



The road to exit

Your guide to help maximise
the value of your business

Second edition

kpmgenterprise.co.uk

Introduction

Brexit

Fears around Brexit have created strong momentum from shareholders to explore M&A in advance of a potential indeterminate period of uncertainty. Many shareholders simply don't want to miss the boat and sit on the sidelines for a few years, preferring instead to pursue a liquidity event to enhance their personal wealth and share/remove business risks.



6



5

Private Equity

There is estimated to be private equity dry powder of over US\$900bn in the world¹ driving demand for M&A activity; lack of supply of good quality companies has been driving valuations up, which in turn has meant that many business owners are considering selling up to take advantage of full pricing.



4

Debt markets

In the UK, the now mainstream non-bank market has supported higher debt leverage multiples and innovative structures, often providing alternatives to a full or majority sale of a company. This wider range of choice in relation to 'exit options' together with these higher debt multiples underpinning private equity activity (and valuations) has created further buoyancy.

1



Economy

The UK economy has been fairly neutral over the last two years. However, fast growing and disruptive sectors such as e-commerce; technology, media & telecoms; and healthcare & life sciences have enjoyed growth and the UK's capability in these, and other sectors, is driving investor interest both within the UK and from overseas.

2



Overseas trade

Overseas trade buyers have enjoyed the benefit of a reduced exchange rate which has helped stimulate activity. The UK has a number of attractive attributes in terms of its economy, capability, legal and financing infrastructure, which has maintained activity despite potential fears over Brexit.

3



Public Equity markets

Equity markets continue to be supportive of IPOs for high quality equity stories, providing an alternative exit route. Yield, growth and liquidity all form part of the valuation debate.

The M&A market is at an incredible apex right now, driven by a number of factors

¹ Source: Preqin

So, conditions are positive, with momentum behind them. But how does a company get ready for a transaction? How can shareholders put themselves in the best possible position to maximise value and when should they start to plan for an exit? And what really is the exit? For some family businesses, shareholders are the custodians looking to pass the company onto the next generation and an 'exit' is a very different event to those companies looking to access private equity or the capital markets.

But what if now is not the right time to exit or sell part of your company? What happens if you miss the boat and a Brexit related (or other economic event) storm hits? Or wider geopolitical issues create a slowdown in the economy? Elsewhere, technology is disrupting many sectors, creating opportunities and impacting business models. How can you stay agile and navigate through these shifting sands? This can be an emotional journey and thorough planning will put you in the best possible place to make your decision regarding the timing and nature of any potential transaction.

At KPMG, we continue to see companies who under-prepare in advance of a transaction, leaving value on the table or opening themselves up to price chips during the due diligence process. In response to this, we created this guide and methodology – *The Road to Exit*.

Many lead advisors will show you a timetable to exit 12 months before the desired event with specific timings for a valuation, information memorandum preparation, marketing and due diligence. However it can be difficult to enhance value in those last 12 months to generate an optimal offer for the business. Equally, if a strong second tier management team hasn't been established and groomed in the period, an IPO or private equity transaction may be more challenging.

Whilst M&A conditions remain very good, unpredictable events can occur out of nowhere and the credit crunch was a stark reminder that liquidity can sometimes be in short supply and capital markets can shut. Therefore, for any shareholders considering an exit, keeping the various exit option 'plates' spinning for as long as possible is both the most proactive and the most defensive tactic to maximise value.

This guide highlights the areas that companies should consider over a three year horizon to help ensure value is increased, risks are mitigated and business performance is optimised. It has been written by experts across KPMG who have worked extensively advising private and private equity backed companies on their 'road to exit'. In this second edition, we have updated the content and expanded it to cover new themes and areas of focus for investors and acquirers as well as covering post-deal matters.



*We hope that you find this guide useful and it provides you with **insight and challenge** as you consider the next phase of your corporate journey.*

Current and emerging trends



1.

Data analytics is critical

Buyers expect competent finance directors and quality businesses to be able to dissect and analyse financial KPIs with ease and assuredness. If a business cannot articulate some of it's own KPIs such as customer churn, profitability by client, capital expenditure requirements and normalised working capital, the obvious perception is they are not market ready.

2.

Complex tax structures can deter buyers

Buyers, in particular overseas acquirers, are very wary of complex and exotic tax planning, especially when emanating from a smaller/independent tax advisor. The risk of aggressive tax planning in an era of tax morality, could lead to a purchase price chip, increased warranties and in extreme cases the buyer walking away.

3.

Prepare well to maintain momentum through the pre-sale and during the deal process

Slow progress will result in sub-optimal pricing and may result in deal failure. More widely, consider the quality of your market brand (PR, website etc.) and the impact it will have on preparing effectively. To deliver momentum, thorough pre-sale preparation is critical. Fail to prepare: Prepare to fail.

4.

Budgeting accuracy and robust financial environment

It is imperative that throughout the exit process there is a constant stream of good news particularly on financial performance. Spending time up-front with advisors to test the robustness of your business will allow you to step on the stage as the very best version of yourself.



Source: Thomson Reuters SDC, January 2018

5.

Strong understanding of legal documents

There are no excuses for not getting the basics right. Amongst other things, check your statutory books are up-to-date, get your key employment contracts signed and make sure you know which contracts have a change of ownership clause.

6.

Significant defined benefit pension scheme liabilities can discourage buyers

The realistic impact of the liability should be identified early on as it will likely impact the outcome of the transaction. There are ways to reduce a defined benefit pension scheme liability but they take time to execute so planning is key.

7.

Solid IT infrastructure and cyber security is one less buyer worry

Ensure you have taken appropriate data protection steps and cyber threats are mitigated on fully functioning and fit for purpose IT systems. Cyber is an increasingly important area of focus for investors/acquirers.

8.

Management bandwidth to deal with process can determine sale success or failure

The exit process is complex and time consuming. Buyers are interested in management that have the capacity to effectively manage and have visibility during the process – not having this may put buyers off.

9.

Uncertainty of Brexit will affect buyer appetite

The market is currently red-hot but is expected to cool down abruptly in late Q4 2018 and will pause to consider the ramifications of Brexit in Q1 2019, for a period yet to be determined. If sale minded be prepared to go to market by September 2018 or be willing to risk holding until 2020 in which time you should concentrate on getting your house in order.



Source: Mergermarket, January 2018

How to use this guide

The guide has four key stages each of which are key to helping you maximise the overall value at exit and beyond.

Throughout the guide look out for these:



We have provided a recommended implementation timeframe on when the item should be considered.



We have also provided a key in each topic which identifies how important it is to consider that topic under each of the four exit route options:



Succession



Private Equity



Trade Sale



Initial Public Offering (IPO)



Stage 1



Establishing the foundation

Getting the basics right to provide a solid foundation from which to confidently proceed with a period of heightened corporate activity and change.

Stage 2



Driving high performance

Transforming the business to consistently deliver to a high standard, driving growth, profitability and efficiency.

Stage 3



Getting ready to exit

Pursuing the right exit strategy and delivering a smooth execution during the sale process.

Stage 4

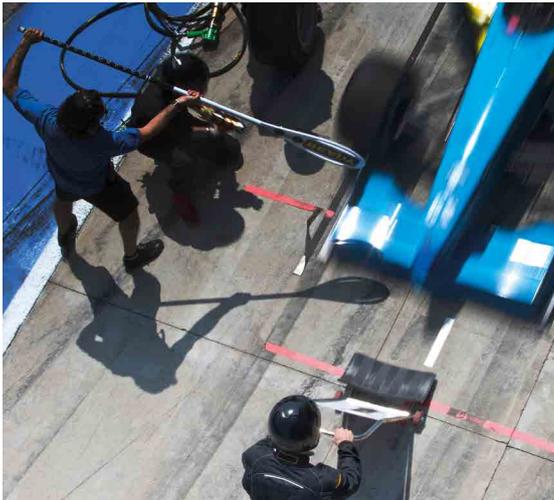


The next chapter

Delivering a clean exit and embarking on a new journey.



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Section Contents



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Driving high performance

Getting ready to exit

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Getting ready to exit

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The next chapter

Establishing the foundation





Getting the basics right

To facilitate a smooth due diligence and exit process, it is fundamental to get the audit right and have certainty over the balance sheet and the operating effectiveness of internal controls.



Top Tip

Make sure your audit is robust, and that any issues identified are addressed prior to commencing the exit process.

The outcome of the audit will determine the areas of focus of the due diligence. An effective audit will assess the extent to which there are any balance sheet black holes which will impact value. Are liabilities fairly represented? Or undervalued? Hidden, or off balance sheet?

Ensuring the accounting policies and controls are robust will give comfort during the due diligence process around quality of earnings and presentation of (and reconciliation of) financial results to the underlying earnings position. The valuation basis (e.g. EBITDA multiples) may be impacted by accounting policies and therefore consistency over these policies is critical.

Given the increase in overseas companies looking to acquire companies in the UK, an internationally recognised branded audit adds credence to the robustness of the vendor's financial statements, controls and governance.

Private equity acquirers will likely increase the leverage of the company as part of the transaction. They will want a robust audit, due to the inherent risks arising through increased debt (e.g. banking covenants) and to prepare the foundation for when they themselves subsequently sell the company.

Vendors need to ensure they have appropriate accounting policies as acquirers will want confidence that assets are fairly valued:

- Private equity acquirers will want to ensure that policies are industry benchmarked to ensure their valuation thesis holds.
- Trade acquirers will want to ensure policies are similar to their own to support their valuation and ensure a smooth integration into their wider group.
- Aggressive accounting policies will make flotation a difficult exit route as they will make investors nervous.

KPMG can...

- Provide you and buyers with confidence on the quality of your audit through our recognised brand and quality control
- Provide due diligence challenge during audits to help ensure your balance sheet would stand up to external scrutiny
- Provide regular guidance on accounting policy changes which may impact earnings
- Provide guidance on accounting policies used by listed or international trade competitors
- Help you identify non-recurring items and present items clearly within financial statements to provide an indication of underlying EBITDA



Recommended implementation date: **36 to 24 month pre-exit**





Creating a robust control environment

Vendors will need to ensure that the current control landscape is able to stand up to scrutiny and therefore a solid governance structure is imperative. Similarly, key risks need to have been identified and appropriately mitigated in advance of an exit.



Top Tip

Identify the key risks of the business through a risk register and consider how to articulate mitigating them.

Whilst key risks are typically well understood by vendors, it is important to demonstrate to potential acquirers how these risks are managed and mitigated. Failure to do so can have a real impact on value achieved on exit, or can even result in the collapse of potential transactions. In many instances, it can be as simple as formalising the controls that already exist. In others, a detailed review of new risks, or changes in the significance of existing risks may need to be considered.

The potential exit route can place differing demands on the formality of the governance and control environment. An IPO process, for example, will generally require a formal assessment of the effectiveness of the control environment. This is performed and certified by the directors and advisors as part of the flotation process.

Other exit routes will look for assurance that the control environment is scalable and able to support growth aspirations without significant investment.

The ability to attract the best non-executives can also be hampered if there is an inability to effectively demonstrate strong controls and governance.

Thinking about these issues early and being on the front foot through the maintenance of a risk register and embedding this as a Board item, will help put you in the best position to maximise value.

KPMG can...

- Run a risk workshop designed to ensure key risks are identified and appropriately mitigated in advance of a sale
- Identify control weaknesses and process inefficiencies that could impact value or exit timing, and recommend approaches to addressing these issues
- Highlight governance issues that would create concern for certain acquirers/investors
- Review the scalability of the control environment by assessing the efficiency of processes and controls, and considering the level of manual intervention
- Help design a control and governance infrastructure and advise on the appropriateness of the internal audit
- Provide an outsourced internal audit role or provide oversight and guidance to an existing internal audit function



Recommended implementation date: **24 to six months pre-exit**





Securing a clean tax history

A clean tax history will reduce the potential for a price chip and limit retention of proceeds in escrow. It also underlines the professionalism and governance within the company, adding to the positioning of a quality company during the transaction process.

Hands-on management of tax risks can help protect value on exit. Having known (or otherwise undetected) tax risks in a company can, in our experience, also detract from a smooth transaction process. By managing tax risks it is possible to reduce the amount of disclosure required against warranties and limit potential claims against tax indemnities.

Taking this further, tax risk and aggressive tax planning has become increasingly politicised in recent years and has moved up the corporate agenda. At its most extreme, historical use of certain aggressive 'tax avoidance' schemes can limit the range of potential buyers and greatly impact on the price payable for a company on exit, through both historical cash tax exposure as well as having an increased risk rating with HMRC.

Turning this on its head, and electively managing a company's compliance obligations, it is possible to create additional value on an exit, such as claiming available government sponsored reliefs (e.g. R&D tax relief) or agreeing the transfer pricing of debt with HMRC from the outset to help avoid future queries.

It is also wise to remember that 'when it's gone, it's gone' as there are timeframes within which reliefs such as R&D and capital allowances must be claimed. Similarly, some reliefs may be utilised and enjoyed by the buyer, creating upsides to them and missed opportunities for the vendor – the transaction may not ultimately reflect the value of these items in the agreed price.

KPMG can...

- Provide a VAT and PAYE health check
- Work with you to tidy up any ongoing HMRC enquiries and identify, evaluate and resolve any potentially tax sensitive arrangements
- Review your transfer pricing position to help ensure transactions and/or funding are at arm's length and that supporting documentation is in place
- Review your financing structure to help ensure the filing position in respect of interest deductions is appropriate and optimised, in particular given the recent introduction of additional rules in this area including anti-hybrid mismatches and the Corporate Interest Restriction under the Base Erosion and Profit Shifting legislation
- Agree the tax position of your funding arrangements with HMRC under the Advanced Thin Capitalisation Agreement approach
- Agree the value at which management teams have acquired shares to reduce PAYE/NIC exposures in this area



Top Tip

Undertake a tax health check to identify tax risks and opportunities.



Recommended implementation date: **24 months pre-exit**







Maximising wealth from exit

Whether this is the first significant liquidity event, one of many, or there is a long term generational family business strategy, individual shareholders should ensure they take strategic personal tax advice in order to understand their post-exit wealth position.

KPMG can...

- Provide a comprehensive, efficient and robust personal tax compliance service including appropriate disclosure of a transaction
- Advise on resolving any historical personal tax concerns or future HMRC scrutiny
- Ensure that tax liabilities and payment dates arising from a disposal are understood, cash flows are managed appropriately and the value of deferred consideration is, as far as possible, only taxed when proceeds are ultimately received
- Recommend appropriate profit extraction strategies in advance of a disposal including sharing wealth with family
- Challenge you on the appropriate ownership structures to support corporate strategy, equitable family ownership and longer term succession and wealth protection
- Guide you on pre- and post-deal wealth management strategies
- Give comfort and proactive advice on the income, capital gains and inheritance tax implications of events before, during and after an exit

For many company owners, the sale of their company is a life changing event. Not only are they faced with the emotional challenge of stepping away but also the realisation of receiving significant cash proceeds and the responsibilities this introduces into everyday life. With all of these distractions at play, it is easy for company owners to overlook some fundamental tax matters associated with company exits. For example, whilst the potential availability of Entrepreneurs' Relief is well-known, inadequate consideration of the detailed conditions can devalue, delay or even prevent a transaction if company owners discover late in the day (or even after the transaction!) that the conditions for Entrepreneurs' Relief are not met.

As negotiations take place, the tax implications of a company sale need to be carefully considered. There may be international aspects of residency and domicile and possibly also the need to seek tax clearances from HMRC. Furthermore, realising the value of

a company brings the protection and diversification of the family wealth into sharp focus. In particular, inheritance tax at 40% becomes an issue as protection by certain business reliefs is no longer available to the company owner, having converted their business interest into cash.

The thoughts of company owners may also turn to structuring new business ventures or property and other investments.

Again, considering these subject matters at an early stage allows company owners to structure their wealth in a way that is compatible with their objectives. In our experience, the earlier these issues are addressed, the more options are available.

Therefore, seeking tax advice well in advance of a sale can often result in company owners securing a better position as well as the comfort that their legacy is protected for future generations.



Top Tip

Make sure you qualify for and maximise Entrepreneurs' Relief where available.



Recommended implementation date: **Ongoing**





Adapting to changing technologies

Investors need to be confident that there is a clear strategy and roadmap in place to take advantage of digital technologies, protect against cyber threats and help increase the value of key technology assets such as ERP systems.

Technology is critical to the success of every business today, whether that's through driving sales or supporting service delivery.

Potential investors need to see that there is clear alignment between the business and IT/digital strategy. They need to be confident that the business has a grip on how technology can drive growth or address the key risks and issues the business faces.

Increased focus on artificial intelligence (AI), virtual reality (VR), augmented reality (AR), automation, cognitive technologies and 'bots' will continue. The ability to adopt and successfully implement these technologies to drive profitability and efficiency will be a key area of interest for investors going forward.

Being conscious of both the strengths and weaknesses in your IT provision are vital to maintain and strengthen deal value.

A number of factors in respect of technology can impact sale price:

- Age, scalability and functional capability of key business systems.
- Whether they are well documented (especially bespoke systems).
- A plan and framework to manage technology risks and external threats.
- Clarity around how to manage data and convert it into a business asset.
- The underlying infrastructure all needs to be stable, reliable and scalable such that all the company's information assets are adequately protected.
- The skillset and capabilities within the IT organisation are also key. In particular, where there are unique technical requirements of the organisation and therefore limited availability in the market, it will be critical how such knowledge is shared and safeguarded.



Top Tip

Continually assess your business requirements for technology and how it will support scaleable growth.

KPMG can...

- Assist with the definition and implementation of an IT or digital strategy aligned to the needs of the business
- Identify risks and threats to the underlying infrastructure key systems, and subsequently help in addressing them
- Help determine whether current IT provision is providing value for money to the organisation and the impact investments can make on exit value
- Assess the strengths and weaknesses across IT provision, and outline how these can impact deal value
- Work with you to plan (and potentially execute) the separation and/or integration of the IT provision
- Provide insights and support into emerging technologies and themes, e.g. Blockchain



Recommended implementation date: **36 months pre-exit and ongoing**





Managing your pension scheme effectively

A defined benefit pension scheme can create significant challenges – and can be a barrier to a sales process, unless it is realistically and actively addressed. Defined contribution schemes should not be overlooked.



Top Tip

Plan early if you have a defined benefit scheme and consider benefits and governance for defined contribution schemes.

Layers of legislation substantially lower investment returns below what was originally anticipated on defined benefit pension schemes, and increasing life expectancy now means that schemes are likely to be a significant liability that has to be factored into any sale process.

The sheer existence of a defined benefit scheme can be enough for a prospective buyer to exclude themselves from a process unnecessarily, reducing the addressable market. Thorough preparation to present the pension scheme positively, with a realistic understanding of the position of the pension trustees (including identifying potential conflicts at an early stage), will avoid disruption and improve the sale opportunity. Also understanding the tax relief available on pension deficit payments can capture value.

The assessment of the scheme value will be simpler if there is an existing strategy to manage the defined benefit risks, with a joint working framework with the pension trustees. Being able to evidence such a strategy and explain de-risking actions undertaken can be key.

A well governed scheme with complete documentation will limit the prudence margins a buyer might include in their assessment.

Last minute surprises about a pension scheme can derail a sales process. Specific risks include: a late identification of an age-equalisation issue; a failure to close the 'Barber window'; a historical section 75 debt that has not been identified; systemic errors in benefit calculations that will require rectification and associated costs; undue risk in the investment strategy; and associated regulatory risk.

The structure of the proposed transaction (share sale or business transfer) will be relevant from the pensions perspective and should be included in the analysis at the planning stage.

Defined contribution pensions, auto-enrolment and the associated costs and compliance should not be overlooked, as these will also be considered by a potential buyer.

Trade buyers may be concerned if employer contribution rates to defined contribution schemes are too low or too high as this can impact their valuation thesis if they need to address and equalise rates post-acquisition. Therefore care is needed to ensure contributions are reasonable. Increased governance and compliance around defined contribution schemes means companies should stay on top of their legal requirements to ensure they are compliant at exit.

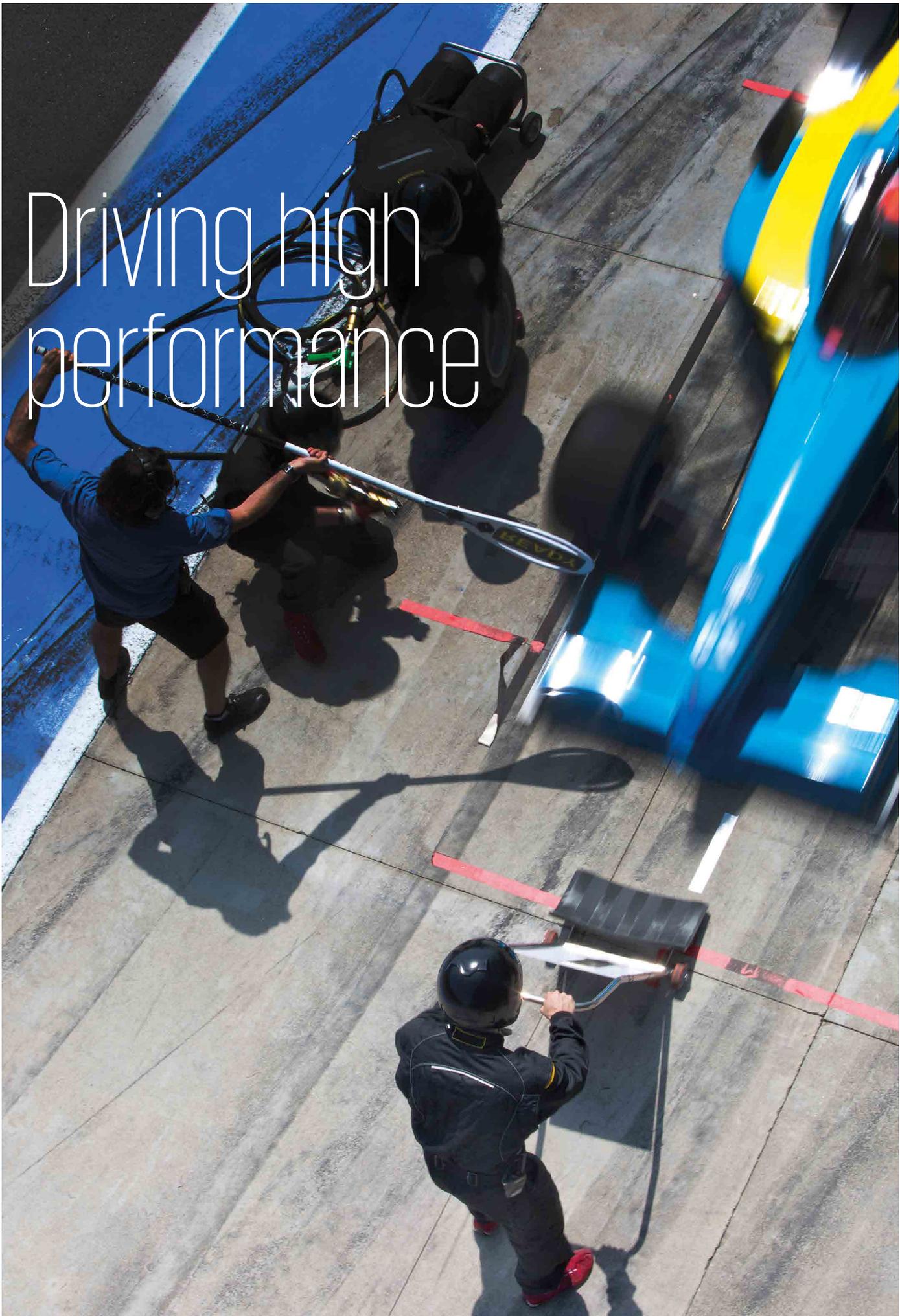
KPMG can...

- Provide the technical pension knowledge and advise on defined benefit pricing impact
- Challenge and critically assess issues as if in the position of a buyer and the pension trustees
- Support on the communications with the pension trustees, recognising the need for confidentiality and difficulties with employee trustees
- Provide insights to avoid or manage any intervention by the Pensions Regulator, and advise on a clearance process
- Comment on the expected covenant impact assessment and possible consequences on cash/mitigation requests from the trustees
- Review governance and administration matters related to deferred contribution schemes



Recommended implementation date: **36 months pre-exit and ongoing**





Driving high performance



Developing a clear strategy

Getting the right strategy in place is key to achieving the highest possible value on exit, and highlighting future strategic directions for acquirers to develop.

For a company looking at an exit event in the future, a well-defined strategy is critical to ensuring that the directors achieve their goals to support their value story upon exit. It must be both fixed (with a clear goal) and fluid (with the flexibility to respond quickly to macro and micro influencing factors).

A robust strategy will provide a set of integrated choices based around a number of financial, business model and operating model levers that builds on a company's strengths. This enables competitive advantage, identifies significant investments of time and money, motivates action toward objectives and improved performance, and mitigates the associated risks.

Assessing the business strategy at the 'right time' will be fundamental in getting a sense of how you are performing now and what modifications (such as in capability requirements or additional investment in specific business areas) are required. Any changes will need to be implemented in a timely manner to make the business attractive to the buyer audience when it is marketed for sale.

A well-defined strategy answers the questions: 'What are you aiming for? Where will you play? How will you win?'. It is important to start with the financial outcomes by asking 'What do you want your organisation to look like in five years?' The answer to this question helps determine whether you are looking for incremental or transformational changes to the business model.

Choices can then be made related to the business model (e.g. markets; propositions and brands; and customers

KPMG can...

- Identify and define financial aspirations, the business and operating models
- Help identify goals and constraints and investment parameters
- Help develop customer strategy to access new segments and drive increased sales and retention, and develop and implement a robust pricing strategy to drive sustainable profit growth
- Help understand the cost to serve different customers and products and identify opportunities to improve profitability
- Independently review operational performance and identify improvement opportunities
- Help develop a strategy designed to support value maximisation at exit

and channels) and thereafter the operating model (i.e. core business processes; technology and operations infrastructure; governance, structure and risk; people and culture; and measures and incentives). Adjustments can be made to core business processes to ensure they link the business model and operating model.

The strategy will provide employees, who will remain in the company post-deal, clear goals and direction to continue with 'business as usual', despite change in ownership (unless the buyer decides to make significant change to the company post-acquisition).

Under all the different exit scenarios, be it private equity, IPO or trade sale, the buyer or investor will want to see some evidence of value creation and a clear strategy for growth beyond the immediate exit. A company that has no clear growth plan or has already maximised value may struggle to attract a premium sale value.

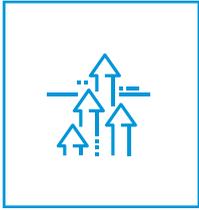
Top Tip

Ensure you have a coherent strategy which aligns resource and capital allocations to the future growth plans.



Recommended implementation date: **Ongoing**





Benchmarking performance

Benchmarking is a powerful tool which can improve performance through identifying and applying best practices by comparing to the wider industry and best-in-class companies.

Benchmarking can play a fundamental role in enabling management to move away from the notion that their way is the best way, to a more open minded approach of adopting newer methods, ideas and tools which can improve operational effectiveness and overall performance.

It can give you a clear picture of where improvements are needed such as:

- Business processes (company-wide processes as well as functional processes (such as HR/IT)).
- Financial performance (margins, cost base, pricing strategies).
- Competitive position (activities of best-in-class competitors).
- Strategic performance (best practices in other industries).
- Investor benchmarking (investor perspective peer analysis).

If improvements are identified and relevant changes are proposed, an implementation plan (with a clear timeframe) should be developed. Relevant stakeholders will need to be informed at the appropriate time to ensure successful implementation.

This will drive the performance of the business and will ultimately maximise its value.

Benchmarking is a process of continual improvement. Once you have implemented changes, you should benchmark your business again to see if the changes are working and where you can still improve. If benchmarking practices can be implemented into daily procedures it will enable you to develop a database that you can refer back to, to ensure you are continually improving and maintaining a competitive capability.

Taking the initiative to benchmark will also attract potential investors who are keen to invest or acquire a high performing business and a business that has addressed areas of weaknesses compared to competitors.

If you have already undertaken a benchmarking exercise this will also enable a smoother due diligence process, allowing you to iron out problem areas early on. You can show the potential investor how you now measure against past performance and how you fare against industry averages. This essential resource will enable the investor to decide whether your company is a worthy investment.



Top Tip

Incorporating benchmarking into your day-to-day processes will allow you to refer to a 'database' to monitor your performance and maintain competitive capability.

KPMG can...

- Provide access to our data repository, Benchmarking Plus, of anonymised benchmarks from KPMG's audit and transaction services clients globally
- Assist in benchmarking current and historical performance of the business against peers
- Provide support to identify areas for potential performance improvement and sustainable performance from benchmarking activities
- Support the implementation planning, design and delivery of performance improvement plans identified from benchmarking activities
- Support in the identification and setting of realistic targets for performance improvement



Recommended implementation date: **Ongoing**





Accessing overseas markets

Accessing new markets could mean developing a presence in a new geography. This can help articulate the wider market opportunity for your company. Having a diversified footprint shows your potential scale, though your risk profile is higher. Considering the balance between the two is critical.

Before entering a market for the first time, it is a good idea to use your professional advisors to better understand the country you are looking to enter.

Many larger professional services firms have a global network and therefore it should be easy to get an 'on the ground' view. Equally, trade bodies such as DIT should be able to provide support and guidance.

Work may be undertaken to assess a country before committing to the establishment of operations. This can include PEST (political, economic, social, technological) analysis or more specific analysis pertinent to the company (e.g. prevalence of middle-class citizens).

The history and success of previous attempts will be of great interest across all buyer groups as it underpins the potential opportunity for the company to take their product or service more global, driving future growth opportunities.

Other areas to consider include tax arrangements and, more specifically, understanding the tax impacts of cash extraction and bringing funds back to the UK.

Alliances and joint ventures present the opportunity to de-risk the cost and time involved in setting up a new factory overseas by working with parties who are already present in a geography or can provide a different product or service within the sales proposition.

In the first instance, identifying the right partners and ensuring they are appropriate and trustworthy is critical. Once this has been confirmed, establishing the contractual arrangements will be vital to ensuring the agreement will work for the company.

Acquiring a company overseas can be high risk for a range of reasons. Notwithstanding this, if executed smoothly it can provide companies with an opportunity to enhance scale and capability while accessing new markets.



Top Tip

Ensure you have undertaken a robust assessment and vetting of overseas partners/agents.

KPMG can...

- Introduce you to local specialists across our network of member firms to provide guidance and support in relation to local business customs, tax regulations and M&A
- Perform economic analysis and market entry evaluation into new geographies and markets
- Support you in putting in place appropriate procedures to comply with Bribery Act (or similar UK or local compliance) requirements
- Perform confidential vetting procedures on overseas agents
- Provide detailed contractual support for JVs, alliances or overseas acquisitions
- Advise you on ensuring that tax strategy supports the wider commercial objectives
- Support you in assessing transfer pricing implications of trading internationally
- Advise you on appropriate funding options and optimum cash management and treasury arrangements for overseas operations



Recommended implementation date: **Optional**





Growing by acquisition

Acquiring the right company provides scale, diversification, infrastructure and a growth platform for the future. Acquisitions take up significant time and costs and will need to be integrated. Getting this right can pay huge dividends.



Top Tip

Consider timing implications of acquisitions, particularly around maximising synergy benefits prior to exit.

On the journey to exit, clarity around the acquisition strategy is important. Any acquisition pursued in the period to exit will need to be integrated as quickly and effectively as possible to ensure that the benefits of the acquisition are enjoyed by the shareholders.

It can sometimes be difficult for shareholders to consider whether or not to pursue an acquisition if an exit event is on the horizon. In our experience, companies should continue to acquire businesses as they see fit and subject to their usual governance and strategic requirements. Some sale processes fail for reasons outside of management's control and therefore maintaining the 'right' strategy is key. The opportunity to buy certain companies (e.g. competitors) may only occur once, and therefore fluidity is important.

For many buyers, particularly private equity or institutional investors in a flotation, acquisitions will be of great interest. If a company is in an industry with strong consolidation opportunities, this will be part of the 'equity story' presented to attract interested parties. A track record of acquiring other businesses will be seen as a positive by these two buyer groups in particular and give them the confidence that the management team are capable of pursuing and executing further acquisitions.

Once the target is acquired, a clear and effective integration strategy needs to be executed in order to maximise shareholder value.

KPMG can...

- Support you on identifying acquisition targets in your sector and/or businesses who are in stress/distress
- Provide introductions to businesses in other geographies
- Help you value a target business
- Comprehensively support you in all of your due diligence requirements
- Provide buy-side M&A advice in the form of negotiations, tactics and strategy
- Provide advice in relation to how the deal is structured as well as provide advice on funding options
- Provide share/asset purchase agreement advice and support
- Offer advice and hands-on support in relation to integrating the acquisition into business as usual



Recommended implementation date:
Optional but typically more than six months pre-exit





Certainty of funding

Companies need to consider working capital, capex and M&A requirements as part of assessing their funding requirements. There is also a need to balance pricing with quantum and flexibility to ensure facilities are optimal for their requirements.



Top Tip

Ensure debt facilities are appropriate for growth and do not mature in the immediate period leading up to exit.

KPMG can...

- Keep you abreast of debt market conditions on a regular basis
- Advise you on your financing options noting your strategic objectives
- Help you consider the availability and appropriateness of different forms of debt
- Introduce you to new lenders from across the full spectrum of debt markets
- Run a competitive refinancing process across all relevant debt markets for you
- Provide ad hoc advice and support on financing queries



Companies need to ensure they have the right financing arrangements to meet their strategic objectives. The plethora of new types of debt product and new lenders to the UK market in the post-credit crunch period has opened up considerable options for companies looking to borrow money. High street banks remain the mainstays, however they are now having to increasingly compete with a range of alternative lenders.

When considering the appropriateness of debt financing, the most important aspect is the fit and suitability to meet the company's strategic objectives. Having the cheapest source of debt is not helpful if it doesn't, for example, provide sufficient capacity to fund necessary investment to grow the company.

Questions to consider are as follows:

- What is the most appropriate debt structure?
- What are the appropriate sources of finance available?
- How is working capital funded?
- Quantum?
- Cost?
- Tenor (length) of facility?
- Covenant headroom?
- Flexibility – e.g. a 'war chest' for acquisitions?
- How many lenders are required?

For those companies with existing debt arrangements, ensuring that facilities are in place during the whole sale process is critical. The complexities of negotiating new facility agreements whilst also discussing a transaction with potential acquirers can be a real drain on management time and resource at a time when these are in short supply.

It is good practice to have a number of banking relationships. This is helpful for all exit options as it provides awareness and knowledge of a company to banking institutions who may look to provide debt for an MBO, to support a private equity house investing in the company or as part of a flotation.

Debt can also help to instil discipline around areas such as reporting and covenant tests. This can help bridge the cultural shift from a private company to one with key external stakeholders who are more demanding of information.



Recommended implementation date: **Ongoing**







Generating cash

Reducing working capital cycles will generate cash to help enhance cash reserves, pay down debt, and improve shareholder value at exit.

A surprising number of companies have excess cash tied up in working capital cycles that are not operating efficiently. Additionally, staff operating or controlling these cycles often do not understand either the importance of cash to the company or the impact of their day-to-day decisions on cash and working capital.

By identifying the inefficiencies and introducing process improvements and controls, working capital cycles can be shortened and additional cash can be generated.

There are many drivers within the working capital cycles of a business that offer opportunity for cash generation. For example:

- Improving invoicing efficiency and dispute resolution procedures will reduce debtors.
- Streamlining goods receipt and payment controls will maximise trade creditors within existing terms.
- Enhancing sales and operational planning processes will drive stock reduction.
- Amending VAT processes may drive tax cash flow benefits.

From our experiences of working capital programmes we have developed a number of 'cash hypotheses' which allow companies to focus on the areas of working capital opportunity that are likely to provide the largest cash benefits in the shortest time and hence accelerate cash generation.

Furthermore, by improving the 'cash culture' in a company to ensure all staff are focused on improving cash flow through their day-to-day decisions can lead to tangible and permanent cash flow improvements. This may include:

- Short term cash flow forecasting and ownership.
- Cash committees and controls.
- Cash-focused management information and KPIs.
- Cash training for commercial, operational and financial staff.
- Cash-focused incentivisation and bonus structures.

As you prepare for a sale process, a programme focused on delivering permanent cash flow benefit will not only build greater exit value for you but will also demonstrate to buyers the efficiency of your balance sheet and underlying business model.



Top Tip

Use additional cash generated from improved working capital cycles to help increase your cash reserves and pay down debt.

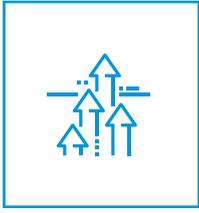
KPMG can...

- Analyse your cash and working capital cycles
- Benchmark your working capital levels, processes and controls to leading practice
- Quantify cash generation opportunities
- Help you plan and implement the changes required to deliver these opportunities
- Introduce a framework to help improve cash culture in your business to ensure the realised opportunities are sustainable



Recommended implementation date: **24 to six months pre-exit**





Robust forecasting

Failing to provide prospective buyers with credible and accurate forecasts may create a loss of confidence in the process and perceived quality of the business.

A robust forecast is a good indicator of strong underlying financial controls and management, so it is worth investing time early on to ensure forecasts are fit for purpose.

Whilst nearly all businesses have a forecasting process in place, our experience shows that these are very often rudimentary. They are often not based on historical data and are not sufficiently nimble to deal easily or reliably with changes to assumptions or scenarios.

Many forecasts are based on simple spreadsheets which are inefficient to maintain and often contain formula errors meaning that business decisions can be based on inaccurate information.

Historical accuracy of forecasts will be a key area of focus for potential acquirers so the earlier that forecasting becomes an integral part of day-to-day management information and analysis, the better.

Due diligence will shine a light on key forecast assumptions and sensitivities. This can prove particularly troublesome and result in value leakage if it is difficult to respond with sufficient granularity to potential acquirer challenge.

Having a good forecasting model will help to support the process in a number of ways:

- It will help you to understand the optimum time for your exit, from a business and value perspective.
- It will help you to understand the value of your organisation, by having a good grasp of the future growth prospects.
- It will help you throughout the transaction process, allowing you to update the forecast for the latest actual results, and to refine forecast assumptions quickly and easily.
- It will underpin the management information that is passed on to the bidders, and is a useful source of information when responding to bidder questions.

Every transaction involves at least one model, from the buyers and sellers perspectives, but the quality and detail of the model and of the assumptions has a direct bearing on the outcome of the transaction. It is better to prepare the forecast model as soon as possible so that a better understanding of the business growth can be gained, but equally so that forecasting accuracy can be improved. This will lend further credibility during the due diligence process.

KPMG can...

- Build bespoke spreadsheet models and tools that you can use on an ongoing basis in your business
- Support you with deal modelling to get the right level of detail for the information memorandum
- Incorporate your forecasts into management dashboards to provide even greater insights into your business
- Help you to understand the true value of your business by having more robust forecasts that help you understand the real drivers of value



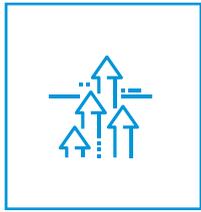
Top Tip

Ensure your model comprises reliable and accurate data, has been thoroughly reviewed by management, and has enough flexibility to cope with the demanding due diligence process.



Recommended implementation date: **Ongoing**





Driving profitable growth

Maximising profitability in a sustainable way will significantly improve exit value and shareholder return. By taking a 'transactional' view of profitability and its drivers, even highly profitable businesses can identify scope to further improve profitability.

Identifying improvement opportunities that are not visible via existing management information is key.

The starting point is to identify where you make profits and where you don't, not at a high level but at a 'bottom line' transactional level. If costs are allocated based on activity all the way down to bottom line the results are often surprising. Generally a tail of low profit or loss making transactions can be identified which will be eroding value. This may be caused by, for example:

- Particular products, customers or sectors.
- Costly routes to market.
- Pricing, estimating and project management controls.
- Supply chain routes or costs.
- Make vs Buy strategy.
- Manufacturing efficiency and location.
- Overhead loading.

By identifying these underlying reasons, opportunities can be developed that focus on actions such as cost reduction, process improvement, control enhancement and, in some cases, product or customer rationalisation. The critical factor will be to ensure that each area of opportunity clearly links to a set of defined actions and a clear and measurable bottom line benefit.

Having identified and planned the opportunities it is important to mobilise enough resource to implement and track the changes.

Given the short window to improve profit prior to a sale, our experience has shown that companies who do this successfully employ a structured programme management approach. Clear identification of prioritised opportunities, action plans, resource allocation, tracking and control are absolutely key to making sure benefits hit bottom line 'in full and on time'. By accelerating their implementation, the profit improvements can hit bottom line run rate prior to a transaction and have greatest impact on value.

KPMG can...

- Analyse the profit improvement opportunities in your business using our detailed transactional approach
- Advise on the optimum supply chain arrangements for your business
- Undertake cost efficiency reviews to improve profit and make your back office lean and effective
- Help you plan and implement an accelerated programme to deliver these profit opportunities
- Provide you with the tools to track and monitor your profit improvement programmes so that they hit your bottom line prior to exit



Top Tip

Investing in an accelerated programme of sustainable profit improvement activities prior to sale will generate value at a multiple.



Recommended implementation date: **36 months to 12 months pre-exit**





An exit-aligned workforce

Retaining and motivating your key people in the period to exit is critical to provide stability and focus across the business. They have the power to deliver your business strategy, achieve a competitive edge and transform your business performance.

In the run up to a sale, it is imperative that the business retains and motivates the right people in the workforce. Your employees probably represent your highest cost, create your biggest risks and could delay or frustrate exit timing if they are left unengaged and uninvolved prior to a sale.

Vendors will need to ensure they have got the appropriate management team in place to take the business forward. Private equity acquirers will expect the vendor(s) to stay with the business unless the incoming management team have been suitably groomed and have the required skills and experience (including key customer and supplier contacts).

Our experience tells us that management performance over the company's crucial period to exit is significantly enhanced if these colleagues have a stake in the business (equity structures could be in the form of ordinary equity or some type of 'shadow' equity).

It is important to ensure that any equity incentive plan is structured appropriately to avoid any additional liabilities or reduce the ultimate return to shareholders.

Acquirers will look at staff turnover as part of their due diligence. Demonstrating an above average performance in this regard is likely to give acquirers confidence in the culture and work environment. Similarly, acquirers will want to meet and interview key personnel as part of their due diligence. A high performing workforce is seen very positively.

The complexity of these workforce considerations means that it is critical to think about the different people issues in a holistic way, to identify the interdependencies and make fully informed decisions. Acquirers will expect a clear HR strategy to be in place.



Top Tip

Ensure you have a clear succession strategy to keep all exit options available.

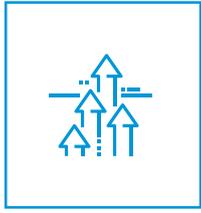
KPMG can...

- Develop a HR strategy aligned to delivering the key business priorities
- Advise on talent strategy including succession and retention planning
- Help design and implement share ownership and incentivisation schemes for key members of management
- Develop a reward strategy and advise on potential flexible benefit arrangements
- Help reduce cost and manage risk in relation to both defined benefit schemes and defined contribution schemes
- Provide leadership development programmes



Recommended implementation date: **36 to 12 months pre-exit**





Maximising available tax reliefs

Vendors should ensure they fully maximise available tax reliefs as some may be lost at the point of sale, therefore reducing value.

R&D incentives

It is possible to claim deductions of between 130% and 230% of qualifying R&D expenditure and give large companies the opportunity to recognise 11% as a credit in the profit and loss account, thus improving EBITDA. Cash tax credits can be obtained for companies of all sizes, irrespective of whether companies are profit or loss making.

Capital allowances

A number of government sponsored reliefs for capital assets are available that can reduce a company's corporate tax liability and/or accelerate tax relief.

Expenditure on remediating land, energy efficient assets, renovated commercial properties that have been empty for over a year, and providing fixed assets for use in R&D could obtain enhanced deductions. Ensuring all available reliefs are claimed will help reduce your overall cash tax costs.

Patent box

This tax relief was introduced from 1 April 2013. Where a company generates income from patents, the profits generated from that activity are taxed at a lower rate of 10%. Maximising these claims now is important as the patent box regime is set to change over the coming years.

VAT cash optimisation

KPMG has a tool which can quickly measure and provide visibility over the daily VAT cash flows within a company and highlight areas where improved cash flows may be generated.

Pre-sale reconstruction

It will be important to establish whether there are any non-core assets within your company, which may have to be extracted prior to a future share sale.

Examples may include investment properties that a purchaser would not want to acquire. Under these circumstances, you may qualify for tax relief on commercially justified separation of core and non-core assets into different but commonly owned non-group companies, potentially resulting in no corporate or income tax costs, which could otherwise arise.



Top Tip

Submit claims as soon as possible to capitalise on government sponsored tax reliefs – maximising cash for shareholders pre-exit.

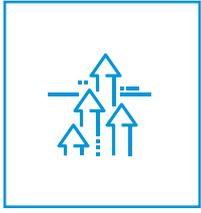
KPMG can...

- Prepare and file R&D claims and seek to agree these with HMRC
- Review your patent file and look to claim the benefits of the patent box relief where relevant
- Review your historic capital expenditure and look to maximise your capital allowances claims
- Use our VAT software tool to identify opportunities to improve cash flow
- Assess the availability of reconstruction reliefs and seek HMRC clearance pre-sale
- Review your group structure and help to ensure that your transfer pricing policy is appropriate and in line with your wider commercial objectives



Recommended implementation date: **36 months to 6 months pre-exit**





Translating data into insight

Your data helps potential acquirers understand the true nature of your company. Make sure that you fully understand it first by unlocking the hidden value from your data.

Every company sits on an ever growing amount of data and information, but most companies struggle to use this data to uncover meaningful and actionable insights and to use it to create value.

Your data will allow you to understand more about your customers, products, markets and ultimately your profitability. This in turn allows you to shape and articulate your business strategy in a much more targeted way.

Understanding your data also allows you to see the trends in your business, and use this to make better forecasts and predictions.

Making better use of data within your organisation should be a business as usual activity, and many organisations are now starting to adopt data driven strategies to fully exploit the value that data can bring.

It is much better to be looking at your data as early in your exit strategy roadmap as possible, so that any opportunities uncovered can be acted upon and realised in the time leading up to the exit. Failure to do this allows buyers to uncover these insights and opportunities for themselves, thereby maximising their own value created through the transaction.

Data underpins all aspects of your organisation, and it is possible to ask questions of your data that would not have been possible a few years ago, and uncover answers that have the potential to enhance the growth prospects of your business, and ultimately its value.



Top Tip

Doing more with your data during exit planning will uncover more actionable insights and lead to better decisions that can enhance value on exit.

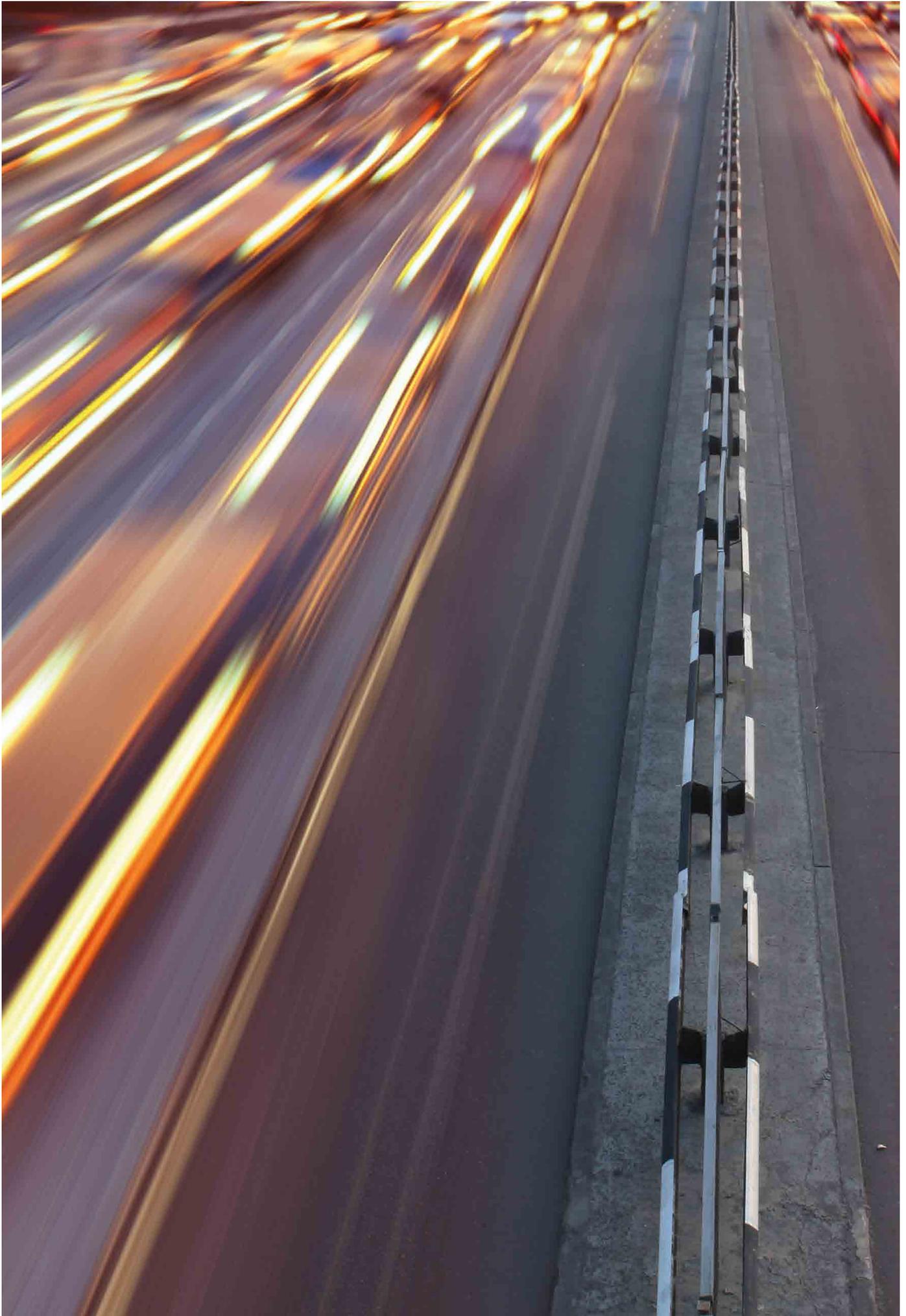
KPMG can...

- Interrogate under-utilised data to help drive competitive advantage
- Build dashboards and data visualisation tools to enable management to get closer to the data
- Help find ways to monetise your data
- Advise you on using data to improve sales, profit or cash flows
- Help you use data to support better business forecasts and more accurate predictions
- Use data and decision science to change behaviours and predict future performance and outcomes



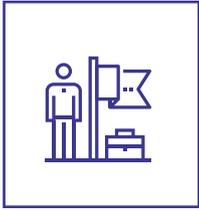
Recommended implementation date: **24 months pre-exit**







Getting ready to exit



Getting your legal house in order

If you were acquiring your own company, what portfolio of information would you like to see during the due diligence process? Legal due diligence is an imperative process that can make or break your exit.

Preparation is vital to allow you to 'put your best foot forward' and secure the best value for your business.

In a competitive and globalised world, bidders can afford to be picky, so it is vital that the legal affairs of a business preparing for exit are in good order. Potential buyers will want to see many things when looking at the legal affairs of a business. They may expect to see:

- An easily understandable group structure.
- The order book underpinned by well drafted legal agreements.
- Customers and suppliers trading on the business's own terms and conditions.
- An absence of litigation.
- Key employees tied into the business by their service agreements.
- Key Intellectual Property assets protected by trademark and patents.
- Well-ordered statutory registers.

It is in a seller's best interests to prepare for bidder scepticism well in advance of any exit, by presenting a high quality commercial asset that attracts maximum value.

A reactive approach to exit can have an extremely negative effect not only on value leakage but by causing disruption to the business's vital time and resources. A proactive attitude is key to anticipating the queries of potential bidders and can highlight to them a strong business model with ample opportunity in their specific targeted market. This includes producing a portfolio that illustrates your market reputation, your product and your strong relationships with suppliers and customers.



Top Tip

Make sure you have a strong understanding of your basic legal documentation: statutory books, employment contracts, and customer/supplier contracts.

It extends to understanding trading dynamics and margin, consolidating the financials, reviewing regulatory compliance and preparing a data room and legal documents to support the business plan.

Without the right support, vendor due diligence can be a stressful and lengthy task, and can be extremely difficult to navigate. Having access to experienced professionals who understand areas of the most concern to bidders and most likely to result in value leakage is imperative to a competitive sale. This can be the key to the development of strong bidder relationships and achieving your aspired final sale price.

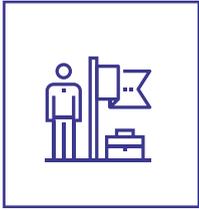
KPMG can...

- Conduct a multi-disciplinary vendor due diligence to pre-empt key questions that potential purchasers will have, and focus on addressing these prior to the commencement of any formal sales process
- Assist in the production of legal documentation, where it is lacking
- Assist with resolving key legal issues that may affect value
- Provide access to the latest technology, including cloud-based collaboration and artificial intelligence that allows us to build bespoke programmes tailored to your requirements
- Work with your management to guide the disposal process towards a successful outcome and avoid duplication of work
- Work flexibly to minimise disruption during the due diligence process



Recommended implementation date: **18 months to 12 months pre-exit**





Operating an effective Board

A cohesive Board is critical to a successful exit process. The role directors and senior management will have post-deal and whether they will remain in the business will be of great interest to buyers.

Those businesses who are looking at family succession will need to ensure they have the right individuals available for the future to lead the business. Businesses considering either an IPO or private equity investment as an exit route will also need to satisfy investors of their succession plan.

Entrepreneurs may find they have to re-invest alongside a private equity house and do not secure a clean exit; similarly, executives may find that they have to stay on post-flotation for a period of time to satisfy investors. In order to de-risk these types of outcome, a clear succession policy should be established to provide optionality.

Any exit route will require a significant time commitment from the Finance Director (FD). There are many activities that need to be performed which typically fall to the FD to oversee or process, often whilst continuing to support the business and maintaining a busy 'day job'. Support via the finance team, contractors or advisers is often critical to ensure the business does not lose focus and/or suffer a softening in earnings during a transaction which can adversely impact value.

Specialist roles such as HR Directors, Chief Information Officers, Chief Technology Officers etc. do not necessarily need to be replicated by privately owned companies but there will be some sectors where these roles are particularly important.

Many privately owned companies often debate whether or not to use Non-Executive Directors. A good non-executive can help bring skills, guidance and mentoring to the executive board and provide access to different senior relationships, such as advisers, customers, suppliers and policymakers.

An important role non-executives play is keeping the Board focused on the exit event and looking at all decision making through an objective, exit-led lens. Similarly, non-executives differentiate the business and help articulate good governance which can help with everything from securing bank financing through to a private equity exit or flotation.

A strong leadership will need to be developed ahead of the transaction. You will need to consider (ahead of the transaction) how you and your senior team respond to the potential business changes an IPO or buyout will bring.



Top Tip

Prioritise how to best support the Finance Director to continue day-to-day running of the business whilst also driving forward the transaction.

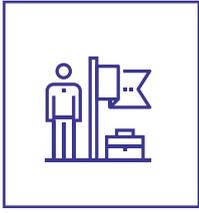
KPMG can...

- Facilitate workshops to identify skills gaps and help you develop a plan to address these
- Provide bespoke leadership development courses to drive an effective skilled and productive Board
- Support you in establishing a succession plan
- Provide 1:1 coaching on specific matters to get individuals ready to take the business forward (particularly pertinent for those whose 'exit' is succession)
- Provide 1:1 workshops with specialists to discuss the workings of the City and private equity and how these routes will change the business, individual roles and collective focus
- Introduce you to other entrepreneurs who have 'been there and done that'
- Introduce you to individuals for specific roles, e.g. Finance Director, Chairman, Non-Executive Directors



Recommended implementation date: **Ongoing**





Pursuing the right exit strategy

When it comes to selling a company, every decision counts. The preparatory journey and the decisions made on this journey are fundamental to a successful exit. The best prepared clients are those who keep their exit options open throughout so that plans B, C and D can be pursued in the event that plan A becomes unavailable.

In the pre-credit crunch environment homogenous beauty parades were commonplace. This approach has now evolved with many companies looking to build bilateral relationships with potential acquirers one to two years before an exit. Equally, tailored M&A processes have come to the fore with different buyer groups being presented with a specific acquisition rationale as to why a company may be attractive to them. These tailored approaches are designed to enhance exit values and increase transaction deliverability.

Pre-sale planning is key to positioning a company with potential buyer groups. Whilst the approach requirements are similar across the different types of buyer, there are a number of material differences between trade, private equity and public equity exit routes. As part of this positioning, it is necessary to take buyers on a journey, educate them about you and structure an exit strategy to obtain a strategic premium. This extends to considering how and when to engage with key stakeholders such as customers, suppliers or employees, to ensure buy-in to a process. In some circumstances there may be little engagement, in others more so but very selectively due to confidentiality around transaction processes. Timing considerations are also important to maximise the response from the potential buyer pool, by ascertaining the optimal time to go to market.

Getting the right execution strategy is essential, and builds on the careful planning and preparation in the lead up to 'launch'. There are a number of challenges that can arise, even after a deal is agreed, resulting in a negative outcome for vendors. Having the right adviser alongside you providing their deal craft throughout the process, particularly once the deal is live, will create competitive tension and drive completion to obtain the best result for you.

KPMG can...

- Assist with developing the business plan incorporating key growth opportunities and messaging that underpins the business and its future potential
- Value your business using different methodologies
- Help you consider various exit routes and their merits, such as trade, private equity and capital markets
- Prepare buyer specific position papers on key issues and areas of value, in order to develop interested parties' understanding of the business and set out the key attractions to each purchaser
- Run a tailored sale process incorporating transaction strategy and deal tactics to deliver the optimum result
- Provide commercial input to the legal aspects of the transaction throughout all phases from the initial non-disclosure agreement and heads of terms, to final Sale and Purchase Agreement (SPA) negotiations
- Advise you on the whole IPO process from beginning to end ensuring preparation, parties selection and execution to drive valuation and execution certainty



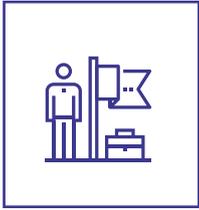
Top Tip

Consider a multi-track exit process to maintain optionality.



Recommended implementation date: **36 months pre-exit**





Preparing early for a smooth transaction

Getting investor ready and sourcing a third party view of existing operations can help streamline the due diligence process.

Value can easily be lost as a result of a poorly planned or under-prepared transaction process. Many companies do not appreciate the depth and breadth of due diligence. This can cause delays, increased professional fees and frustration from both the vendor and acquirer.

Management typically has minimal time to take remedial action on due diligence findings which may lead to value leakage. At the same time, management and finance functions are often over-run with multiple teams of advisers undertaking due diligence simultaneously.

A smooth end-to-end transaction process is fundamental to ensuring the best possible deal outcome. It is important to have support you can trust to help answer key challenges such as how best to present information needed by prospective purchasers through data room requests. Providing the right information in the right way is critical to the deal value and it is important to develop presentations which support your story.

This can lead to business disruption and further value erosion. A 'sell-side' support solution where an adviser can assist with preparing the company for sale well in advance of any exit allows management to retain control and to fix any issues which emerge.

Being on the front foot throughout the transaction process is important. Having access to experienced support who can provide guidance on negotiations around purchase price adjustments, warranties or closing mechanisms can ensure a smooth deal close, protecting value right through to completion.



Top Tip

Prepare early – it will allow issues which may impact deal value to be remediated and will help management to retain control.

KPMG can...

- Provide flexible assistance to you throughout the transaction process
- Help you develop presentations to support the story
- Help articulate core business processes and support you in managing data room requests
- Assemble a well ordered data room, which will give bidders confidence in the asset it aims to acquire
- Perform sell-side due diligence to help you retain control and get a grip on issues early
- Translate financial, tax and operational considerations into input for key legal agreements such as the SPA and help define favourable closing mechanisms such as purchase price adjustments
- Support you in taking pre-emptive steps to maximise available tax reliefs and recover VAT
- Help ensure the transaction is structured in a way that appropriately considers tax reliefs that may be available to the purchaser in the future



Recommended implementation date: **12 months to three months pre-exit**





Understanding post-deal obligations

For any vendor, maintaining an 'exit focus' by taking the right legal advice on the transaction will be key to building a solid exit strategy that protects the vendor's interests and manages expectations of any ongoing obligations post-deal.

Inevitably, exiting a business either through a trade sale or buy-out through a Private Equity (PE) route brings with it a great amount of planning, negotiation and risk. Ultimately, as a vendor you will want to know what your potential obligations are post-deal. The buyer or investor will have an expectation of you to retain some responsibility, as they will not have complete visibility of your business despite best efforts during the due diligence process.

Both you and the buyer will want to protect your respective interests post-deal. The warranties and indemnities included in the SPA will be vital to how much risk you bear after the sale. Warranties and indemnities are powerful incentives for a buyer, and their inclusion makes a higher purchase price more likely since you retain some risk.

Legal advice you take to assist with the buyer's due diligence prior to any exit will put you on the front foot during negotiations when securing the deal. This will reduce potential issues post-deal since you will have made the buyer aware of issues that may otherwise be overlooked in negotiations, for example: health and safety issues, supplier, contract or employee disputes or unforeseen tax liabilities. This will also save significant time and effort which can otherwise be expected from the seller post-deal, through financial claims brought by the buyer.

You may seek to limit your exposure through relevant limited liability insurances. Your legal advisers can also assist you to negotiate sensible liability caps and minimum thresholds within the SPA. They can also assist in preparing a relevant Disclosure Letter whereby you can avoid liability under warranty disputes by providing information on known exceptions.

In an IPO, the obligation on you will be different compared to a trade sale or PE. Listed companies have significantly higher compliance expectations, greater disclosure obligations, higher scrutiny on corporate governance and even restrictions on share sales for minimum periods post-listing. If you remain with the business, you will be held accountable to the shareholders for the performance of your business and adherence to these disclosures and governance obligations. Your obligations to the business will be determined by amendments to the Articles of Associations which will include the terms of the listing and the new governance and compliance arrangements.



Top Tip

Obtaining legal advice prior to an exit is critical to achieving the best balance around risk limitation post-deal.

KPMG can...

- Provide support on assembling materials for due diligence
- Provide legal advice on the drafting and negotiation of the warranties and indemnities to be included in the SPA
- Assess and advise on the appropriate liability caps and the setting of minimum thresholds
- Support on the drafting of relevant Disclosure Letters
- Give advice in the event that a claim arises under the warranties or indemnities
- Provide robust and credible expert witnesses with considerable experience of cross-examination in the event of a dispute over a breach of warranty



Recommended implementation date: **Exit process**



The next chapter





Dealing with disputes

The completion mechanism agreed for your business will be critical in determining whether any financial clawback exists after you exit your business.

A detailed valuation exercise will be undertaken before the exit process which will drive your sale price negotiations. However, there are a couple of key approaches which are agreed before signing that may give rise to an adjustment to the price after completion.

You or the buyer/PE house may believe that the valuation of the business does not reflect the financial performance of your business up to the point of sale. The completion accounts, produced approximately 8-12 weeks after completion will provide a view of the financial position of the company post-deal, and whether that position is reflected in the sale value. If the balance sheet presents a better net asset position, the purchase price will be adjusted upwards where the buyer pays you an additional sum, and if the position is worse, you will be required to refund the buyer.

You could mitigate the impact of this by agreeing from the outset a 'locked box' approach whereby the price is fixed at

signing and no adjustments can be made to the price. The buyer absorbs both the upside and downside risks on the financial position on completion.

You may agree an earn-out provision which may help narrow the price vs. expectation divide. An earn-out occurs when you believe the purchase price does not reflect future business performance, and therefore you may agree an initial purchase price, followed by an additional payment which will be dependent on the financial performance of the business over a specified agreed time period.

In an IPO there are no financial clawbacks or pricing adjustments other than anything wrapped up in share price movements. The market will determine the value of the business, all of which will be absorbed by the new shareholders if they decide to trade their shares on the stock exchange. If you retain shares and decide to trade these shares, you will realise any additional gains or losses on these shares.



Top Tip

Consider the implications of the completion mechanism and whether greater certainty via a 'locked box' is preferred.

KPMG can...

- Provide independent advice to shareholders, or the company on the fairness of the price and terms of a transaction
- Provide independent and objective valuations advice to determine the right price to accept for a business
- Assess the value of identifiable acquired intangible assets such as trademarks and brand names post-acquisition
- Assist in the preparation or review of completion accounts to calculate purchase price adjustments and ensure consistency with the accounting principles set forth under the SPA
- Undertake financial analysis of the earn-out provisions to be expected
- Undertake a detailed review of the tax impact of the purchase price



Recommended implementation date: **Immediately after exit and beyond**





Delivering the transaction benefits

You are almost there in achieving the exit or divestment you planned for, however it is likely you will be required to support during the integration process of your business into the buyers' existing operations.

Many trade buyers do not achieve the planned benefits from an acquisition because of the failure to integrate the business effectively. Post-transaction, the buyer (or PE investor) will immediately begin the integration process, in line with a 100 day value plan prepared pre-purchase which sets out how management will deliver growth, achieve cost synergies and integrate, or amend, the necessary operational processes. Providing informed advice during the integration process could prevent any disputes arising.

The integration exercise will include IT infrastructure, business operations and functions (such as production, HR etc.), financial records (and treasury functions) and business cultures. Supporting the buyer in setting up an integration taskforce before exit with a mix of your employees and that of the buyers, will alleviate some of the pressure on you. During the handover process, there potentially will be a number of instances where you may be required to stay involved, such as:

- Advising on existing employee issues, roles of trade unions, and integration of teams into the buyers' functions.
- Attend buyers' board meetings to support on aligning the business strategy to their own.
- Facilitate introductions with your customers and suppliers.
- Support on management decisions for a specified period of time.

A critical factor will be providing as much documented information of your business as possible, and this is recommended to be prepared prior to sale so that it can be used to facilitate the integration process. Having documented and effective processes and procedures in place will be fundamental in serving as a 'how to' guide after the transaction.

In an IPO or a PE scenario (where you remain with the business, or the existing line of management remain) the 'integration' exercise will be somewhat different as there is unlikely to be substantial operational change. However the reporting lines to management, decision making and authorisation processes may change. Broadly speaking, you may need to put in place:

- A Board, which includes independent directors, and potentially other committees such as nomination and remuneration committees.
- Corporate governance/listing compliance regulations may be updated to include matters that require a shareholder vote.
- More frequent financial reporting and the implementation of an internal audit function.

KPMG can...

- Provide strategic, financial, accounting and legal support to the buyer in integrating your business
- Identify the key drivers of value via operational improvements on behalf of the seller
- Work with the integration and new management teams to both plan and implement post-acquisition improvements to profit and working capital
- Accelerate the implementation of your proposed improvements post-deal to ensure the acquisition is successful and achieves or exceeds expectation which potentially can affect any price adjustments
- Support you through the transformation of your privately owned company to a publicly listed company including help on changes to policies and procedures and amendments to Articles of Association and corporate governance regulations
- Undertake assurance reviews of governance/regulations and policies and procedures



Top Tip

Agree pre-deal what level of involvement, and for how long, you want during the integration process.



Recommended implementation date:
Exit process and up to 12 months post-exit





What next?

The 'post-sale' phase of ownership represents an opportunity for you to either move from 'business owner' to 'investor', or consider the next stage of your life if you are planning on retiring.

You will have a number of options to consider including:

Doing it again

Having exited from your business you may have the entrepreneurial urge to go again. This could be a business you start from scratch or it could be a case of acquiring an existing business. If you are looking to buy a business, having a network of advisors on board can help in identifying potential investment opportunities.

New roles

You may look to take on Non-Executive Director (NED) roles to support other businesses in achieving their growth potential.

Estate planning and family opportunities

You may decide that you want to transfer wealth to your family. This may include setting up a trust or a family investment company for your dependants and/or reallocating your property, assets and chattels to your dependants to manage your estates and succession planning requirements.

New investments

It can be efficient to establish a corporate entity as part of your estate planning. This entity may wish to invest in financial markets and it is critical that it sets an investment strategy that is aligned with risk tolerances and objectives. Diversifying investments will be critical in managing risks. Sound independent advice on investments and tailored tax advice tailored is key.

Retiring abroad

You may want to settle down overseas and therefore understanding immigration laws, investing in overseas property and understanding any key overseas tax legislations will be essential in how successful that move is. Finding an overseas agent in your preferred country of retirement will be fundamental in developing this understanding.

Work with the new investor

In a PE or an IPO scenario, you may decide that you want to stay in the business and work closely with the new shareholders. Understanding the processes and expectations of the new owners will be critical.



Top Tip

Take time to enjoy your exit and consider your next move.

KPMG can...

- Provide a full suite of services to support you through the journey of setting up a new business
- Make recommendations on NED roles
- Provide detailed advice around the tax implications of passing wealth to your dependants
- Support on obtaining HMRC tax clearances on transactions
- Advise on the potential implications of future acquisitions
- Provide advice on international tax rules and how it might impact your retirement plans
- Provide tailored and independent investment advice to your Family Investment Companies, Open-Ended Investment Companies and Trusts on how to efficiently invest assets and to drive competitive investment management fees



Recommended implementation date: **12 months before exit and beyond**



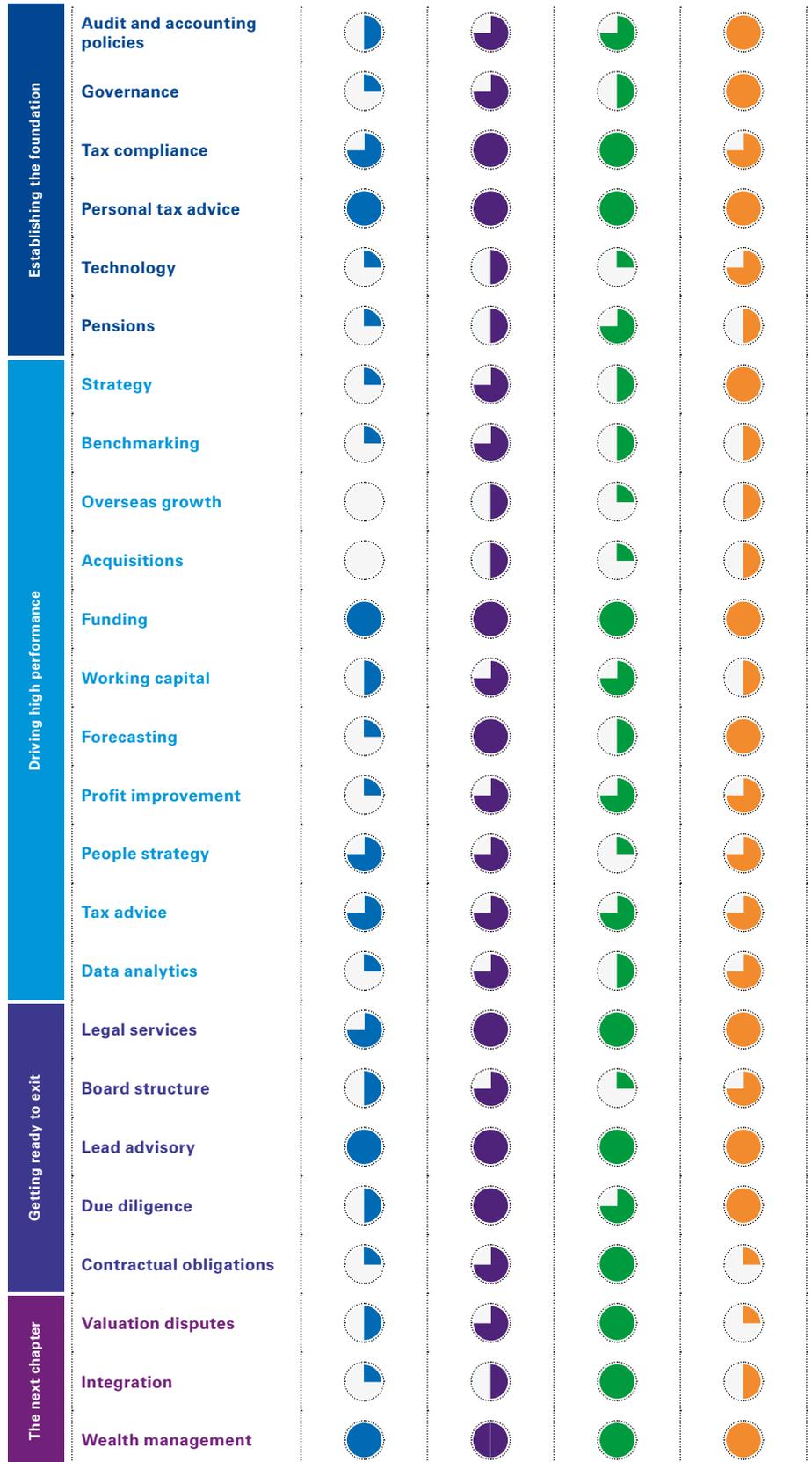


Keeping your options open

The importance of each of the areas covered in this document varies in terms of the exit route pursued. Shown opposite is our view on relative importance for each potential route.

In our experience those companies who keep all options open for as long as possible are those who drive the best value.

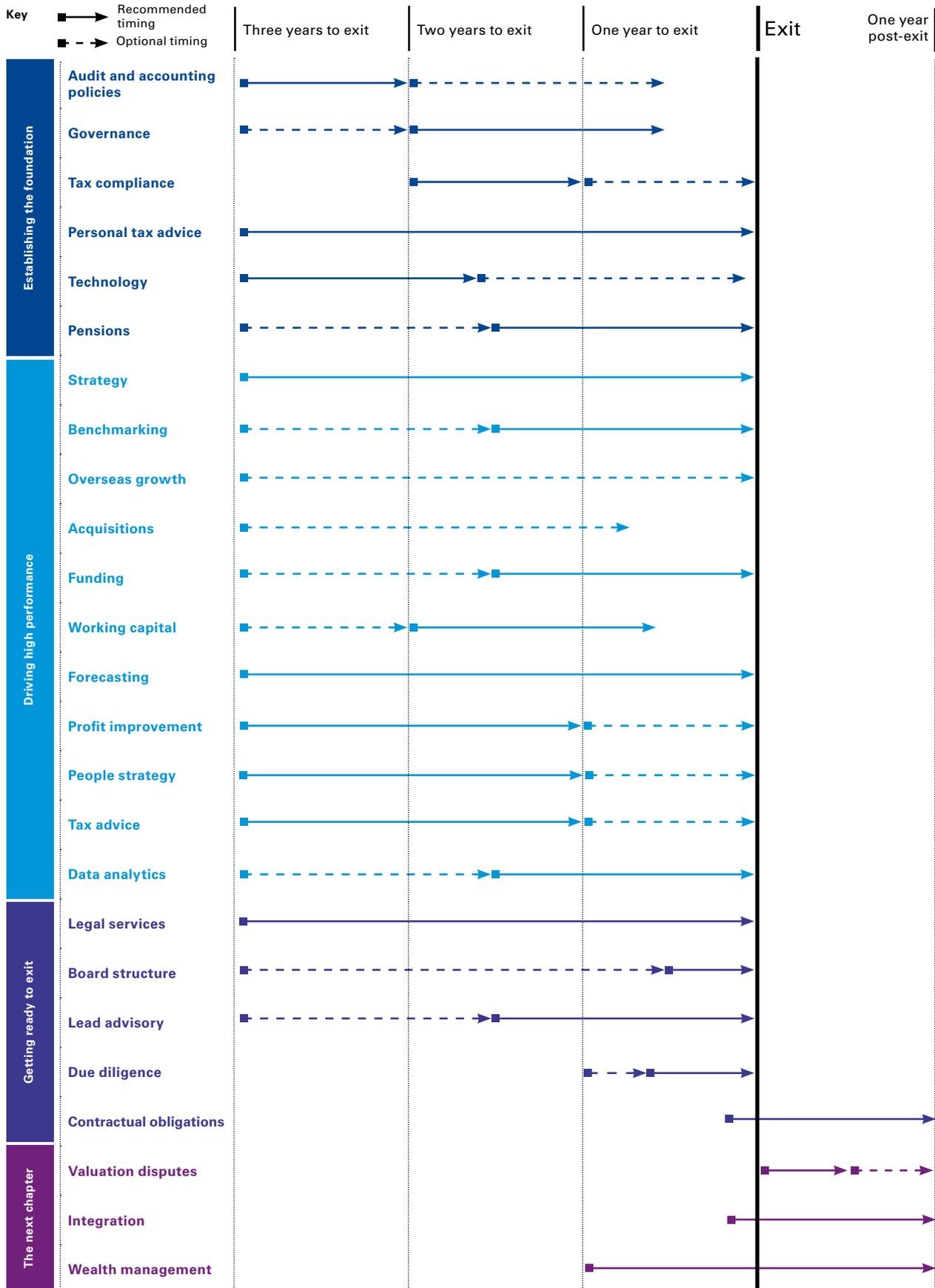
Succession Private Equity Trade Sale IPO





Timetable to exit

The road to a successful transaction, in whatever guise this may take, requires a varied and comprehensive plan. The following is our recommendation on when these items should be considered.



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