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The added value of a non-exec

When business owners and management teams are looking to grow a business, they often need more than just capital.

The support and guidance of an experienced team that works with existing management to make the injection of capital go further is just as important. This is just one of the added benefits of private equity investment.

When partnering with a private equity firm, management teams have access to an experienced investment team with a track record of growing businesses. We join the board to support management teams and add value as a strategic investor, rather than getting involved in the day-to-day running of the business.

Not only this, investors will also identify non-executive directors or a non-executive chairman to sit on the board. It is their job to operate as an objective party, providing strategic advice and offering a different perspective on the issues being discussed around the board table.

By drawing on their own experience of working in similar industries or implementing a comparable growth strategy, they provide further insight that can help management to overcome any challenges. This could be guiding a business on how to achieve growth internationally or successfully implementing a buy and build strategy.

Non-executive directors can also act as a door opener. With years of industry experience, they can leverage their network of contacts to help management teams create new opportunities, whether that is through knowledge sharing, forming a strategic partnership, making an introduction to a potential acquisition target or opening doors to new customers or markets.

It's also important for management teams to understand that non-execs aren't just parachuted into their business. Investors understand that those leading a business need to have full trust in the team around them, so it's vital that all parties work together to build an open and honest relationship from the outset. This is what helps to create long-term partnerships.

A great example of a non-exec in action is Paul Monk at Seabrook Crisps. Paul has more than 40 years' experience working within the consumer goods industry and he's held senior positions at some of the sector's biggest names, from Mars and Marks & Spencer to Quorn and Burton's Biscuits.

When we backed the management buyout of Seabrook Crisps in July 2015 we brought Paul on board as chairman. He is now playing an invaluable role and supporting the business as it continues to develop new products and targets further international expansion.

Ultimately, the expertise that sits side by side an injection of cash is just as valuable as the initial investment itself. That's why we back management teams. Adopting a relationship-focused approach to investment is what adds real value and takes private equity 'beyond capital'.

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LDC
Private Equity Less Ordinary

Owners with a generous salary and expensive car are not on the right road to selling their business, writes **Paul Harrison**. So what makes for a successful sale and does Brexit help?

Brexit Britain may be an ideal environment to sell your business, but buyers will see through a façade of profitability. Provided you've done your prep work – and that's a big caveat – many experts believe it's a perfect time to sell.

Tim Scott, partner at Knights Professional Services, advises ditching the flash car and showing a company's nuts and bolts. He says: "Too many owner-managers decide to take salaries above market rate and run expensive cars; it's important to illustrate what actual earnings are and how much profit there would be in a different buyer's hands.

"Vendors who are transparent with their finances and present the business in such a way that buyers understand the financial benefits of any potential investments – in machinery or senior team members, for example – will be in a great position to sell."

James Dow from Dow Schofield Watts agrees, saying: "We all know entrepreneurs who like to 'high-roll' and use the business to fund their lifestyle. However, in general, the drive to be in control tends to be stronger than the desire to access cash for personal needs and protect their financial security."

Kieran Lawton, investment director at Palatine Private Equity, believes now is a good time to sell. He says: "There are plenty of private equity and debt funds with a need to deploy capital. Competition for good assets is fierce, which can drive high valuations. Also, Britain is still seen as a relatively safe haven economically. We're seeing increased interest from overseas buyers, which is likely to fire up mergers and acquisitions activity, especially given the weakness of the pound."

Preparation and planning are crucial. Books need to be in order, future profitability outlined and an exit strategy for owners and shareholders in place. A seller wants to achieve the highest price possible, but day-to-day operations must remain unaffected.

Strong and up-to-date financials will be critical in attracting buyers. Preparation should start at least 12 months before a potential sale. "Selling a business is time-consuming and, for many, emotional," says Edward Barnes, partner at law firm DTM Legal, which has offices in Liverpool and Chester. "Make sure your rationale is clear

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and your business is attractive. This includes increasing profits, having consistent income figures or a strong customer base – these will attract interest.

"Get ready in advance – at least a year before. This will give you a chance to improve your financial records, business structure and customer base to make the business as profitable as possible. These factors will not only ease the transition but also ensure a business continues to run smoothly in the run-up to and during a sale. Always put any agreements in writing and ensure the potential buyer signs a non-disclosure or confidentiality agreement to protect your interests."

Knights' Scott believes a company needs an even longer lead-up. He says: "Vendors need to become investment-ready – have a five-year strategic plan in place. Owner-managed businesses should transfer client relationships to other members of the team, including partners, sales directors and supplementary management, to show the business won't fall apart without the managing director.

"The scope of due diligence has increased and is more onerous, but well-run companies should have nothing to fear. As long as they have good systems and management information, no outstanding litigation and a great management team, they will be attractive. My advice to sellers is to showcase profitability, and more importantly potential profitability."

There are many ways to dispose of a business, from a simple sale to management buyouts that often involve personnel staying in place by raising the necessary capital. An institutional buyout, on the other hand, would involve a private equity firm or a venture capitalist acquiring a controlling interest but already looking for their own profitable exit.

A family business might want to safeguard the family name or retain representation on the board. Ian Dawson, associate partner at Hurst Corporate Finance, advises targeting the sale to particular groups of buyers.

He says: "If you want to maximise value, think about which buyer will pay a premium. Consider positioning your business to be attractive to this select group of buyers to whom your company will add the most value. Develop your management team: vendors can increase their chance of a full exit and a favourable deal structure if they have a capable management team ready to run the business. A credible management team also opens up an MBO as an exit option.

"Issues that arise in due diligence can steal value. Identify early any issues that will affect the price, and work to rectify or mitigate these. Time spent beforehand ensuring due diligence will run smoothly is well spent."

Mark Whittaker, corporate and private equity partner at Gunnercooke, advises putting in place a specific 'deal team' and assigning responsibilities to each member of that team: finance, IT, HR and so on.

"Engage with external advisers early and make sure they are fully aligned with your expectations," he says. "A host of external and internal factors must be anticipated and managed, without taking an eye off the ball and jeopardising what made the business such an attractive proposition. Having too rigid a view on structure is likely to lead to difficulty – what is right for one buyer will not necessarily be right for another. Flexibility and an appreciation of risk and uncertainty is key."

SEVEN STARS OF SALES SUCCESS

Jonathan Bell, director and head of private equity firm LDC in the North West, gives his tips for preparing to sell a business

1. Be clear on your USP – this will attract interested parties. What is your mission statement and what sets you apart?
2. Have a clear rationale. Do you want to secure funding for growth, bring in additional expertise or realise wealth?
3. Have a clear management structure and plan to fill gaps as the business scales.
4. Engage quality advisers – the right consultants, finance advisers and lawyers.
5. Deal with any historical liabilities and protect your intellectual property.
6. Manage communications on a need-to-know basis, to avoid impact on employees, suppliers, customers and competitors.
7. Don't be rushed into a deal. Take the time to get to know a buyer. This should be a long-term, mutually beneficial partnership, potentially a once-in-a-lifetime event.