



KBS corporate
finance

**IS PRIVATE EQUITY
FOR YOU?**

A PRIVATE EQUITY DEAL
CAN DELIVER SIGNIFICANTLY
MORE OVERALL VALUE TO A
COMPANY OWNER THAN A
TRADITIONAL 'TRADE SALE'



INTRODUCING PRIVATE EQUITY

COMMON MISCONCEPTIONS

It is fair to say that we speak to many potential clients who hold some concerns surrounding Private Equity transactions.

Common misconceptions including “not wanting to work for someone else”, “becoming employed rather than self-employed”, “loss of control” and “lower values paid” are all untruths that we hear from prospective sellers. These views can often be derived from the fear of the unknown.

From our experience, we have seen that with the right blend of business sector, growth projections and seller objectives, coupled with aligned seller and Private Equity visions, a Private Equity deal can deliver significantly more overall value to a company owner than a traditional ‘trade sale’.

WHAT VALUE SHOULD I EXPECT?

Our experience has proven that when the right ingredients are blended, the outcome can give a client two, three, four or more times the value they would have expected from a more traditionally structured sale to a trade buyer.

They say timing is everything and it can certainly be said that the current Private Equity market is particularly active at present. Private Equity houses are currently sat on significant funds and make no mistake, they are under pressure to invest them!

WHAT ARE THEY LOOKING FOR?

Private Equity houses are looking for interesting opportunities of differing sizes across multiple sectors. Some want tech, some want pharma, some want minority stakes, and some are prepared to outright purchase when they already have investments and management capacity within a sector. Investment value may also differ; some will write ‘equity cheques’ for £500k, some for £500m.

What a company owner must ask themselves is “what is important to me?”. Inevitably, all company owners want maximum choice when considering their exit strategy. It is always better to sell knowing that the decision to accept an offer was made once every stone had been turned, without only exploring a small part of the potential market of buyers.

WHAT IS YOUR EXPERIENCE?

At KBS Corporate we have significant experience, deal history and personal relationships with many leading Private Equity houses both in the UK and internationally. We know their investment criteria, fund sizes and sector appetite, therefore we are well placed to present your opportunity to the right investors in our attempts to maximise the choice, value and conditions of your exit.

Our intrinsic understanding of deal structures and enviable track record of negotiating exceptional commercial terms makes KBS Corporate a compelling choice to deliver a lucrative deal in a competitive Private Equity market seeking high quality deals.

OBJECTIVES OF PRIVATE EQUITY INVESTMENT

FOR PRIVATE EQUITY HOUSES



Very simply, to deliver growth in capital value:

- Typical investment period of 3 to 5 years
- Aiming to make a return in excess of 2x money invested
- Seeking to minimise risk
- Seeking to maximise return

FOR EXITING SHAREHOLDERS



Personal and business security, with flexibility over ongoing involvement through:

- Potential to transition to a non-exec / chairman role
- A substantial cash realisation with a minor rollover of consideration into the new shareholding structure; or
- In some cases a 100% exit
- Continuation and growth of the Company / Brand that they have built (pride)
- Stability for staff (conscience)

KBS

FOR THE BUSINESS



Development Capital to support further business growth:

- Internationalisation
- Product development and diversification
- Additional specialist resource(s)
- Enhance and accelerate R&D

FOR THE REMAINING MANAGEMENT TEAM



Short and long term incentivisation for Senior Management through:

- A partial cash realisation if equity held
- The issuance of new (heavily discounted) sweet equity

WHAT PARTIES ARE INVOLVED IN A PRIVATE EQUITY TRANSACTION?

Each party will have differing objectives and requirements. When combined, these objectives can have a particularly successful outcome for all stakeholders.

There is often four principle parties involved in a Private Equity transaction and the diagram opposite outlines what each party is likely to require as an outcome.

For the existing shareholder there are various deal structures that can be agreed, such as, a full exit or partial exit, depending on their long term plans. A partial exit has become a common requirement of clients in recent years, where they maintain a significant share within the business. Such an outcome allows the client to continue to work within the business, delivering increased growth as a result of capital investment, whilst taking 'cash off the table' and de-risking.

Often, a key feature of a Private Equity deal is to incentivise the current management by offering them equity post transaction. Such a move aligns the motivations of both the management team and the Private Equity house to realise growth.

By aligning the management team and existing shareholders, the Private Equity house will aim to deliver growth over a period of 3-5 years when they will seek to maximise their investment.

THE SCALE OF UK PRIVATE EQUITY

Given the current market landscape, the prospect of Private Equity investment is becoming an increasingly attractive idea. Over the past year, the quality deals sought by the Private Equity market have been in high demand but low supply.

We are in the midst of a highly competitive environment for deals within the Private Equity market, with EBITDA multiples being paid by Private Equity houses at exceptional levels and the past decade revealing that Private Equity houses generally pay a higher price than trade buyers in many industries. Also, changes in Venture Capital Trust (VCT) legislation has created over £1 billion of surplus funds, with over £400m being raised in each of the last two financial years.

‘We are in the midst of a highly competitive environment for deals within the Private Equity market, with EBITDA multiples being paid by Private Equity houses at exceptional levels’

THE SCALE OF UK PRIVATE EQUITY

£

AMOUNT INVESTED

2013	£10.1 BILLION
2014	£13.3 BILLION
2015	£16.9 BILLION



UK

IS ONE OF THE
FOREMOST HOTSPOTS
FOR PRIVATE EQUITY
- SECOND ONLY TO
NORTH AMERICA



3,539

UK PRIVATE EQUITY
DEALS COMPLETED
SINCE 2014



24%

GROWTH IN THE
NUMBER OF PRIVATE
EQUITY DEALS
COMPLETED FROM
2012 - 2016

CASE STUDY - CLOUD SERVICES

THE CLIENT'S OBJECTIVES

Our client was the founding partner and CEO of a leading provider of a cloud services, supporting thousands of IT professionals across the UK and Europe. The client required a clean exit and believed that a trade sale would be the best option due to:

- A trade buyer would have a better appreciation of the market
- A trade buyer would offer the highest proportion of consideration on day 1
- A trade buyer would offer the only option to exit the business within a few years

As our client had a thorough understanding of his sector, he expected to achieve a 7 – 8 x multiple of EBITDA, therefore valuing the business at £8-10m.

With the above thoughts in mind, the client was focussed on finding an existing trade buyer, and although a Private Equity wasn't ruled out, it was very much his second choice.

TRADE OFFER RECEIVED

Our client received a trade offer from a well-known public limited company (plc). The offer required the client to undertake an 18 month handover, at which time he would transition to a part time role for an unspecified period.

The offer included the following elements:

Total consideration including enterprise value and surplus cash within the company: £14 million

This included a day one payment of £10m with £3m retained as trade shares in the plc and £1m deferred consideration.

The trade offer valued the company at £14 million.

PRIVATE EQUITY OFFER

Our comprehensive buyer reach strategy led us to target potential Private Equity investment, as well as trade buyers.

The total consideration, including enterprise value and surplus cash within the company, was £17.1 million. This includes a day one payment of £12.1m with our client retaining £5 million in rollover investment.

A new Chairman was identified, and he, along with the management team were granted heavily discounted shares (sweet equity) to incentivise growth.

The deal meant that the client retained 36% of the business. The Private Equity house and our client plan to exit the business fully in 4 years' time, allowing our client to potentially realise another £15 million in cash.

Likely consideration for the client when the Private Equity house completes a full exit: £27.1 million.

OUR CLIENT WANTED:

**7-8x MULTIPLE OF EBITDA
£8 MILLION - £10 MILLION DEAL VALUE**

THE TRADE BUYER OFFERED:

**DAY ONE: £10 MILLION
£14 MILLION TOTAL CONSIDERATION**

THE PRIVATE EQUITY HOUSE OFFERED:

**DAY ONE: £12.1 MILLION
£27.1 MILLION TOTAL CONSIDERATION**

KEY HIGHLIGHTS OF THE DEAL

Chairman and management to potentially realise in excess of £4m within four years, therefore they are highly incentivised.

Stable future and enhanced prospects for existing employees.

Our client transitioned to a Non-Executive Strategic role and will then exit the business fully within 4 years, therefore achieving his exit objectives.

The company benefitted from investment from a financial institution, experienced at facilitating accelerated growth.

CLIENT EXPECTED:

£8M

CLIENT RECEIVED ON DAY 1:

£12.1M

CLIENTS TARGET REALISATION AT FULL EXIT:

£27.1M

51%

Our client is due to receive 51% more on day 1 than his total minimum expectation

239%

Our client is due to receive 239% more upon full exit, than his initial minimum expectation

CASE STUDY - RECYCLING INDUSTRY

THE CLIENTS' OBJECTIVES

As a family run recycling business, our clients felt the time was right to move the business out of the ownership of the family.

- Our clients were seeking a full disposal of the business to financially secure the family for the future
- The shareholders required the company's valuation to be maximised whilst also achieving a sale to an acquirer who could act as an appropriate steward to the brand

The senior team of experienced Directors felt that the most likely acquirers lay in the waste sector, with the Private Equity route also a secondary option.

Our client had previously instructed a well known Corporate Finance house and, after more than four-and-a-half years on the market, had yet to receive an offer which met their objectives for the company and matched their value expectations.

KBS CORPORATE FINANCE APPROACH

KBS Corporate Finance was well aware of the importance that lay in ensuring that the shareholding family achieved maximum value for the business that their family had built up over 100 years.

It was felt that a Private Equity buyer in particular would generate maximum value for the business, with an overseas trade buyer posing the opportunity to further enhance this value due to the company's significant presence within the export markets.

This approach, which focused on overseas buyers proved fruitful, resulting in 15 interested parties and several key buyer presentations.

Strong offers were received for the business, however it was felt that the interest and subsequent offer received from an overseas Private Equity house provided the best opportunity for the company and the best value for our clients.

PRIVATE EQUITY OFFER

The offer received from the Private Equity house was maximised by undertaking the dual track process of targeting both trade buyers and Private Equity houses.

As the business was an extremely professional and fast growing enterprise, marrying together the sensitivities of a long held family business with the requirement to find an acquisition partner capable of matching their growth aspirations was critical.

Following extensive negotiations, which were led by KBS Corporate Finance, the final offer received exceeded our clients expectations by over 100% and was 130% higher than the highest offer received whilst on the market with their previous advisers.

The deal also allowed our clients to retain 30% of their shares within the company, creating even greater opportunities over the next few years, whilst realising a high consideration on day one.

**CLIENT EXPECTED TO ACHIEVE A
MINIMUM OF £13 MILLION**

**PRIVATE EQUITY PROVIDED MORE
FAVOURABLE TERMS THAN TRADE
BUYERS**

**OUR CLIENT RETAINED 30% OF THE
BUSINESS POST TRANSACTION**

THOUGHTS OF THE CLIENT

Following the conclusion of the transaction, our client kindly provided the following testimonial:

“Other advisors failed to convince us that they understood our market and unique family circumstances.

Julian and KBS worked unbelievably hard to not only provide a selection of valuable opportunities to us, including Private Equity which wasn't ever on our radar, but then truly impressed us with their enthusiasm and commitment to getting the deal across the line.

Their support in the final months was invaluable in allowing us to remain focussed on growing the business.”

CLIENT
EXPECTED :

£13M

CLIENT
RECEIVED
ON DAY 1:

£27.1M

CLIENTS TARGET
REALISATION AT
FULL EXIT:

£48.1M

108%

Our client is due to receive 108% more on day 1 than his minimum expectation

270%

Our client is due to receive 239% more upon full exit, than his initial minimum expectation

SOME OF OUR RECENT PRIVATE EQUITY DEALS

Completed **Sale**

**TEXTILE RECYCLING
SPECIALIST**

ACQUIRED BY

**EUROPEAN PRIVATE
EQUITY**

Textile Recycling

Dutch Private Equity

Completed **Sale**

GIACOM™

ACQUIRED BY



ICT Sector

MBO backed by LDC

Completed **Sale**

imagesound

ACQUIRED BY



Media Provider

ECI Partners LLP

Completed **Sale**



Manufacturing

BIMBO backed by YFM Equity
Partners

Completed **Sale**

AM FABRICATION



Fabrication

Trade buyer backed by Thames
Valley Capital

Completed **Sale**

Fairway



Travel Management

Trade buyer backed by Praetura
Capital

SOME OF OUR PRIVATE EQUITY CONTACTS























RECENT PRIVATE EQUITY DEALS

INVOLVING UK TARGET COMPANIES

TARGET	PRIVATE EQUITY ACQUIRER		DEAL TYPE	DEAL VALUE
Roof-Maker Ltd	Pricoa Capital Group Ltd		Full sale	£30m
GB Railfreight Ltd	EQT Infrastructure II LP		Full sale	£155m
Coppergreen Developments Ltd	Business Growth Fund plc		Partial sale	£11m
Freespee Ltd	VenTech SA		Partial sale	£8.22m
Inspiring Learning Ltd	Bridgepoint Advisers Ltd		Full sale	£100m
Graphcore Ltd	Amadeus Capital Partners Ltd		Partial sale	£24.6m
Johnsons Aggregates and Recycling Ltd	Business Growth Fund plc		Partial sale	£5m
Culture Trip Ltd, The	PPF AS		Partial sale	£16.4m
ZappiStore Ltd	Prime Ventures		Partial sale	£9.8m
Traveltek Ltd	YFM Private Equity Ltd		Partial sale	£5.3m
Sparring Partners Ltd	Business Growth Fund plc		Partial sale	£13m
Eve Sleep Ltd	Octopus Ventures Ltd		Partial sale	£14.72m
Vegetarian Express Ltd	The Bridges Sustainable Growth Fund III		Full sale	£5.6m
Iwoca Ltd	Prime Ventures		Partial sale	£21m
RiverRidge Recycling Ltd	Business Growth Fund plc		Partial sale	£10m
Infinity Tracking Ltd	Smedvig Capital XIII LP		Partial sale	£10m
Depop Ltd	Creandum Advisor AB		Partial sale	£6.3m
Centurycomm Ltd	Exponent Private Equity LLP		Full sale	£150m
Liberation Group Ltd, The	Caledonia Investments plc		Full sale	£118m
Fluidic Analytics Ltd	Amadeus Capital Partners Ltd		Partial sale	£5.3m

RECENT PRIVATE EQUITY DEALS

INVOLVING UK TARGET COMPANIES

TARGET	PRIVATE EQUITY ACQUIRER		DEAL TYPE	DEAL VALUE
Apogee Corporation Ltd	Equistone Partners Europe Ltd		Full sale	£185m
Team 17 Digital Ltd	LDC		Partial sale	£16.5m
BBOXX Ltd	Bamboo Finance Sarl		Partial sale	£15.26m
Notonthehighstreet Enterprises Ltd	Industry Ventures LLC		Partial sale	£21m
Ultra Electronics Ltd	LDC		Full sale	£25m
Emotech Ltd	Lightning Capital		Partial sale	£7.7m
www.cruise.co.uk Ltd	Bridgepoint Development Capital Ltd		Full sale	£52m
Cambridge Medical Robotics Ltd	ABB Technology Ventures Ltd		Partial sale	£15.3m
Ocee Design Ltd	Business Growth Fund plc		Partial sale	£10m
MarketInvoice Ltd	MCI.TechVentures 1.0		Partial sale	£7.2m
Rockar Ltd	Maven Capital Partners UK LLP		Partial sale	£5m
Sabio Ltd	Lyceum Capital Partners LLP		Partial sale	£50m
Positive Quantum Ltd	AM Partners (Capital) Company Ltd		Partial sale	£8m
Darktrace Ltd	KKR & Co LP		Partial sale	£50m
F2G Ltd	Merifin Europe SA		Partial sale	£41.4m
Wireless Infrastructure Group Ltd	3i Infrastructure plc		Partial sale	£75m
John Henry & Sons (Civil Engineers) Ltd	Growth Capital Partners LLP		Partial sale	£23.3m
Janan Meat Ltd	ESO Capital UK Ltd		Partial sale	£20.5m
Origami Energy Ltd	Octopus Ventures Ltd		Partial sale	£13.7m
ISG Technology Holdings Ltd	Octopus Investments Ltd		Full sale	£10.5m

The logo for KBS corporate finance, featuring the text 'KBS corporate' in a white sans-serif font above the word 'finance' in a smaller white sans-serif font. The text is set against a dark red square background.

KBS corporate
finance

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