Ten Tips for a Successful MBO

When successful companies consider succession they usually seek a third party trade sale to realise the full market value for their shares. Alternatively the management team who operate the business may put forward an offer and this value may be less than a third party trade sale. However, whilst an MBO route offers a reduced sale price, it has the advantage that the contractual obligations in the form of warranties and deferred payments etc are less onerous given the managers know the business and the sellers.

One of the most frequently asked questions by a management team is "How can we improve the success of the potential MBO?" This question can be answered by reference to the following top tips:

1. **Credibility** - The credibility of the management team is key, they need to have a proven track record in order to demonstrate they can not only run the business but they are capable of the transition from being managers within a business to fully enfranchised stakeholders who will guide that business to continued success.

2. **Team** - Does the management team comprise of the right members to conduct an MBO? Does the team require stronger FDs or other non-exec directors? Do not simply work on the basis that the existing team will do.

3. **Business Plan** - The management team require a robust comprehensive business plan with ideas to improve the business, its profitability and margins whilst absorbing the costs of the MBO and therefore simple cash-flow projections will not suffice.

4. **Accountant** - Having prepared a business plan the management team need to test the credibility of the cash-flow projections to ensure the business can be maintained going forward, subject to the available funding and an accountant's input is vital.

5. **Corporate Finance** - A lead corporate finance adviser should be engaged to assist in negotiating the potential management buyout since if there is a deal to be done it will revolve around price. A corporate finance adviser can also help facilitate negotiations between the management team and the sellers and can often be the accountants.

6. **Heads of Terms** - These need to be clear and concise with definite timelines in order to achieve completion. When negotiating the heads of terms points 7 to 10 below are key.

7. **Price** - How will the price be paid? The price may not be the full price an exiting shareholder would achieve with a trade sale route, however a seller selling to a management team would benefit from providing limited warranties. There is also an existing relationship between the seller and the management team so notwithstanding there is a contractual framework for payment, more importantly it is surrounded by trust that payments under the contract will be made.

8. **Lawyers** - You will need a commercially focused corporate lawyer whose only aim is to complete the transaction within the shortest time frame affording the parties maximum protection under the contract whether they are acting for the sellers or buyers.

9. **Finance** - Usually the corporate finance adviser will assist the management team with regard to ensuring that they are able to raise the funds necessary to undertake the acquisition, whether this be a mixture of personal funds, bank debt and VC funding. There are numerous ways in which MBO's can be funded and again a corporate finance adviser/accountant will assist.

10. **Timing** – It is important to maintain the momentum once the deal begins to bring it to a smooth and speedy completion. In order to do this it is imperative to appoint commercially minded corporate lawyers who are used to dealing with time pressures of corporate transactions on a daily basis.

If you can get all the above ingredients together then you will have a recipe for a successful MBO that will benefit all parties. If you would like to discuss any of the above further please contact Colin Rodrigues, Hawkins Hatton LLP at crodrigues@hawkinshatton.co.uk or on 01384 216840.