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Step By Step Guide To Management Buyouts

By Paul Surtees

Every MBO is bound by its own individual financial circumstances, however the entire process usually follows a streamlined set of checkpoints.

Buying a controlling stake in the business you work for is a dream harboured by employees across the country. However, there are misconceptions about the costs and practicality of striking these deals which unfortunately leads to many would-be business owners wrongly branding such an idea as unachievable.

The truth is that management buyouts (MBOs) have become common place across all sectors of UK industry with more than £47bn changing hands to fund these deals last year alone. There are a huge number of lenders who specifically position themselves within this section of the market, offering valuable advice and experience, as well as the funds, to ensure that a buyout can be completed successfully.

WHAT IS A MANAGEMENT BUYOUT

An MBO is the process by which a management team within an organisation can purchase the business from its owner. Unless the buyers themselves have substantial capital set aside to make the purchase outright, MBOs are almost exclusively completed thanks to financial support from banks, venture capital and other lending streams.

There are plenty of reasons that an MBO opportunity might present itself, including:

- Company restructuring
- The existing owner needing to raise finance
- Forced sale through administration
- Retirement of the owner

No industries are automatically excluded from MBOs, however the business in question will generally need to fulfil some basic criteria. Lenders and investors alike will need to see that the business is profitable, has a steady cash flow, and can operate independently from the person or group that it's being purchased from.

Ultimately you'll need to prove that the business can still generate enough money to repay any money borrowed, as well as satisfying investor expectations, without affecting the working capital needed to keep it successful.

Capitalise has put together this step by step guide to help you understand exactly what's required when it comes to pursuing a management buyout.

STEP 1 - ASSEMBLE YOUR MANAGEMENT TEAM

Your management team will be the beating heart of your new business acquisition. It's imperative that you bring together a balanced group that can drive the business forward and increase profitability over time in order to make the investment a success.

Different industries and business models will require different sets of individuals, however you're likely to need at the very least:

- A Managing Director to spearhead the overall leadership of the business
- A Finance Director to ensure that the books remain balanced and that any borrowed capital is repaid in a timely fashion
- A Sales Director to oversee customer communications and drive new commercial opportunities
- An Operations Director to help maintain and develop business infrastructure

It's also worth considering bringing on an experienced business advisor at this point. They'll be able to assist with the business valuation as well as providing any help you may need regarding the structure of your MBO. This will also help to show both the vendor and any lenders that you're serious about the MBO and are approaching it in a thorough and professional manner.

STEP 2 - PREPARE A BUSINESS PLAN

Your business plan will play an essential role in your MBO for a number of reasons. Not only will it give you a tangible roadmap for your business journey, but it will also provide key financial information such as cash flow and forecasts to lenders when it comes to sourcing finance.

At this point it's a good idea to think about opening up initial discussions with the vendor in order to start gauging the feasibility and timescales that would be preferable for all parties involved.

STEP 3 - ASSESS FINANCE OPTIONS

Now that you've got a valuation of the business, a management team lined up and a thorough business plan in place, you can begin to assess the MBO financing options that are available.

You certainly don't need to be a millionaire to buy your own business, however you and your management team will need to invest some of your own money known as 'hurt money'. It's not as terrifying as it sounds – it's simply a financial commitment on your part which will show investors and lenders that you believe in the project and have a financial interest in making it work.

Asset based lending (ABL) is the most common way to source finance for your MBO. Existing business assets are used as security against your borrowing, giving you access to the capital needed to complete a business acquisition.

You may consider refinancing any machinery, tools or equipment which the business currently owns, or even securing additional borrowing against the commercial property if sufficient equity is available.

You'll want to ensure that you get the very best possible deal from any lending that you take on and Capitalise can help to streamline this process by allowing you to make multiple applications to different lenders through one online profile. It's a fantastic way to save time during what will inevitably be a frenetic period for you and your management team.

STEP 4 - FINALISING THE DEAL

By the time you've got the required finance in place and a deal agreed with the current business owner, it's time to complete your business acquisition.

There are some hoops that you'll need to jump through including setting up shareholder agreements, finalising loan agreements with lenders, and potentially setting up a new company to trade under.

It’s essential that shareholder agreements are created at the point of purchase as all negotiating leverage beyond this point will be lost.

Depending on the business you're purchasing, the legal team involved will carry out some final due diligence checks before formally confirming you as the proud owner of your new business!

HOW CAN CAPITALISE HELP?

Authorised by the Financial Conduct Authority*, Capitalise works with more than 70 finance partners who can help to support your MBO from start to finish. Our intuitive online platform can help to match you with lenders who specialise in financing management buyouts, giving you a wealth of experience to draw from as and when you need it.

Completing your online Capitalise profile takes just a few minutes and you'll instantly be able to submit applications to multiple lenders at the same time. MBOs require input from a variety of sources and so you'll be able to add accountants or other advisers onto your profile who'll be able to upload their own documentation when needed.

Capitalise will become your central application hub for all MBO financing, keeping everything in one place and allowing you to make an educated, considered decision about which lending option will best support your business purchase.

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