Corporate Finance newsletter

Summer 2022

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Welcome to our summer 2022 corporate finance newsletter

In this edition we share details of some of our recent deal completions, we outline some of the key considerations for a management buyout and we highlight the importance of effective succession planning.

Experts in:

- Business valuations
- Raising equity & debt finance
- Management buyouts
- Employee ownership trusts
- Business acquisitions
- Financial due diligence
- Capital markets advisory
- Preparing for exit
- Business sales
- Strategic M&A

How can we help

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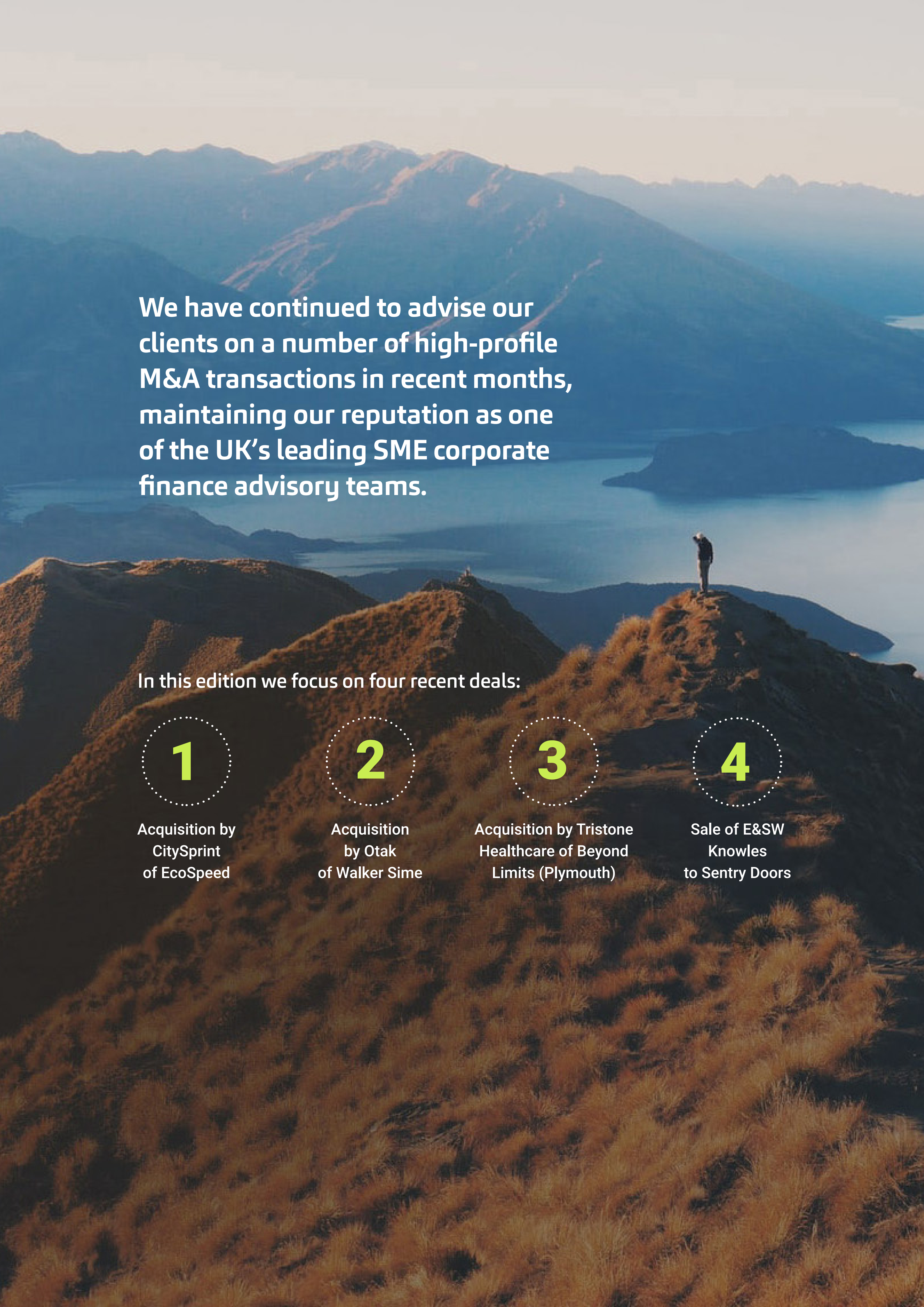


We have continued to advise our clients on a number of high-profile M&A transactions in recent months, maintaining our reputation as one of the UK's leading SME corporate finance advisory teams.

In this edition we focus on four recent deals:

1. Acquisition by CitySprint of EcoSpeed
2. Acquisition by Otak of Walker Sime
3. Acquisition by Tristone Healthcare of Beyond Limits (Plymouth)
4. Sale of E&SW Knowles to Sentry Doors

Acquisition by CitySprint of EcoSpeed

We are delighted to announce that we have advised the courier and transportation services provider CitySprint on its acquisition of same day courier business, EcoSpeed.

Established in 2005, the highly regarded business supplies urgent courier and transportation services across Manchester and the surrounding areas. The acquisition by CitySprint, which is part of DPDgroup, is the next phase of an ongoing growth strategy to acquire strongly performing, regional courier businesses.

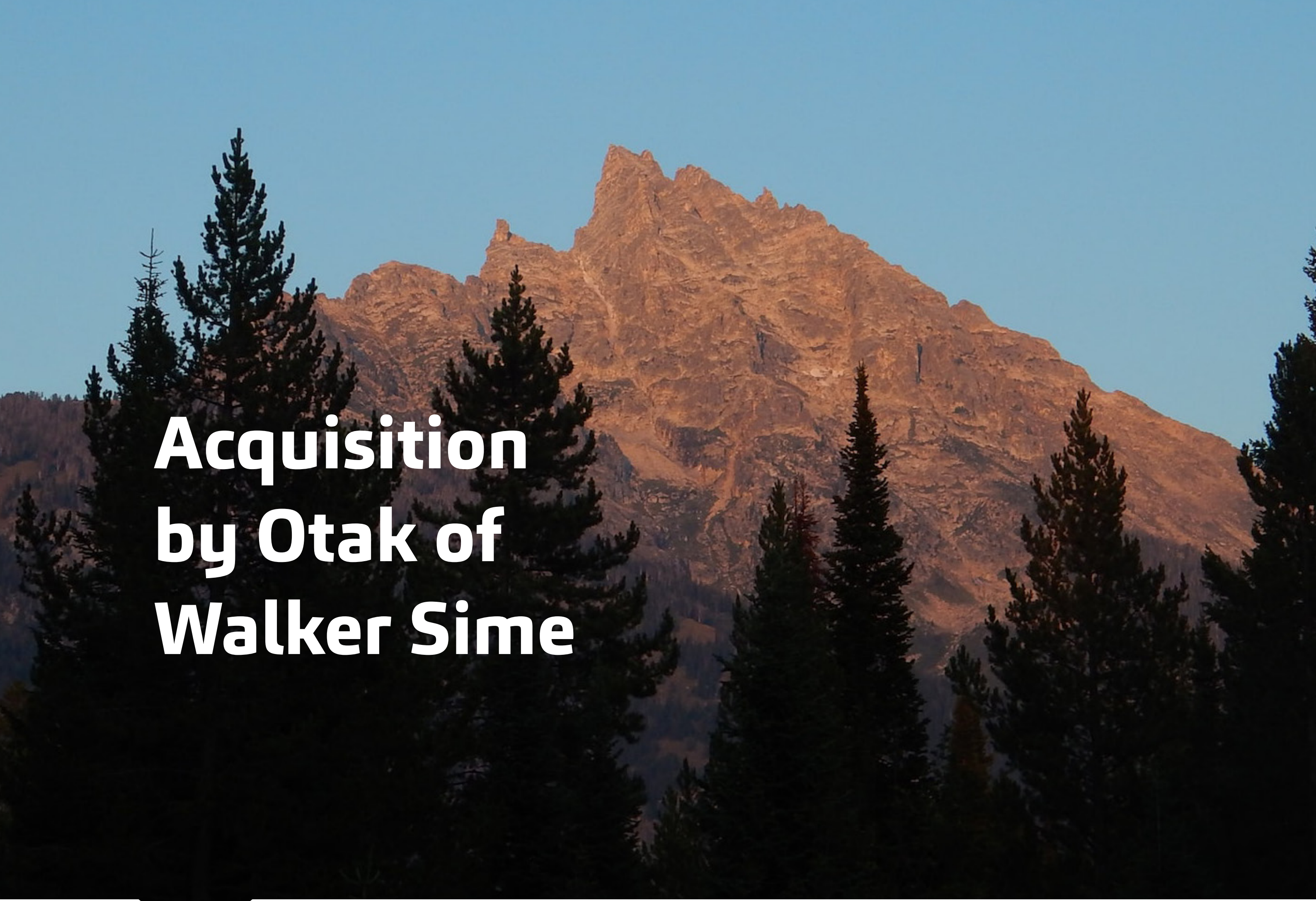
The acquisition will further strengthen CitySprint's presence in north west England. In return EcoSpeed clients will gain access to CitySprint's national delivery network, which operates from 30 sites across the UK.

Our team was led by Rob Dando, supported on the tax side by Chris Denning. We provided both financial and tax due diligence services to help CitySprint facilitate its smooth acquisition of EcoSpeed.

Rob commented:

This is an exciting time for CitySprint both in recently joining the DPD group and in continuing its own growth plans in the UK. It was great to work with the CitySprint team on this transaction and we look forward to working with the team on more transactions in the future.

Click to find out more about **CitySprint** and **EcoSpeed**



Acquisition by Otak of Walker Sime

We are delighted to announce that we have advised design and project management company Otak on its acquisition of multi-disciplinary construction consultancy, Walker Sime.

Otak, a 350 strong design and project management business headquartered in Portland, Oregon, has since 2011 been owned by HanmiGlobal (HG), a Korean based group ranked as the ninth largest global project management and construction management firm. Otak manages investment relationships for HG across North America, the UK and Europe. The acquisition of Walker Sime complements the earlier acquisition of K2, a London based construction consultancy firm, and gives the group a strong UK construction offering as well as offices covering the north and south.

Established in 1999 by Dez Walker and Jon Sime, Walker Sime, based in Manchester, has developed into one of the north west's most well respected construction consultancies. Now based out of three offices, the business provides across numerous sectors a wide range of specialist services, including quantity surveying, project management, employer's agent, commercial consultancy, dispute resolution, bills of quantities and construction design & management. Our team was led by Justin Moss, supported on the tax side by Gareth Peters. We provided both financial and tax due diligence services.

Justin Moss commented:

This is a great acquisition for Otak and continues their development into the UK market. We are delighted to have advised Otak in this transaction and are sure that the partnership of Otak and Walker Sime will flourish over the coming years. We look forward to working with Otak again in the future."

To find out more about Otak and Walker Sime go to **www.otak.com** and **www.walkersime.co.uk**

Acquisition by Tristone Healthcare of Beyond Limits (Plymouth)

We are delighted to announce that we have advised the buy and build social care investment group Tristone Healthcare on the acquisition of Beyond Limits (Plymouth). Our team was led by Andy Feeke.

Tristone adds significant value to its community businesses beyond investment through initiatives such as its independent safeguarding board. The board is made up of seven of the industry's leading figures who are responsible for observing and overseeing care and safeguarding matters for Tristone's community of businesses.

The acquisition of Beyond Limits, which operates across Devon, Cornwall, Somerset, and Dumfries and Galloway, follows the addition of Seaside Care Homes to its portfolio in February. At the end of 2021, the investor announced it has the backing of £20 million of funding from Duke Royalty, which has supported this latest transaction.

Beyond Limits was founded in 2011 and specialises in supporting people with learning disabilities, mental health issues and other needs.

Employing 131 staff and supporting 26 individuals, the business has achieved an "outstanding" rating by the Care Quality Commission (CQC). Founder and managing director, Doreen Kelly, will retain a shareholding and remain in the business, as part of the deal.

Tristone's Yannis Loucopoulos, commented

The quality of care at Beyond Limits is second-to-none and is reflected in its outstanding CQC rating. The management team operates at the very highest standard and, as such, there was a real meeting of values and vision. It has all the hallmarks of a business we love to invest in, one which is delivering outstanding care and support, has a great management team, clear opportunities for growth and strong financial fundamentals."

Doreen Kelly added:

When considering the next stage of our growth journey, it was essential we found an investment partner that was culturally aligned with our business, but equally understood the nuances of the social care sector. Being able to demonstrate a passion and drive to protect the professional legacy of Beyond Limits and place outstanding care front and centre were also key to us. In Tristone, we have found that partner and we're excited about the growth opportunities that lie ahead, while meeting the rising demand for specialist places for people in need."

Find out more about **Tristone** and **Beyond Limits**

Sale of E&SW Knowles to Sentry Doors

We are delighted to announce that we have advised the shareholders of E&SW Knowles on the sale of the business to Sentry Doors in a transaction supported by Cairngorm Capital Partners. The deal catapults the combined group into prime position as the UK's market-leading fire safety door specialist and is well positioned for significant growth.

Established in Birmingham in 1923, Knowles manufactures specialist timber internal door sets with fire rated, acoustic, and PAS 24 security certification. Knowles trades nationally, offering bespoke, sector-specific solutions which meet the exacting requirements of its commercial, healthcare, education, and leisure customers.

Sentry's acquisition of Knowles will accelerate innovation and growth in the combined group, deliver an enhanced offering and augment sector coverage and expertise. It was evident from the outset of discussions that both businesses shared many aspects of their cultural outlook and values. Key amongst which is a focus on customer service and quality. Customers of the combined group are expected to benefit significantly from an enhanced product range and service capability and d improvements in equipment and technology, supply chain and logistics. Knowles' managing director, Steve Horner, will join Sentry's senior management team and will continue in his current role at Knowles, thus delivering continuity for staff and customers, and supporting Sentry's CEO, Ty Aziz.

Martin Wright, Knowles' majority shareholder and chairman commented:

Next year Knowles celebrates its centenary. Whilst I am extremely proud of all that we have achieved in the last 99 years of my family's ownership, I know that the business has the capability to achieve much more. I believe this is a natural point for the family to pass the company to new, trusted custodians who are as passionate as us about their customers and can deliver Knowles' future potential.
We have found a perfect partner in Sentry and I firmly believe the companies will achieve great things together."

Stuart Whiteford, director of Sentry and member of the Cairngorm investment team, observed

Knowles is an excellent company that is highly regarded by its customers. The combination of Knowles and Sentry is strategically compelling and delivers additional capabilities and services across the business, to the benefit of all customers. Significant investments are taking place for both businesses and we look forward to supporting Ty Aziz and Steve Horner to deliver their growth plan."

Ty Aziz added: "I am delighted to welcome Knowles to Sentry. The business has a fantastic manufacturing heritage, an exceptional team and a superb product range so we can learn a lot from one another. This partnership will help us to respond to the surge in demand for our products, as well as providing our customers with a comprehensive range of fire safety and security solutions and a greater choice of features and finishes. It marks a key milestone in the growth strategy for our businesses and advances our collective ambition to be UK leaders in this sector."

Our team was led by James Lawson, who commented: "We are proud to have advised Knowles' shareholders on the transaction. It's been especially gratifying to act as a trusted adviser to a business with a 100-year family legacy and to deliver an outcome which meets the interests of all stakeholders against the demanding brief Martin and the Knowles team set us. Both Sentry and Knowles are high performers in the sector and we are confident Ty, Steve, and the Cairngorm team will continue to grow the combined group and guide it on an exciting future to reach its full potential."

What makes a good MBO target?

A question we are frequently asked by management teams considering a management buyout (MBO) is whether the company that they manage is a suitable target for an MBO. There are no hard and fast rules but certain factors do tend to be common. Outlined below are some of the issues that will help identify if the company you manage is ripe for an MBO.

1 Strength of management

A strong, experienced management team is essential to ensure the transaction can be funded externally. It is important to have a team that cover all of the functions of the business at a senior level. Members of the team may have dual roles depending on the dynamics and size of the business. On larger deals the involvement of an experienced non-executive director with industry experience will add real credibility to an MBO team.

2 Strong cash flow

Cash generative businesses are always better placed to achieve a successful buyout. Strong cash flow will enable the repayment of the debt raised externally to facilitate the MBO, some of which may have been provided by a venture capital or private equity house.

3 Unique selling points (USPs)

There may be unique selling points associated with a company that make it attractive to funders. For example, it may demonstrate a competitive advantage which gives rise to cost advantages, customer base, product differentiation and/or management expertise, all of which are not easily transferable.

4 Sector

Companies in stable, growing sectors are favoured over more mature sectors. If there is excessive competition or over capacity in the sector in which the company operates, this may potentially make it more difficult to obtain funding for an MBO. MBOs in sectors that are perceived to be riskier, such as information technology, may also be more difficult to fund because of the lack of a tangible asset base, although this has changed over recent years as funders focus more on management skills and cashflows.

5 Non-core subsidiary

Companies that no longer fit within the existing core activities of their group are always strong candidates for a MBO. Willing vendors looking to divest of such companies will usually offer incumbent management a chance to complete a buyout unless they perceive that a trade sale would be far more beneficial.

6 Growth prospects

Companies with good growth prospects are more likely to be attractive to funders. Visibility of future performance and strong expected returns are key to getting MBO transactions funded.

7 Retiring senior management and succession issues

The impending retirement of a majority shareholder can often act as a catalyst for an MBO, especially where there is no natural family succession in place. This in itself would not make for a successful MBO but, combined with some of the other factors above, could help trigger an MBO. We talk more about succession planning below.

8 Exit route

From the very outset, careful consideration needs to be given to the proposed future exit route for the MBO team and incoming lenders and investors. A well thought out future exit plan will make the MBO a far more viable proposition, particularly for equity investors, who will also be looking for their own exit at some point. The main exit routes remain a trade sale, a secondary buyout or a float on AIM or the main LSE.

9 Conclusions

It is important for management teams to clearly identify what factors make the company they manage suitable for an MBO. Seeking professional advice early on can assist in this process, by helping to identify quickly whether an MBO is the best route to take. If you would like to learn more about how we can assist you with your MBO then contact one of the senior members of our team below or visit us at: **macintyrehudson.co.uk/services/corporate-finance**

Have you got a succession plan in place to maximise business value?

According to recent research, nearly **90%** of current family business owners believe the same family or families will control their business in five years' time. In reality, about **30%** of family businesses survive into the second generation, **12%** are still viable into the third generation and only about **3%** operate into the fourth generation or beyond.

The statistics reveal a disconnect between the optimistic beliefs of today's family business owners and the reality of the failure of family companies to survive through the generations. The research indicates that family business failures can essentially be traced to one factor: an unfortunate lack of efficient succession planning.

There is no doubt that succession planning can be stressful for family-run businesses to address. However, the absence of such planning can hold back growth and make it more difficult for businesses to generate new ideas for future success, which can also damage the wider local economy through loss of jobs, knowledge and expertise. Instances of family members taking the majority of the senior management positions often result in an unintentional glass-ceiling effect, acting as a barrier to the development of non-family personnel and ultimately business growth.

Planning for succession well in advance can help overcome these hurdles and enable the company to continue to grow and to attract top talent.

Succession planning is not all about selling the business to another company; there are other options which can be explored with the support of expert third party advice.

These include a phased management buyout or buy-in, a cash out using externally sourced debt and/or equity finance and, in some cases, an initial public offering on one of the UK's listing exchanges. Many family-run businesses would flourish under new leadership, be it a family member from the next generation, the incumbent management team, an outside buyer, or even a mix of all three.

The key to success is for the current owners to bite the bullet and engage with experts early in the planning process so that the merits of each option can be analysed and progressed as appropriate. A little bit of investment now in time and money can often prove to be a positive game changer later down the line.

Succession planning can help you develop an effective mid to long term plan as part of your overall business strategy. An experienced facilitator will look at how your business works and help you to identify and optimise unique selling points and key business drivers with the aim of guiding you towards the most appropriate outcome to ensure a smooth transition in the ownership of the business and the maximising of shareholder value.

If you would like to learn more about how we can assist you with your succession planning then contact one of the senior members of our team below or visit us at: **macintyrehudson.co.uk/services/corporate-finance**

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