



PACE



25  
Years



# Pace Equity

Advising on Sales, Acquisitions, & Growth since 1989

**Management Buy-Outs as a Route to a  
Successful Retirement Sale**

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***Funding of  
MBOs is not as  
Difficult as  
most  
Shareholders  
or MBO Teams  
Think***



**1. Retirement sales usually follow the route of either**

1. Trade Sales
2. MBOs

**2. In a trade sale, retiring shareholders may end up selling at a discount to market value**

**3. If a strong 2<sup>nd</sup> tier management team is in place, MBOs are often a good option**

**4. Private and Professional investors like backing MBO teams, because:**

1. MBO teams know and understand the business
2. MBO teams can often see new opportunities for growth and development in the business
3. MBO teams are often held back by “conservative” shareholders preparing for retirement
4. Driven MBO teams are usually motivated by share ownership, growth and personal wealth creation

**5. Advised correctly, retiring shareholders can prosper handsomely from MBOs**

**6. MBO success is usually down to careful planning ahead of the retirement decision**

1. Planning and preparation for fund raising / investment
2. Carefully orchestrated communications to the MBO team and to investors
3. Meticulous business planning

## **Top 12 Factors to Achieving a Successful MBO**



- 1. Careful planning and preparation ahead of starting / proposing an MBO**
- 2. A clear vision and strategy for the future of the business**
- 3. Detailed and robust business plans and financial models**
- 4. Frank and open discussions on the needs and expectations of both parties**
- 5. MBO strategy aligned to the business strategy, exiting shareholders and funders**
- 6. Early agreement on how the MBO is to be supported, managed and funded**
- 7. A market related valuation and frank and open discussions around that valuation**
- 8. Strong leadership in the MBO team with empathy for retiring shareholders**
- 9. A constructive choice of the right funders/investors with robust negotiations**
- 10. Careful and detailed post MBO planning and management**
- 11. The success of an MBO is often due to the strength and vision of the MBO team**
- 12. Communication, communication, communication**

**Careful Planning  
and Preparation  
Ahead of  
Starting/  
Proposing an  
MBO**



**Spend time articulating the strategy for the future of the business – in particular:**

**What are the primary purposes for achieving an MBO?**

**MBO Team**

Who will be included – key functional strengths required

Who will lead?

Key management gaps or weaknesses

Exit strategy

**How will retiring shareholders support the MBO team?**

**What can the MBO team add to the value of the business?**

**Has the MBO team identified all the resources needed to meet the plan?**

**Why will the MBO add growth to the business?**

**Will that growth be attractive to investors / funders?**

**How will the MBO team fund the MBO?**

**What are the time frames involved?**

**Has the MBO team chosen experienced advisers to help them through the MBO?**

**Are there acquisition opportunities to add to growth?**

*How will an  
MBO add  
value to the  
business?*



"Does the MBO team have a clearly articulated vision for the future of the business?"

"Has that vision been discussed, debated and agreed between you?"

"Has that vision been translated into a coherent, written strategy and business plan?"

"Has the business plan been translated into a viable and robust financial model?"

"Will that business plan have the right appeal for potential investors?"

"Can that plan be clearly summarised on 1 or 2 pages?"

"Can that summary be easily communicated to exiting shareholders and funders?"

"Most important:

"Do you have the total support of the MBO team for the strategy?"

"Will all MBO team members have "skin in the game"?"

"Does each one of the MBO team have a clear role to play in the future business?"

"If all of the above are true, you are almost ready for an MBO

***The Minimum  
Documentation  
Required:***

- ” A robust and well developed Business plan**
- ” A viable and interactive financial model**
- ” A succinct and punchy Executive Summary**



***MBO team  
will only  
succeed with  
full backing of  
exiting  
shareholders***



## 1. What do the retiring shareholders want?

**"Price**

**"Structure of exit**

- Financial
- Management responsibility
- Terms and conditions

**"Timing**

**"Handover**

## 2. What do the MBO team want?

**"Company / shareholder support**

**"Price**

**"Handover**

**"Timing**

**"Warranties**

***MBO strategy  
must be  
aligned to:***

- 1.The future opportunities for the business**
- 2.The needs of the retiring shareholders**
- 3.Requirements of the funders / investors**

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**Early Agreement  
on How MBO to  
be Supported,  
Managed and  
Funded**

*MBOs work best when the MBO team and the retiring shareholders see the full win-win potential opportunities in an MBO:*

**MBO team needs to work with retiring shareholders to agree 3 key criteria:**

1. What support can the MBO team expect from shareholders?
2. How will the MBO process be managed?
3. How will the MBO be funded?

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***Funding is  
the 2nd most  
critical aspect  
of a  
successful  
MBO***



This is where advisers can add a lot of value in an MBO

If you are seeking external funding, make sure you have a wide range of choice

Ensure you have a clear exit plan, easily explained and totally defensible

While economic times are difficult – there is a wide choice of funding available

**Equity, Mezzanine, Invoice discounting, Cashflow lending, Equipment finance, etc**

Equity is ultimately the most expensive form of funding

Sourcing of funding is like sourcing from any other supplier

Expect to negotiate robustly

**DO NOT ALLOW INVESTORS TO BULLY YOU!**

Do not be afraid to walk away from a deal if you don't feel right about it

MBO team will be working with the funders for a long time – the deal must  
win-win

*Employ the services of reputable corporate valuation advisers*



**Early agreement on valuation is critical to the viability of an MBO**

Corporate Valuation Advisers must:

1. Advise on the quantum of a market-driven valuation
2. Take the needs and objectives of both parties into account
3. Advise on the options for different structures of payment to meet objectives in 2

Retiring shareholders must accept that MBOs are rarely able to pay premiums to market value, but should pay a fair market value.

*An MBO  
can be an  
ideal  
solution for  
both parties*



"Once the offer is accepted in principle - don't waste time – get things done

"MBO team must display strong leadership

"Due-diligence will be led by the investors and lenders, but MBO team must participate

"Retiring shareholders have built the business to date – have empathy for their needs

"Negotiate professionally, objectively and fairly

"Make prompt decisions and communicate at all levels open to you

"Be flexible and acknowledge concessions

"Start implementing the post-acquisition plan as soon as a viable deal is in sight

**Strive to get quickly back to business post the MBO stresses**



- “ MBO teams - display empathy for the retiring shareholders!
- “ Demonstrate leadership and constantly share and reinforce the new vision
- “ Walk the talk
- “ Identify and focus on an early win such as achieving a key project or a key milestone
  1. Diverts attention from MBO stresses
  2. Provides opportunity for feeling of a new sense of purpose
  3. Gets teams back to work as usual
  4. Have regular reviews of progress
- “ Do not attempt to change things overnight
- “ Support and reinforce a culture of success - reward innovation and results
- “ Refresh empowerment - it can produce remarkable results
- “ Optimism is a force multiplier

**Why use  
Pace Equity  
to help you  
achieve a  
successful  
MBO**



*MBOs can benefit enormously from experienced advisers who have done it before*

- “ Specialist M&A organisation . 23 years in the business; extensive track record of success
- “ MBOs have been an important aspect of our business throughout that time
- “ Our services are carefully tailored to each Client/Project
- “ We will guide our clients through every step of an MBO and beyond, if required
- “ Significant contact base of over 1,500 active investors and funding institutions
- “ Highly specialised and productive team with broad range of industry experience
- “ We've successfully helped grow a range of successful groups during our long time in business
- “ Range of highly experienced services to choose from
- “ Pace Equity is authorised and regulated by the Financial Conduct Authority

**We hope you have found this presentation helpful.**

**If you have any questions or would like to address any specific points, please do so directly or contact us at the address below.**

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