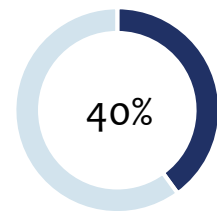
Not just turnover and profit but a strong cash generation business model, barriers to entry, unique intellectual property, geographical coverage, product or service complexity all influence the transaction multiple



Most owners say they know what they want to do after they sell



But only 26% of owners have plans after exit



A significant minority of those who had no post exit plans regret it

Case Study: Project Warrior

Background

Gambit Corporate Finance acted as advisor to a client in his 60s, looking to exit his second generation family owned business. During an assessment of the transfer options it became clear that the business was not ready for an external sale or likely to attract a trade buyer. However, the business held a significant amount of free cash, a freehold property and a capable management team whilst the vendor had limited involvement in day to day operations.

The Transaction

As the business was not ready or suitable for an external sale, the vendor investigated the possibility of management succeeding him and taking control of the business. The capabilities and willingness of management determined the appropriate exit route to be a Vendor Initiated Management Buy-Out (VIMBO).

The business attracted an enterprise value of £2.0m which was agreed by the vendor and management. The vendor retained a 20% equity stake in the acquiring holding company and deferred £600k by way of a 4 year, 5% interest bearing loan note whilst extracting £3.5m of free cash and £1.5m on the freehold property (with HMRC tax clearance).

Outcome

Gambit advised the client on a successful ownership transfer to the management team and the asset extraction clearance. The vendor received £6.0m cash on completion, a £600k loan note and retained 20% equity, enabling him to remain as non-executive chairman and benefit from future business growth and share value.

Can a Company Live Forever?

The rate that companies are falling out of the FTSE100 is accelerating.

On the 3rd September 2019, Marks and Spencer lost its 'Blue Chip' status, replaced by a Russian gold miner Polymetal International.

Since the launch of the FTSE100 35 years ago, the index holds only 27 of its original members. The FTSE100 originals club includes Barclays, Sainsbury's, Whitbread and Unilever. At this rate, the index will be completely replaced by 2032.

The reasons behind this accelerating membership churn are many, but in recent years the advent of the internet and the 'cloud' has reshaped how, when and where business transacts. In an age of unicorns where are the cockroaches which will outlive them?

Disruption is nothing new.

Joseph Schumpeter coined the phrase 'creative destruction' in 1942, but its speed, complexity and global presence is accelerating the detrimental impact. A number of identified sectors are exposed to multiple disruptive forces simultaneously. Sectors that are currently at the epicentre of this disruption include automotive, oil & gas, utilities, financials, food and retail.

However, not all companies will fail because of market led disruption, but succumb to impact innovation and M&A activity. Firms will be forced to innovate to stay ahead or acquire the disruptors that are threatening their dominant market position.

In March 2019, Aviva acquired a £17m stake in Wealthify, a Welsh fintech start-up that developed a new method of ISA investment. Dynamic competitive forces are driving established companies like Aviva, to look for innovation in the small and mid-cap markets.

To survive today a business must innovate or purchase innovators by acquiring intellectual property, new technology or radically changing marketing techniques. Firms can build on the strengths that already exist internally and externally extending their corporate lives or stand still and risk being left behind.

Survival today relies on competitiveness, innovation, skills, efficient productivity, appropriate succession planning and the alignment of all stakeholders.

Gambit Corporate Finance asked previous clients that had exited their business, what would be your appetite for running another business?

23%

I would start another business from scratch if I had the right opportunity

27%

I would buy into a business and lead it if I found the right one

27%

I never plan to go back to running a business

23%

I see myself as a serial entrepreneur and will definitely start another business



Frank Holmes

Founding Partner

+44 (0) 776 825 5194

jfrank.holmes@gambitcf.com

Future Topics:

Five principles for pursuing purpose

Securing a legacy in a digital age

Life after exit

London Office

23 Berkeley Square,
London, W1J 6HE



Cardiff Office

3 Assembly Square, Britannia
Quay, Cardiff, CF10 4PL