# PRIVATE EQUITY

Knowing the next move.

1 DEMYSTIFY
2 NAVIGATE
3 ACCELERATE
4 REALISE

BDO

# BDO – REALISE

Private Equity investment offers ambitious businesses and management teams the potential to achieve accelerated growth over a relatively short time frame. Handled in the right way, it enables businesses to take advantage of market opportunities that can rapidly increase their value.

BDO has created this four-part programme to support management teams in understanding the world of Private Equity. We help our clients make informed decisions, maintain stakeholder alignment and achieve a positive outcome at the end of the Private Equity ownership cycle.

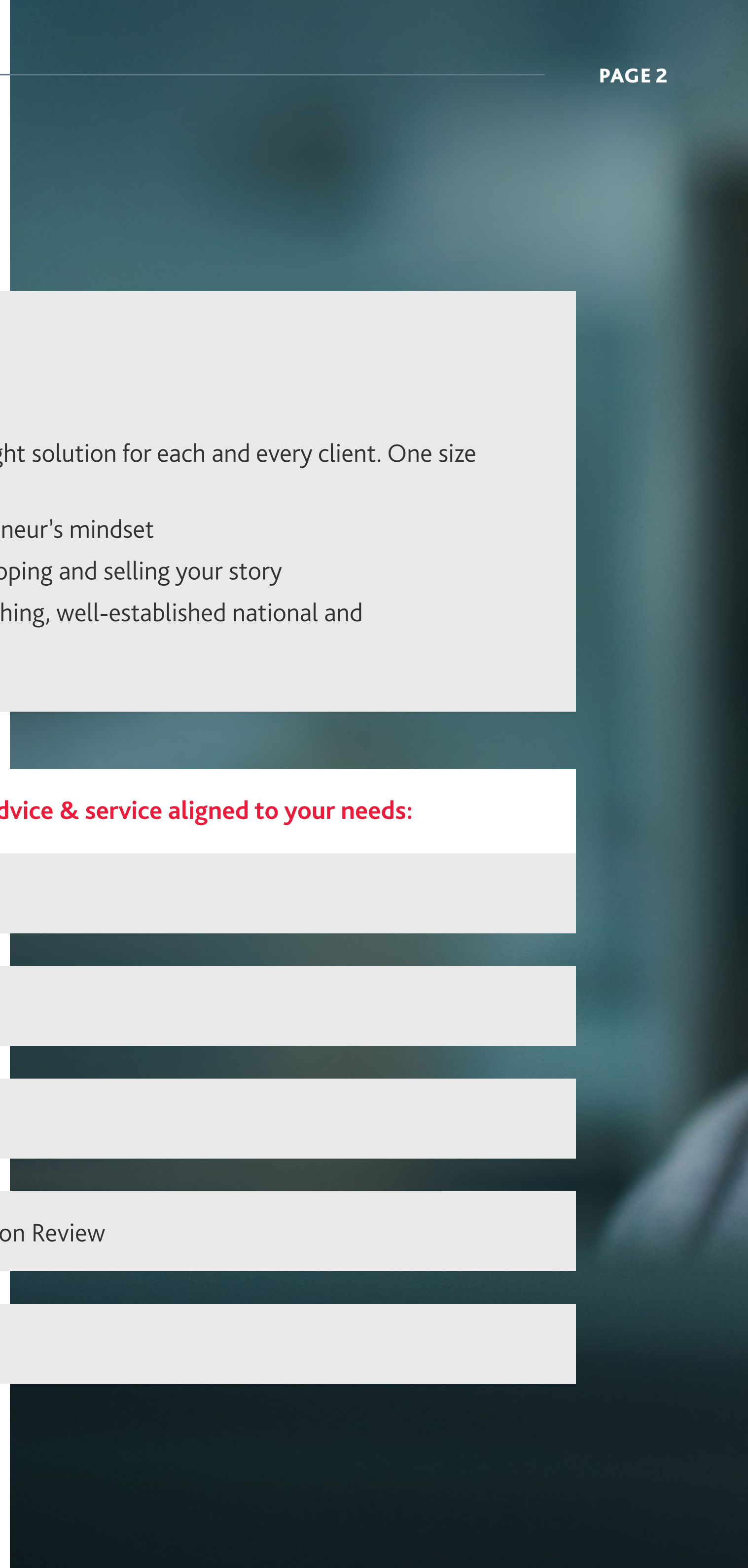
Following on from Demystify, Navigate and Accelerate, this chapter – Realise – considers how the exit process works and why our clients trust us to assist them in delivering the best possible return.

The process of realising an investment commences well before the final transaction. A successful exit from Private Equity requires early planning to maximise value and minimise risk. The three key stages are:

- Making the decision to sell
- Identifying the right buyer community
- Managing the deal process.

BDO is passionate about helping our clients, entrepreneurially-spirited and ambitious management teams. Our highly motivated advisors deliver pragmatic, sector based advice.

We build durable relationships throughout a business' journey. We communicate openly and frequently and we like to share and collaborate. We act with integrity and work with a sense of care, but we are also curious; this is how we do business.



## THE BDO WAY

### Matching scale with agility

- Business positioning - the right solution for each and every client. One size does not fit all
- Familiarity with the entrepreneur's mindset
- A partner by your side developing and selling your story
- Market presence - wide-reaching, well-established national and international network.

### The BDO difference - integrated advice & service aligned to your needs:

1. Exit Readiness
2. Deal Advisory
3. Personal Taxation
4. Transaction Documentation Review
5. Vendor Due Diligence

# MAKING THE DECISION TO EXIT

Private Equity ownership has a defined start date and may well be characterised by an anticipated hold period. However, management teams face numerous issues and challenges leading up to and during the sale process. The capital event that marks the end of a Private Equity investment should be executed in a planned, well thought-out and precise way to maximise value and minimise risk. It is never too early to plan.

## WHEN IS IT TIME TO EXIT?

The ultimate goal of Private Equity is to realise a commensurate return on investment. Hold periods vary, typically between three to five years, and therefore an exit is a natural part of the evolution of every PE transaction. That exit may be planned, but it may also be a response to events in the market.

In the run up to an exit, it's critical that all stakeholders are aligned in their ambitions for the business and the corporate strategy sets out the road map towards that preferred exit route. We work with businesses to ensure that when the right opportunity arises – even at short notice – they are primed and ready to take advantage.

## PLANNING THE EXIT FROM THE START

Achieving the greatest returns begins with ensuring that 'exit readiness' is a Board agenda item from day one.

The strength of the articulated value story and preparatory work undertaken is often the difference between an exit that offers outstanding returns and one that disappoints. We help businesses stay forward-looking during the entire PE lifecycle by:

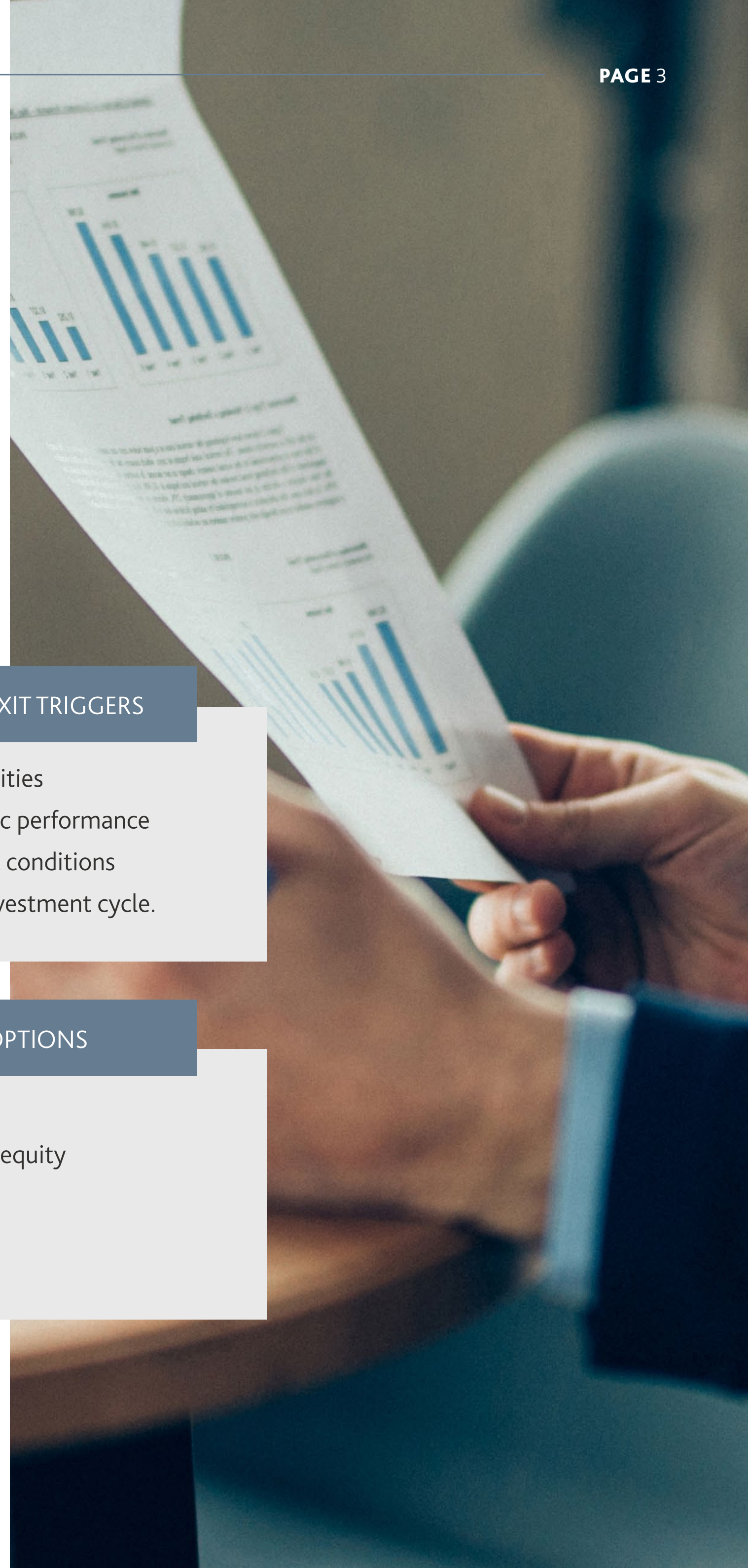
- Providing challenge around progression against the stated corporate strategy
- Identifying growth opportunities that enhance performance – both organically and through acquisitions
- Understanding the likely buyer communities and transaction options
- Assessing and advising on the best exit approach
- Preparing and evidencing supporting financial information
- Managing an auction process.

### POSSIBLE EXIT TRIGGERS

- Market opportunities
- Company-specific performance
- Macro-economic conditions
- Private Equity investment cycle.

### EXIT OPTIONS

- Dual track
  - Sale to private equity
  - Sale to trade
  - Listing (IPO)
- Refinance.



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## RELENTLESS FOCUS ON MAXIMISING RETURNS AND MINIMISING RISK

### CORPORATE STRATEGY

- Is there a well-defined investment hypothesis?
- Is the PE journey evidenced?
- What is the exit plan?

### LEADERSHIP

- Is the right team in place?
- Are they appropriately incentivised?
- Is there a clear succession plan and talent pipeline?

### FINANCIALS

- Are the appropriate KPIs tracked?
- Does the management information support the value story?
- Is data comparable across periods?

### OPERATIONS

- Is the right corporate structure in place?
- What operational initiatives are envisaged?
- Have the necessary capital investments been made?

### RISK

- Have potential exposures been assessed (e.g. cyber security, tax, FX)?
- Is there a robust control environment?
- What scenario planning has been carried out?

### REPORTING

- Are there judgmental accounting policies?
- Is revenue visibility tracked (e.g. order pipeline)?
- Have any acquisitions been fully integrated?

# MANAGING THE DEAL PROCESS

## Detailed preparation and planning enhances value and eliminates delays and surprises. We use a straightforward and structured approach to every transaction that focuses on driving value at each step of the process.

The deal process is set out below over several key stages with a high-level view of matters to be considered at each stage, including those that should be considered well in advance. We pride ourselves on our capability and experience, as well as our collaborative approach, whereby we offer a full bundle of services and advice throughout the Private Equity journey.

With deep sector and industry knowledge, this practical, real-world team has a profound understanding of the Private Equity industry, particularly in the mid-market. Our people can provide tailored insights at every level, interacting with funds, advising on deals and working closely with portfolio companies to help them realise their goals.

## Transaction Readiness - >2 Years Pre-Deal

### TIMING DISCUSSIONS

- Assessment of:
  - Exit readiness
  - Buyer attitudes
  - Market dynamics
  - Track record of profit progression
  - M&A opportunities
- Critique management team appetite and talent pipeline
- Frame material tender / contract renewal timings.

### INFORMATION PRESENTATION

- Express clear and consistent articulation of value story
- Prepare KPIs aligned to stated strategy
- Ensure a robust control environment and scalable infrastructure
- Define operational plan
- Frame impact of innovation / digital disruption
- Assess potential tax exposures / mitigants.

## Transaction Process - Typically C.4-6 Months

### BUSINESS PLAN / KPIS

- Align to investment hypothesis
- Granular preparation with supportable assumptions
- Commercial due diligence (DD) should validate top line
- Include selected outputs in marketing materials
- Consider scenario planning
- Assess and quantify potential upsides.

### BUYER INTELLIGENCE

- Pre-qualify to credible buyers' list
- Get to know interested parties (financial and strategic)
- Share selective data to whet appetite
- Assess synergies (if relevant)
- Ensure VDD scoping covers key buyer questions
- Seek best possible funded offers.

### SALE PROCESS

- Present supportable EBITDA measure for valuation
- Prepare insight-led vendor due diligence (VDD)materials
- Manage PR / media interest
- Narrow the buyer field
- Establish data room
- Consider staple financing option
- Hold management presentations.

### COMPETITIVE TENSION

- Control access to management
- Well-managed Q&A process with timely responses
- Ensure a range of potential buyers
- Avoid surprises (e.g. short-term targets are met)
- Reiterate key messages (e.g. trading resilience / underpinning, cash conversion).

### PATHWAY TO SIGNING

- Controlled access to VDD providers
- Timetable discipline
- Sales and Purchase Agreement (SPA) guidance and support
- Provide current trading update as appropriate
- Deliver optimal tax structure
- Negotiate final offers and deal completion.

## Post Transaction

### NEW STRUCTURE

- Input into 100 day considerations
- Assess wealth management options
- Implement revised reporting requirements
- Work through any integration issues
- Draw up pipeline of M&A opportunities.

# IDENTIFYING THE RIGHT BUYER COMMUNITY

An early assessment of the potential buyer universe helps management teams and the Private Equity investor determine the exit options and the investment thesis that will drive the greatest competitive tension.

Broadly speaking, buyers come from two main communities: strategic (trade) or financial (investors). Strategic buyers are often competitors, suppliers, or customers who are looking to gain market share or access to new markets. Financial buyers, such as another Private Equity house who will fund a secondary buyout, are more focussed on realising a return on investment. As such, the way that businesses are evaluated, valued and marketed needs to be aligned to their respective motivations.

Alternatively the company's shares could be sold, either a full or partial divestment, to the public markets through an Initial Public Offering (IPO).

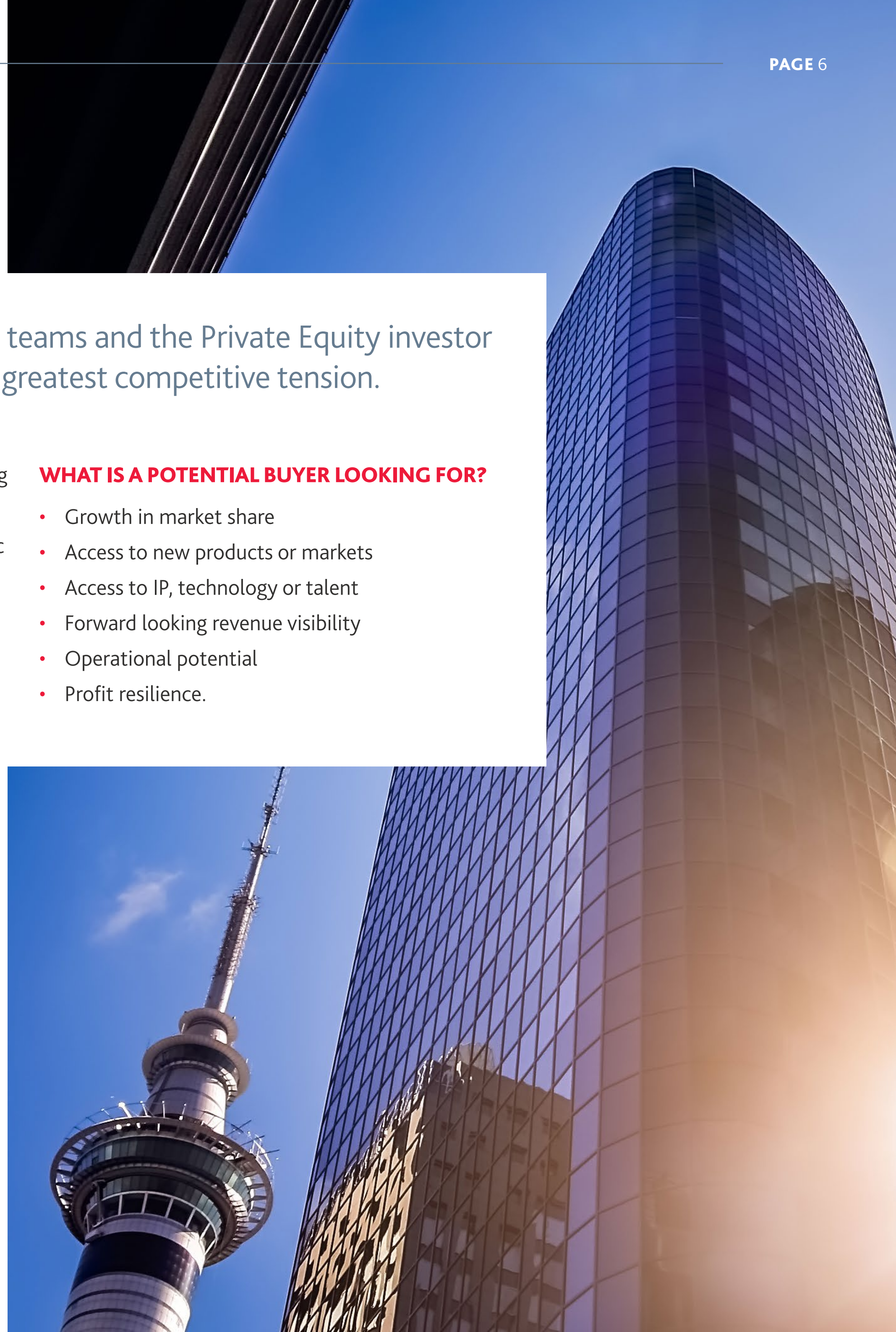
Listing of shares is subject to strict regulatory requirements and restrictions which need to be planned and documented throughout the Private Equity lifecycle.

Factors that should be considered when identifying potential buyers include:

- Increasing importance to look beyond domestic borders to ensure all channels have been explored
- For certain strategic buyers, is there significant synergy potential?
- Is management's intention to remain with the business through its next stage of growth?
- Weigh up the risks and benefits of a wider auction, focused auction or 'one on one'
- What is the envisaged debt capacity of the business?

## WHAT IS A POTENTIAL BUYER LOOKING FOR?

- Growth in market share
- Access to new products or markets
- Access to IP, technology or talent
- Forward looking revenue visibility
- Operational potential
- Profit resilience.



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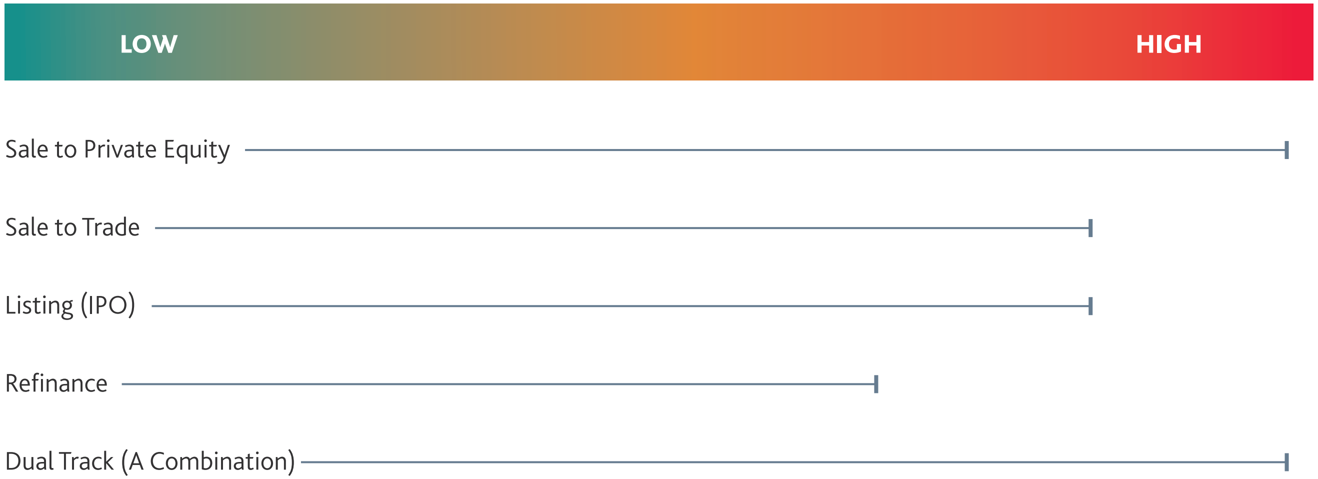
## THE RIGHT INFORMATION FOR THE RIGHT OUTCOME

By identifying and planning a clear exit strategy, businesses can demonstrate a strong track record in accurately reporting the necessary information and supporting the areas with perceived growth potential.

A 'dual track' process is where businesses conduct an auction or other sale process concurrently when preparing for an IPO. An IPO would typically require fuller financial reporting procedures but in some instances require less granular commentary around trading drivers.

## INFORMATION REQUIREMENTS

The depth of information requirements typically varies depending on the type of exit transaction planned.

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