

Consulting / Business Services sector corporate finance

Corbett Keeling is a corporate finance firm with a specialisation in **Consulting / Business Services**, advising **management teams** on raising funds for buy-outs and **owners** on sales of businesses or other exits. The firm's Consulting / Business Services team combines industry figures who have run businesses and led transactions in the sector with corporate financiers who have many years deal-making experience. Businesses with which the firm and its team have worked include:



Management Buy-Outs (MBOs)

The chance for a management team to carry out an MBO is often a "once in a lifetime" opportunity to make substantial amounts of money for themselves. Management should recognise the opportunity before it becomes widely apparent and get specialist advice from the outset.

Exits from Businesses

An owner's exit from a business – whether by complete, partial or phased sale – is a major event. Having developed the business, great care is required in maximising its value. Specialist corporate finance advice is crucial in order that owners achieve the best possible result.

For more details of Corbett Keeling's Management Buy-outs and Exits services see pages 2 and 3.

For details of the Corbett Keeling Consulting / Business Services team see page 4.

If you would like a meeting to find out, at no commitment to yourself, whether we can help with your Consulting / Business Services sector transaction, please contact Jim Keeling, joint chairman of Corbett Keeling, or any member of the Consulting / Business Services team, using the contact details on page 4.

Management buy-outs

The chance to carry out a management buy-out (“MBO”) is often a “once in a lifetime” opportunity for a management team to make substantial amounts of money for themselves. The skill is to recognise the opportunity before it becomes widely apparent so as to be in a strong position to negotiate acquisition terms and the funding package. The opportunity may arise when:

- a part of a group or company is no longer seen as a core activity in the owner’s future strategy;
- a group or company is in financial difficulties and needs to sell a division to raise cash;
- after a period of owning an investment, a financial backer needs to re-invest in other assets; or
- in a family business, the owner plans full or partial retirement.

Vital to the success of any buy-out is obtaining the very best access to funders. Therefore, as adviser to management, keeping in close contact with providers of equity and debt finance is a key part of Corbett Keeling’s activities. The firm devotes considerable resource to building and maintaining relationships with equity and debt providers and, as a result, can readily identify and secure appropriate funds for its clients. Corbett Keeling’s expertise and contacts:

- improve the MBO team’s prospects of raising finance;
- increase the speed with which funds are raised and minimise the disruption to the MBO team’s business; and
- result in finance being raised on better terms.

Corbett Keeling talks your language: with the firm’s operational expertise (its associates have had operational roles in a wide cross-section of businesses as well as corporate finance), we will be able to guide you through the MBO process in language you understand. Corbett Keeling talks the talk as well as walks the walk with you.

The 7 steps to a buy-out

1. The decision to proceed

Preparation is key. The first step in an MBO is to analyse and evaluate the opportunity that is to be presented to investors. In this way, a decision can be made as to whether funds can be raised and, if so, how much is required, the funding structure and the best source of the funds. Corbett Keeling plays a key role in this decision.

2. The business plan

Having decided you have a suitable target, the investment proposition, including the business plan and all associated documentation and presentations, must be prepared so they can be put forward to the chosen investor group in the best possible light. Corbett Keeling helps prepare the documentation.

3. Forming the management team

A key aspect of your MBO is to ensure your management team is as strong as possible. The stronger and more complete the team, the more interesting the funding proposition will be to investors. The MBO team may, even at this stage, include suitable non-executives alongside a full complement of executive directors – in order to make the overall proposal as attractive as possible to funders. Corbett Keeling will advise on how to form and present your team.

4. Arranging the funding

A crucial aspect of any MBO is the proportion of the business that is subsequently owned by each of the funding parties – be they the management team or their backers. Different backers will require management to give up different amounts of ownership – the actual

amount depending on how attractive investors find the business proposition and the return they are seeking. Certain investors have preferences as to the sector and stage of development of prospective investee businesses and almost all have upper and lower limits on the amounts they may invest. Some prefer to invest alongside other parties while others prefer to invest alone. Finding the right type of investors – be they providers of equity or debt – is vital.

An important feature of the service provided by Corbett Keeling is to direct its clients towards those sources of funds that are most likely to find their proposals attractive – and then to raise funds from them on the best possible terms. Relevant sources of funds range from equity to debt and the best investor in any given situation will be a combination of:

- a single private equity fund or syndicate of equity providers;
- mezzanine funds – where the risk/return sought is pitched between equity and debt; and
- debt providers, whether the debt is to be secured primarily on the cash flow of the business or on its property and current assets.

5. Agreeing terms

Having prepared the case, decided on the investor type and made introductions to selected investors, Corbett Keeling helps its client choose and negotiate with one or more preferred sources of funds. It has an in-depth understanding of funding structures and advises its clients on the most appropriate split of debt and equity and the returns that each source of funds will expect. In this way, the management team obtains funding on the best possible terms.

Of course, securing funds is only half the story. The management team is involved in a “chicken and egg” situation, as it also has to agree terms with the vendor. While funders may not want to put time into an MBO until the vendor has agreed terms, the vendor may not take management seriously if approached before they have backing. During this part of the process, the management team must also keep a close eye on their responsibilities as directors of the business being sold and their obligations of confidentiality. Corbett Keeling is highly experienced in dealing with these situations – advising management on how to make their way to agreeing a deal with both funders and vendors at the same time.

6. Deal co-ordination

It is essential that the management team keeps its eye on running their business and is not too distracted by the very time-consuming process of the MBO. Corbett Keeling takes much of the burden of running this process off management’s shoulders, including co-ordinating the other professional advisers – tax, legal, due diligence etc – required for the transaction and dealing with vendors and funders. Corbett Keeling is its client’s key sounding board and source of advice right up to completion of the transaction and transfer of funds from the MBO team’s backers to the vendor.

7. Completion – the Grand National

At Corbett Keeling, we sometimes say that doing an MBO is like riding a horse in the Grand National. Every time management gets over a hurdle (be that agreeing funding, reaching a deal with the vendor, arranging due diligence etc), it feels like they are in the clear – only to find there is yet another fence to be jumped. But don’t despair, the end does eventually come and, in this race, there are many winners!

Exits

Crucial assistance in achieving best value

An owner's exit from a business is a major event. Having developed the business, great care is required in maximising its value on sale or other exit. Specialist corporate finance advice is crucial in order to achieve the best possible result.

It may be that all the owners of the business wish to sell immediately, in which case Corbett Keeling would normally find a suitable trade or financial buyer for the entire business and execute a sale of 100% of it. In other circumstances, the owners of a business may have divergent interests: some may be keen to sell while others want to remain in ownership, in which case Corbett Keeling may recommend an initial public offering ("IPO") of the company's shares on a public market. Alternatively it may arrange for one shareholder to buy out another – or for a third party to replace the selling shareholder.

In some circumstances it may suit the owners of a business to sell over a period of time. For example, a financial owner may seek to improve its annualised rate of return by arranging for the investee business to borrow funds to buy back part of its stake. Likewise, an owner manager may regard having too high a proportion of wealth tied up in one company as too risky and may arrange to make a partial exit by bringing in an equity partner to buy a stake in the business. In either case, as well as taking cash out, the owner leaves some equity in the business to share in the future upside.

In preparing for exit, Corbett Keeling will help its client assess which of the various routes are likely to provide the most favourable result, if appropriate recommending that a variety of options are kept open. For example, it is quite common to run a "twin track" process between (i) potential sale to a trade or financial buyer and (ii) an initial public offering (IPO).

In order to maximise price, access to the widest possible range of buyers will be vital. This requires:

- Strong sector knowledge – Corbett Keeling's industry sector team, has in-depth knowledge of your sector and can therefore identify and access the best possible trade buyers.
- Access to financial buyers – as a result of the firm's specialisation in advising on management buy-outs, Corbett Keeling has particularly strong access to financial buyers. The firm can therefore find the financial buyer that is most suited to the size, sector, location and stage of development of a business being sold.

Private Equity – the following is a very small selection of Corbett Keeling's wide-ranging private equity contacts:



- International reach – Corbett Keeling is a member of Globalscope (www.globalscopepartners.com), an international mergers and acquisitions network with offices from China through India, Africa and all major European countries to the Americas. It can therefore access buyers from across the globe.



- Access to databases – Corbett Keeling subscribes to and maintains its own proprietary databases of likely purchasers of businesses.

In helping its clients with the sale of a business to a trade or financial buyer, Corbett Keeling:

- researches the sectors most likely to contain a potential buyer;
- designs the sale process to achieve the objectives of the seller(s) and reflect their unique aims – in this respect, the requirements of a financial or trade owner, for example, may be different from those of a private individual or family owner;
- prepares a sale memorandum about the business;
- prepares and discusses with its client long and short lists of potential buyers, including, where appropriate, those from overseas – agreeing with the client which buyers to approach and when;
- evaluates the level of interest and quality of each potential buyer through personal contact and using an anonymous profile of the business;
- controls the confidential distribution of the sale memorandum to potential buyers;
- as appropriate, arranges vendor due diligence and "staple finance" (debt funding to be used by the purchaser);
- manages the sale process and timetable to its client's best advantage, monitoring information flow, arranging and attending meetings, and receiving bids;
- advises on the structure and negotiation of the transaction;
- assists with the formulation of heads of agreement;
- monitors the due diligence process; and
- advises, in conjunction with lawyers, on the completion of the deal.

In helping its clients through an IPO, Corbett Keeling provides independent advice from the start of the process to the end, including on:

- appointment of the full advisory team – brokers, lawyers, accountants etc;
- setting the detailed timetable for the transaction;
- preparing the business for IPO – for example strengthening the board and ensuring the company is able to comply with relevant regulations;
- arranging an accountant's due diligence report and drafting of a prospectus;
- evaluating feedback from the chosen broker on likely institutional demand and the resultant pricing of the issue; and
- completion and admission to the selected stock market.

In summary: Corbett Keeling has extremely strong access to purchasers for your business combined with the depth and breadth of corporate finance expertise to advise on the best route to exit. We are therefore very well positioned to advise on how best to complete your exit in order to maximise the proceeds you obtain.

Consulting / Business Services team



David Cheeseman, working with Paul Collins, co-founded equiteq (www.equiteq.co.uk), which specialises in advising consulting and IT services firms on increasing their value before sale. After an early career in IBM, David had previously become Paul Collins' first employee at World Class International (WCI), which together they built to a successful exit in 2002. With Corbett Keeling he focuses mainly on the sale of consulting and IT services sector businesses.



Paul Collins co-founded equiteq (www.equiteq.co.uk) which specialises in advising consulting and IT services businesses on increasing their value before sale. He is a renowned speaker on the growth and sale of consulting firms. Prior to equiteq, he led the growth of World Class International (WCI) from £4m annual revenues in 1995 to £63m in 2002 when it was sold at an enterprise value of £50 million. He works with Corbett Keeling mainly on the sale of consulting and IT services sector businesses.



Jim Keeling, ACA, Joint Chairman of Corbett Keeling, graduated from Oxford University before qualifying as a chartered accountant with KPMG. He was a member of KPMG's corporate finance division when it was first set up, advising on buying, selling and arranging funding for UK businesses. He founded Corbett Keeling in 1993. He has extensive knowledge of the private equity industry and is on the Lead Advisers' Committee of the British Venture Capital Association and the Board of the Faculty of Corporate Finance of the Institute of Chartered Accountants in England & Wales. He has led assignments for a wide variety of clients including in the chemicals sector.

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