Sample

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The MBO Guide for Management Teams

Real-life lessons from 20 years in the front line of private equity

Andy Nash
For my parents Betty and John

and

to all those in leveraged buyouts
striving to make their dreams come true
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Dean de Beer and Damian Lane for their support on Tristar Worldwide Ltd.

The team at Harriman House for their encouragement, wise counsel and fixing all my mistakes.
Andy Nash is one of the most experienced and successful MBO/MBI professionals in the UK. Over the past 20 years he has worked on numerous deals – mostly as chairman – giving him broad, varied and unique experience. 11 of them are written up in this book, providing an invaluable inside look at leveraged buyouts from a manager’s perspective.

His private equity career began as a key member of the management team that bought out Taunton Cider for £72.5 million in 1991, went on to float it the following year for £153 million, and then sold it three years later for £280 million. Since then, as a portfolio chairman, he has been brought in to grapple with a string of MBOs/MBIs in various states of financial health and has achieved a significant number of notable corporate successes. The leveraged buyouts on his CV have now achieved total shareholder returns in the hundreds of millions.

During this time he has also chaired two publicly quoted companies, the drinks company Merrydown and the security business Photo-Scan. Both were successful stints, with shareholders receiving a handsome premium as the businesses developed profitably and attracted willing suitors.

For good measure the 53-year old, who hails from Cheddon Fitzpaine in Somerset, is rather partial to the game of cricket and fits in time to be chairman of Somerset Cricket Club.

If you are considering an MBO/MBI, or are presently wrestling with one, and you think Andy may be able to help you, don’t hesitate to contact him at mbombi.guide@gmail.com.
For most management teams, the opportunity to lead or participate in a management buyout (MBO) of the company they work for is a once-in-a-lifetime event. Not only is there the attraction of self-determination, away perhaps from an interfering or uncaring parent company, but also the opportunity to create personal wealth far greater than can be achieved as a salaried employee. However, there can often be significant risks, both financial and professional. The process itself may falter, the buyout team may be outbid by a competitor, and of course even once the deal has been consummated, few companies develop according to their business plan!

Whilst professional advice can always be bought, often expensively, there are few comprehensive and well-informed guides for managers to use to help them from the very beginning of their MBO adventure. This book is therefore a must-read for such managers. Best of all it is written by someone who has had firsthand involvement with a variety of MBOs – the number of deals runs into double digits – and who has experienced all the potential highs and lows.

The book provides counsel for all stages of a transaction, from leading up to completion of a buyout to beyond: exit and the tangible realisation of the dream. It delivers insights on how to work with all the stakeholders involved,
from the company’s core management team, to the staff, customers and suppliers, vendors, banks and private equity investors. It’s an ultimate list of ‘Do’s and Don’ts’. As a private equity investor in many buyouts, I believe it should be compulsory reading!

I have been fortunate to work with Andy on several occasions, first at Bridgepoint, then Beringea and more recently at Octopus Ventures. He is an accomplished entrepreneur, having moved on from a full-time executive role and his own MBO to take up a successful plural existence as a professional non-executive director and mentor. He is someone who engages with management teams and really makes a difference. His experience ranges from building powerful management teams, setting long-term strategy and building businesses up for an optimal sale, to more difficult issues such as negotiating revisions to bank covenants, cost control and effecting management change.

In this book, Andy discusses the wide range of situations he has navigated, ranging from the sublime to the ridiculous. He spares the blushes of the VC houses which have at times put him into some virtually impossible situations, hoping that a Houdini-like miracle escape can be made. His anecdotes are extensive and provide an opportunity for management teams to learn about the pitfalls, and upsides, which await them in any MBO.

The book contains the kind of sound professional advice and truths that hold true whatever the shifts in the business landscape. Having worked in the private equity arena for nearly 30 years, I would have found this book useful at many stages from the ’80s (when the term private equity was first coined) all the way to today, as we see the impact of recession on some over-geared boom market deals.

Above all, Andy’s book captures the intrinsic excitement of buying your own business and the thrills and spills that can ensue thereafter. There are many lessons about an MBO that can be learned without having to experience them first hand; wise participants can take advantage of the opportunity to read about them here.

Chris Allner
2011
Introduction

This book is aimed at prospective and existing managers of a management buyout or management buy-in. MBOs/MBIs are inherently risky, with the failure rate being relatively high. This book can increase your chances of success, by describing some common elephant traps, bad practices and risks, and how best to avoid them. Private equity may amount to nothing more than the least-worst form of capitalism; but in the UK it’s still the best wealth-creation engine around. I don’t pretend to have been through the very worst or best of what capitalism can offer, but what I have been through in private equity I can commend to you wholeheartedly.

MBOs/MBIs make or lose fortunes for the risk-takers because of the leverage involved. Leverage is the fulcrum on which these deals seesaw between success and failure. Every private equity firm’s portfolio has a range of leveraged companies, and average returns to their investors are determined by the balance between their star investments and those which stagnate, or go bust. Leverage is a business-school type of word – my youngest daughter would probably say it was cool! If your company were a car, leveraging it is like filling the boot with high explosive, and then driving off on a long journey with your fingers crossed.

Management buyouts and management buy-ins are the hi-octane part of the business world. Since 2001, the most common exit for MBOs/MBIs hasn’t been flotation, or even trade sales, but the rather less salubrious denouement of receivership. It is a high-risk/high-reward arena. Metaphorically, an MBO/MBI is like fitting an 8 litre V12 engine into an aged VW Beetle and
expecting it to perform much better than before. It is demanding, and not always reasonably so. As someone once colourfully put it: a venture capitalist would expect that if you made love nine times in a night, the baby would arrive in four weeks.

Since 1991 I have been involved with many buyout and buy-in deals. They describe an arc – from staggering success to the verge of financial oblivion; and, fortunately, back again. The deals have ranged across very different markets: from the sophisticated world of global drug discovery in mythical Tintagel, to heavy metal bashing (dustcarts) in the West Midlands. The deals have been backed by many different private equity players and financed by several UK and international banks.

I have carried out a variety of roles across these deals: chairman, executive director, non-executive director and as a personal coach to a managing director. I have been very fortunate to have seen many MBOs/MBIs through the lens of management, and have drawn on my experience over two decades to write this book. One lesson I’ve learnt is that an MBO will never show ten years of performance in straightish lines, with only minor ups and downs. These deals require a real hardening of one's financial nerves and a steely determination. A strong tolerance of ambiguity is also needed. Furthermore, in a recession MBOs become almost a full-contact sport, with even more challenges to be faced and overcome. But the leverage which so often causes misery is also what give these deals their flavour in the first place.

This new edition adds a further four MBOs to those covered in the first edition. It includes several new lessons learned and also of course data and information on the marketplace to the end of 2010.

I have attempted to make what can be a serious and turgid subject easy reading – I hope you enjoy the book and find it useful. Brian Clough memorably said that, “Managing a football club is 90% luck and 10% skill; but don’t try it without the skill.” Potential leaders of leveraged buyouts should heed the principle of these wise words.

Finally, by way of introduction, I want to recall Nicholas Taleb’s words in his excellent book about the unknown unknowns of black swans – “luck is more important than planning”.

Andy Nash
2011
1. The Market and Some Basic Principles
The private equity market

History in the UK

The genesis of private equity in the UK can be traced back to the great crash of public stock markets in 1929. The Macmillan Report in 1931 highlighted the equity gap which was a constraining factor in the recovery and growth of companies. This led to the creation ultimately of two organisations: the Industrial and Commercial Finance Corporation and the Finance Corporation for Industry. In the 1980s these merged to form what is now 3i plc.

Since 1983 (when records began), members of the British Private Equity Association have invested an aggregate sum well in excess of £60bn in more than 25,000 companies. This contribution to the UK’s economic effort cannot be overstated. Many companies have achieved growth and prosperity which might otherwise have languished, or even disappeared completely.
Some explanations and definitions

The private equity industry has evolved into three main areas:

1. Venture capital for *early-stage investment*. This is also referred to as start-up capital, seed capital or boot-strap funding.

2. Development capital for *emerging businesses*, which have grown beyond the start-up phase.

3. Private equity funding for *mature businesses*.

The practitioners, however, tend to be referred to generically as private equity players.

Investments by private equity organisations have historically been concentrated in unquoted companies. In recent years investments in public companies (public-private or public-to-private, aka P2Ps) have become more common, as some boards have opted to leave the increasingly demanding and unforgiving arena of the LSE Main Market.

Rather like air under pressure, equity invested by private equity organisations always seeks an exit, usually by sale to another trade party, or occasionally via flotation. That said, the most common exit for MBOs/MBIs since 2001 has unfortunately been receivership – but more on that later. First, a few terms defined.

- **MBO**
  
  Management buyout. This is typically where an existing management team buys the company in which they work from the shareholder(s).

- **IBO**
  
  An institutional buyout. An institution will acquire a company and incentivise a management team to run it for them.

- **MBI**
  
  Management buy-in. A new management team acquires a business from shareholder(s) and replaces the incumbent management.

- **BIMBO**
  
  Buy-in management buyout. A combination of an MBO/MBI. An existing management team is joined by at least one new manager as it acquires the company.
VIMBO

A vendor-initiated MBO, where the owner encourages and facilitates the management team taking ownership of the company.

PIPE

This is a new type of deal which emerged during the 2007–09 recession and stands for private investment in public equity. A notable example of this was the investment by Warburg Pincus in Premier Plc.

Market size

The venture capital market is mind-bogglingly large. The British Venture Capital Association has around 230 full members, whom between them have some £32bn under management. These private equity firms are invested in companies who in total employ nearly 3 million people in the UK alone. That is equivalent to some 15% of the private sector workforce. The private equity industry invests in virtually every known sector of the economy across the country.

Further, the UK accounts for about 41% of the whole of the European market; globally only the market in the United States is bigger.

Companies in the venture capitalists’ sweet spot

From the buffet of companies always on offer, private equity investors seek businesses which are well-run, with sound growth prospects and sustainable competitive advantages in their markets. The more adventurous private equity firms will also seek out under-managed businesses which, perhaps with the grafting of new members on to the present management team, they believe can be run more successfully.

The quality of the management team in an MBO/MBI is paramount. The team must inspire confidence and have a sustained track record of achievement in business. Investors will go to considerable lengths to verify their initial perceptions of the management team. Additionally, the management team must demonstrate strong commitment (underpinned by personal investment), and tangible confidence in their business plan and the future prospects of their company.
Management teams’ rewards will be directly linked to their ability to increase profits and, in the fullness of time, succeed in achieving an exit which crystallises value.

**What do the venture capitalists bring to the party?**

Venture capitalists are first and foremost a source of finance. However, they can and frequently do add value to businesses in a number of different ways:

- strategic and other skills complimentary to those of the management team
- additional management resources, e.g. non-executive directors
- business judgement acquired from a considerable breadth of experience
- personal contacts and networks
- identifying support and negotiating with other fund-providers (e.g. banks)
- mergers and acquisitions (M&A) experience
- exit planning and achievement.

While it is unusual for venture capitalist investors to become involved in day-to-day management decisions, they will stay close to the business and expect to be consulted on all significant decisions, and informed of any major developments – positive or negative. This is often achieved with a seat on the board – additionally they often have the right to appoint an independent non-executive director. The breadth of experience they bring to bear is usually of considerable value to any business, in particular in a company carrying an inherently unstable cargo of debt.

**Performance of the private equity sector**

The figures speak for themselves. Taken over the long-term, companies backed by private equity have significantly outperformed public companies. The reasons for this probably merit a separate study, which I shall not attempt here!

The credit crunch and deep recession may have substantially reduced the number and size of deals being done but something hasn’t changed: the innate
ability of the private equity model to produce superior shareholder returns. The following results are a fine advertisement for the sheer hard work, effort and ingenuity put in by venture capitalists and their management teams. As a wise man once said: the harder I work, the luckier I get.

**Figure 1.1: UK private equity performance**

![Bar chart showing UK private equity performance](chart.png)

Source: British Venture Capital Association

**Why do a deal?**

The right answer to this, or at least the one your backers will want to hear, is because you wish to make money – if you profit, then so do they. That’s the easy bit: now how do these deals actually come about?

There are some truly wonderful and elegant stories of how management teams or gifted individuals, researched, targeted, approached, negotiated, and closed the perfect deal. Some of these, within no time at all, might also have sold out and sailed off into the horizon, fulfilled and financially secure for life.
This hasn’t always been my experience! The conception of my first MBO was at a gents urinal, oddly enough, in Suffolk. The Taunton Cider board meeting was being held at Copella Ltd, which we had recently acquired, and Peter Adams (Taunton Cider’s managing director) informed yours truly that, “You can forget the new incentive scheme, Nasher [that’s me], Tony Portno [Bass plc main board director] has just told me we are up for sale.” You can picture the scene! I didn’t know it then but that is where the Taunton Cider MBO was conceived. No sooner had Peter Adams dried his hands, but he was off on a mission!

I believe many MBOs and MBIs begin in such a random fashion. The trick for management teams is to spot the opportunity, and then know how to exploit it.

**Are you sure you really want to do a deal?**

This is a question worthy of the most serious soul-searching. Whether your first deal is conceived at a gents urinal, as happened in my case, or in lecture room 3b at Harvard Business School, you need to focus on this. You are well advised to pause for serious thought before embarking on such a white-knuckle ride, which, if it goes pear-shaped, could ruin your finances and career. MBOs can take wrecking balls to reputations, set new standards in aspirational delusion and smash many a fragile template of preconceptions.

**Rags or riches?**

Bluntly, if your deal works out well, and you achieve a successful exit, you will have reached a land of milk and honey. You will have achieved partial or total financial independence. You may burn your suit, play golf all day, do that world tour, and write that novel. Fantastic!

On the other hand, if you fail, you will probably do so slowly, and in front of a lot of people, and financially you will probably be substantially worse off than before. Your professional and personal reputation may also be stained – perhaps in tatters. In short, in doing an MBO/MBI you will be betting your career, and perhaps much or all of your wealth, upon it.
Quite often it seems a team is featured in the broadsheets having made millions from the flotation or sale of their company. Less often do you see the photos – thin watery smiles all round – of those for whom it didn't happen. Failure in an MBO is also indiscriminate: some failure can be avoided, perhaps, but many fail through no fault of the management team (we are back to Nicholas Taleb's black swans again).

**Pressure**

As anyone who has completed an MBO/MBI will tell you – they have probably never worked so hard in their professional lives. The workload, combined with jack-hammer stress levels, means this is not a journey for the faint hearted. Nerves of steel, an ability to be single-minded and a happiness to multi-task are *de rigeur*.

One unavoidable problem is that it takes time to produce a business plan which is of a quality to bear scrutiny of the type a venture capitalist will give it. A lot of time. You will have to sell this plan, and all its consequences, to many other parties. Most of these parties will be world-class in exercising scepticism and sussing you out. You have to find the time to do this in addition to your current job – which is unlikely to be a part-time role, I'd suggest!

**Persistence**

One quality you will need above all is persistence.

> “Nothing in the world can take the place of persistence. Talent will not: nothing is more common than unsuccessful men with talent. Genius will not: unrewarded genius is almost a proverb. Education will not: the world is full of educated derelicts. Persistence and determination alone are omnipotent.”

> – Calvin Coolidge

Individuals and teams will face a real test of their will and character. Things frequently go awry (current trading, competitive actions, arguments with vendors to name but a few) and one needs to be very determined and focused to stay the course.
Home life

Whether your MBO/MBI succeeds or fails, your life will have changed for good. It behoves you to discuss with your family the fact you are minded to bet your career, and possibly most of your assets, on buying a company.

If you emerge from these family discussions with your plan intact, you might also reflect on whether you truly have the support and stable life behind you before you dance with wolves. If you have a family member who is seriously ill, if your daughter is getting divorced, or if your football team has just been relegated, are you really in the right frame of mind to do this deal? Think very, very carefully before you commit yourself. If in doubt – take advice.

How does an MBO/MBI work?

There are many books and articles which explain this very competently (please refer to the Recommended Reading at the back of the book). I would recommend the accountants among you to read a detailed version of how they work. My version below is rather simple, but the principles apply to most deals.

Table 1.1: Simple MBO example

<table>
<thead>
<tr>
<th></th>
<th>2005 MBO (£m)</th>
<th>2009 EXIT (£m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>10</td>
<td>15</td>
</tr>
<tr>
<td>Costs</td>
<td>9</td>
<td>13</td>
</tr>
<tr>
<td>EBIT</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>PER</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>Company value</td>
<td>10</td>
<td>20</td>
</tr>
<tr>
<td>Senior debt</td>
<td>7</td>
<td>5</td>
</tr>
<tr>
<td>Equity</td>
<td>3</td>
<td>15</td>
</tr>
<tr>
<td>Preference shares</td>
<td>2.5</td>
<td>1.5</td>
</tr>
<tr>
<td>Sweet equity value</td>
<td>0.5</td>
<td>13.5</td>
</tr>
<tr>
<td>Sweet equity – institution</td>
<td>75% (i.e. 375k)</td>
<td>75% (i.e. 10.125m)</td>
</tr>
<tr>
<td>Sweet equity – management</td>
<td>25% (i.e. 125k)</td>
<td>25% (i.e. 3.375m)</td>
</tr>
</tbody>
</table>
Notes

- In the four-year period, sales have increased by 50% to £15m.
- Costs have increased at a lesser rate, causing profit at the earnings before interest and tax level (EBIT) to double to £2m.
- Applying the same price-earnings ratio of 10, company value has doubled to £20m.
- Senior debt, due to repayments, stands at £5m, so the residual equity value increases from £3m to £15m – a five-fold increase.
- The preference shares, after some redemption payments, are £1.5m, which means the sweet equity has multiplied 27 times. This is the effect of leverage.
- Management often have a 25% stake of the sweet equity, so their initial stake of £125,000 has increased to £3.375 million. A very satisfactory return by any measure, and not uncommon for successful MBOs/MBIs.

There are many variations on the above but the key principles hold true. Many MBOs/MBIs have multiplied EBIT several times. You can imagine the effect on the equity value in these deals. However, it should be noted that the formulae works just as impressively in reverse; a reduction in profit can wipe out equity value very quickly.

How many deals are done in the UK?

Volume of deals

The following chart is built upon data from the Centre for Management Buy-out research based at the University of Nottingham’s Business School which is funded by Barclays Private Equity and Ernst & Young. The information is very valuable and illuminating, in particular what it shows of recent years; the credit crunch and the Great Recession have changed the landscape discernibly.
Figure 1.2: Trends of buyouts/buy-ins, 1979–2010

The value of deals peaked in 2007.

Annual deal volume consistently hovered between 600 and 700 until the credit crunch and recession struck in 2008.

The number and value of deals has dropped substantially.

Average deal value is around £25 million.

Notes

- The value of deals peaked in 2007.
- Annual deal volume consistently hovered between 600 and 700 until the credit crunch and recession struck in 2008.
- The number and value of deals has dropped substantially.
- Average deal value is around £25 million.
Figure 1.3: Number of UK buyouts and buy-ins, 1985–2010

Notes

- MBOs account for the majority of deals.
- In value terms, however, the picture is very different. Since 2000, MBIs have accounted for well over half of total deal value, indicating a significantly higher average deal size.
Figure 1.4: MBOs and MBIs as percentage of UK takeover activity, 1991–2010

Notes

- MBOs/MBIs dominate the number of M&A transactions in the UK, peaking in 2010.
- The proportion of value they account for did decline at one point in the past decade, reflecting a significant increase in other corporate activity in 2004.
Figure 1.5: Average value of buyouts/buy-ins (£m), 1990–2010

Source: CMBOR/Barclays Private Equity/Ernst & Young

Notes

- After declining from the peak in 2000, average deal value increased to a peak in 2007.
- A precipitous drop thereafter, but a very impressive recovery in 2010.
- The diminished supply of entrepreneurial testosterone, coupled with the shortage of debt, prevented the large deals from happening in 2008 and 2009. Put another way, gone are the huge deals born in the crucible of financial engineering. ‘Good riddance,’ many have been heard to say, as these were the monster deals which gave the private equity industry a less-than-wholesome image for a period.
The trend towards larger deals was very apparent until 2008. The paucity of debt from banks has reduced deal size markedly.

**UK management buyouts/buy-ins**

The following table shows the significant number of transactions and the value they represent.

**Table 1.2: Major buyouts in 2010**

<table>
<thead>
<tr>
<th>Buyout name</th>
<th>Value (£m)</th>
<th>Buyout source</th>
<th>Month</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tomkins</td>
<td>2890</td>
<td>Public-private</td>
<td>Sep.</td>
</tr>
<tr>
<td>Autobar Group</td>
<td>990</td>
<td>Secondary buyout</td>
<td>Nov.</td>
</tr>
<tr>
<td>Marken</td>
<td>975 (Est)</td>
<td>Secondary buyout</td>
<td>Mar.</td>
</tr>
<tr>
<td>Pets at Home</td>
<td>955</td>
<td>Secondary buyout</td>
<td>Mar.</td>
</tr>
<tr>
<td>Sophos</td>
<td>546</td>
<td>TA Associates and shareholders</td>
<td>Jul.</td>
</tr>
<tr>
<td>Buyout name</td>
<td>Value (£m)</td>
<td>Buyout source</td>
<td>Month</td>
</tr>
<tr>
<td>---------------------------------</td>
<td>------------</td>
<td>------------------------</td>
<td>-------</td>
</tr>
<tr>
<td>DFS Furniture Company</td>
<td>500</td>
<td>Secondary buyout</td>
<td>Jun.</td>
</tr>
<tr>
<td>Britax Childcare</td>
<td>450</td>
<td>Secondary buyout</td>
<td>Nov.</td>
</tr>
<tr>
<td>Vue Entertainment</td>
<td>450 (Est)</td>
<td>Secondary buyout</td>
<td>Dec.</td>
</tr>
<tr>
<td>CPA Global</td>
<td>440</td>
<td>Shareholders</td>
<td>Jan.</td>
</tr>
<tr>
<td>British Car Auction</td>
<td>390</td>
<td>Secondary buyout</td>
<td>Feb.</td>
</tr>
<tr>
<td>Stonegate Pub Co</td>
<td>373</td>
<td>Mitchells &amp; Butler</td>
<td>Nov.</td>
</tr>
<tr>
<td>Equity Trust</td>
<td>350</td>
<td>Secondary buyout</td>
<td>Dec.</td>
</tr>
<tr>
<td>Card Factory (Short Rhyme)</td>
<td>350</td>
<td>Private</td>
<td>Apr.</td>
</tr>
<tr>
<td>Deb Group</td>
<td>325</td>
<td>Secondary buyout</td>
<td>Mar.</td>
</tr>
<tr>
<td>Republic/Teen Topco</td>
<td>300</td>
<td>Secondary buyout</td>
<td>Jun.</td>
</tr>
<tr>
<td>Care UK (Warwick Bidco)</td>
<td>281</td>
<td>Public-private</td>
<td>Apr.</td>
</tr>
<tr>
<td>Survitec/Shark Group</td>
<td>280</td>
<td>Secondary buyout</td>
<td>Feb.</td>
</tr>
<tr>
<td>LGC</td>
<td>257</td>
<td>Secondary buyout</td>
<td>Feb.</td>
</tr>
<tr>
<td>Spice (Cilantro Acquisitions)</td>
<td>251</td>
<td>Public-private</td>
<td>Dec.</td>
</tr>
<tr>
<td>Host Europe</td>
<td>222</td>
<td>Secondary buyout</td>
<td>Oct.</td>
</tr>
<tr>
<td>Poundland</td>
<td>200 (Est)</td>
<td>Secondary buyout</td>
<td>May.</td>
</tr>
<tr>
<td>Gala Coral</td>
<td>200 (Est)</td>
<td>Secondary buyout</td>
<td>Jun.</td>
</tr>
<tr>
<td>Xafinity</td>
<td>190</td>
<td>Secondary buyout</td>
<td>Jan.</td>
</tr>
<tr>
<td>Esure Insurance</td>
<td>185 (Est)</td>
<td>Lloyds Banking Group plc</td>
<td>Feb.</td>
</tr>
<tr>
<td>Manx Telecom</td>
<td>159</td>
<td>Telefonica (Spain)</td>
<td>Jun.</td>
</tr>
<tr>
<td>Acorn Care &amp; Education</td>
<td>150 (Est)</td>
<td>Secondary buyout</td>
<td>Jan.</td>
</tr>
<tr>
<td>JLA (John Laithwaite Associates)</td>
<td>150 (Est)</td>
<td>Private</td>
<td>Mar.</td>
</tr>
</tbody>
</table>

Source: CMBOR/Barclays Private Equity/Ernst & Young
Table 1.3: Public-to-private buyouts/buy-ins in 2010

<table>
<thead>
<tr>
<th>Deal name</th>
<th>Type</th>
<th>Month</th>
<th>Amount (£m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tomkins</td>
<td>IBO</td>
<td>Sep.</td>
<td>2890.0</td>
</tr>
<tr>
<td>Care UK (Warwick Bidco)</td>
<td>IBO</td>
<td>Apr.</td>
<td>281.0</td>
</tr>
<tr>
<td>Spice (Cilantro Acquisitions)</td>
<td>IBO</td>
<td>Dec.</td>
<td>251.0</td>
</tr>
<tr>
<td>Inspired Gaming</td>
<td>IBO</td>
<td>Jun.</td>
<td>141.7</td>
</tr>
<tr>
<td>Seajacks International</td>
<td>IBO</td>
<td>Jan.</td>
<td>128.0</td>
</tr>
<tr>
<td>Trafficmaster</td>
<td>IBO</td>
<td>Jul.</td>
<td>73.3</td>
</tr>
<tr>
<td>Liberty (Bluegem Gamma)</td>
<td>IBO</td>
<td>Jun.</td>
<td>32.8</td>
</tr>
<tr>
<td>FDM (Astra 5.0)</td>
<td>IBO</td>
<td>Feb.</td>
<td>28.4</td>
</tr>
<tr>
<td>Cybit Holdings (Cyberspace)</td>
<td>IBO</td>
<td>Jan.</td>
<td>22.8</td>
</tr>
<tr>
<td>Vero Software (BV Acquisitions)</td>
<td>IBO</td>
<td>Jul.</td>
<td>9.4</td>
</tr>
<tr>
<td>Handmade (Almorah Services)</td>
<td>Private buy-in</td>
<td>Jun.</td>
<td>6.1</td>
</tr>
<tr>
<td>Litcomp (Torridon Capital)</td>
<td>IBO</td>
<td>Feb.</td>
<td>5.5</td>
</tr>
<tr>
<td>Accuma Group (HH Bidco)</td>
<td>Buyout</td>
<td>Jan.</td>
<td>5.1</td>
</tr>
<tr>
<td>SDI Group (FSU Investments)</td>
<td>Buyout</td>
<td>Sep.</td>
<td>2.8</td>
</tr>
<tr>
<td>Preston North End (Deepdale PNE Holdings)</td>
<td>Private buy-in</td>
<td>Sep.</td>
<td>0.2</td>
</tr>
</tbody>
</table>

Source: CMBOR/Barclays Private Equity/Ernst & Young

Table 1.4: MBIs (including IBOs) above £100m in 2009

<table>
<thead>
<tr>
<th>Buyout name</th>
<th>Value (£m)</th>
<th>Buyout source</th>
<th>Month</th>
</tr>
</thead>
<tbody>
<tr>
<td>NDS Group</td>
<td>1248</td>
<td>Public-private</td>
<td>Feb.</td>
</tr>
<tr>
<td>Chesapeake</td>
<td>325</td>
<td>Public co in receivership (US)</td>
<td>Apr.</td>
</tr>
<tr>
<td>Just Retirement (Avalon Acquisitions)</td>
<td>225</td>
<td>Public-private</td>
<td>Nov.</td>
</tr>
<tr>
<td>Aurora Fashions Holdings</td>
<td>215</td>
<td>Parent R’ship – Tessera/Mosaic</td>
<td>Mar.</td>
</tr>
<tr>
<td>Goldshield Group</td>
<td>178</td>
<td>Public-private</td>
<td>Dec.</td>
</tr>
<tr>
<td>Viking Moorings</td>
<td>170</td>
<td>Secondary buyout</td>
<td>Dec.</td>
</tr>
<tr>
<td>Ambassador Theatre Group</td>
<td>150</td>
<td>Shareholders</td>
<td>Nov.</td>
</tr>
<tr>
<td>1st The Exchange (Exchange FS)</td>
<td>115</td>
<td>Vertex Data Science</td>
<td>Aug.</td>
</tr>
<tr>
<td>Callcredit Information Group</td>
<td>110 (Est)</td>
<td>Skipton BS</td>
<td>Dec.</td>
</tr>
<tr>
<td>Industrial Electronics</td>
<td>105 (Est)</td>
<td>Founder</td>
<td>Feb.</td>
</tr>
<tr>
<td>Robinson Way &amp; Company</td>
<td>100</td>
<td>Parent in receivership</td>
<td>Aug.</td>
</tr>
</tbody>
</table>

Source: CMBOR/Barclays Private Equity/Ernst & Young
The deal funnel

Figure 1.7: The deal funnel

The figures in the previous table are based on deals which actually completed. This takes no account of the considerably larger number of potential deals which failed to make it for several reasons.

There aren’t any hard-and-fast figures on the size of the funnel, but talking to several venture capitalists on the subject, the following is a rule of thumb:

- for every 100 potential deals seen on paper, roughly ten result in a meeting for the venture capitalist
- for every ten teams met, around one prospect may progress to completion.

Venture capitalists are acutely aware of the funnel and are constantly hunting around for potential deals. They have the challenge of deciding how best to allocate their time between prospecting for deals and consummating them.

There is a very active network of private equity professionals and advisors who are constantly browsing the racks of companies for sale.
The MBO Guide for Management Teams
Real-life lessons from 20 years in the front line of private equity
Andy Nash

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