Hay & Kilner

Roundtable: Building value and planning the right exit

Our key takeaways

INTRODUCTION

In late March, Ryecroft Glenton Corporate Finance, Hay & Kilner LLP and NEL Fund Managers hosted an engaging and insightful roundtable event at The Lumen titled "Building Value and Planning the Right Exit". The event was attended by twelve entrepreneurs, founders and CEOs / MDs, each bringing an open and unique perspective to a range of subjects relevant to all business owners. The attendees covered sectors from technology to engineering and manufacturing to recruitment and beyond, with the common aim to create meaningful discussion and share knowledge and experience.

The roundtable was hosted by Carl Swansbury, Partner and Head of Corporate Finance at Ryecroft Glenton Corporate Finance, Ben Jackson, Senior Associate in Hay & Kilner's Corporate team, and James Katirai, Head of Investments at NEL Fund Managers. Each host offered their expertise and insights from advising a wide range of businesses and shareholders, particularly in the context of building and protecting value, obtaining funding to scale and planning and executing an exit or succession plan.

The discussion focussed on the levers you can pull to generate and retain value in the lead up to an exit event, whether that be a sale to a strategic trade buyer, private equity, a management buy-out or buy-in or a transition to employee ownership, before progressing to improving sale readiness, including the commercial and legal intricacies of deal structures and transacting.

This white paper covers the key insights and headlines from the roundtable and serves as a tool for you to consider your strategy and next steps when it comes to driving value and the most executable options available.

VALUE

A key theme of the early discussion was around valuing a business, specifically how to drive and demonstrate value and the attractiveness of a business to a potential buyer or funder. Carl covered the myriad of factors relevant to valuation, whilst offering practical advice on the levers to pull:

"In most instances, a business is valued on an earnings basis, applying a market-driven multiple toits maintainable earnings / profit to arrive at its Enterprise Value ("EV"),then adjusting for cash, debt and working capital to derive its Equity Value ("EQ"). It is important to understand what your business is worth, and why, well in advance of any exit discussions. When calculating maintainable earnings the adjustments you can make to reflect and maximise earnings and therefore value include adding back any excessive shareholder and director remuneration, along with any exceptional, non-recurring costs / expenses, such as bad debts, legal and professional fees, refurbishment or upgrade costs, FOREX costs, redundancy costs, to name a few. Being equipped with knowledge and understanding going into these conversations, so you can present a fully adjusted profit number to be used for valuation purposes is vital."

It was clear from the discussion that early consultation with advisers, ideally two years or more before an exit, is crucial to both understanding and "moving the needle" on value. Carl covered the importance of being clear on reference period when it comes to valuation (i.e. the 12-month period a buyer uses for the purposes of valuing a business), as well as ensuring any forecasts are based on sensible assumptions and a degree of precision, supported by a clear narrative. This demonstrates credibility to a buyer and enables a valuation to be based on future earnings, potentially driving up the valuation. A further key point discussed when looking at value was the positioning and sustainability of the management or senior leadership team. Having a capable and incentivised management team expands the options available to a business owner, such as potentially attracting a private equity investor when combined with the ability to scale. The question of timing was again seen as being vital to achieving this and the credibility of the management team would naturally be scrutinised by any buyer or investor when it comes to future value and succession. Carl explored the practical solutions for securing, motivating and retaining a strong senior leadership team:

"An under-utilised mechanism for recruiting, incentivising and retaining senior management is employee share option schemes, granting employees options that convert into shares upon exercise, which is usually linked to an exit event. This can be a tax-efficient method to not only incentivise employees to drive forward the growth of the business, but to also maintain interest post-completion where the deal structure involves an earn-out mechanism. This is beneficial both for the employees and any exiting shareholders, along with the buyer who is looking to ensure that the adjusted profits being used to value the business can be at least maintained post completion."

Ben highlighted the need for such arrangements to be carefully documented, in conjunction with a tax adviser:

"We see more and more employee share option schemes and the headline is to ensure the documentation is carefully drafted and clear on exercise and lapse events, whilst complying with the relevant legislation. Commercially, it is equally important that the nature and mechanics of the scheme are clearly communicated to employees. In some instances, senior employees are given shares long before an exit, rather than share options, and this necessitates bespoke shareholders' agreements protecting the business and the wider shareholder group. The important point is to seek structural advice early. When appropriately tailored, these mechanisms can be a fantastic way to drive value before and after a transaction."

The discussion on value progressed to the concept of concentration risk, exploring the inherent risks in being overly reliant on one or two clients generating a high percentage of your revenue. This is an area a buyer will naturally take a keen interest in. Even with a well- drafted framework agreement or contract, change of control provisions need to be carefully considered, including communicating any imminent exit with such clients to ensure a smooth transition. Diversification of the client base was discussed as a potential solution, whilst accepting the realities of certain sectors and business models make this a challenge. The key point was to be alive to this risk and to frame it from a buyer's perspective.

It was clear from the extensive discussion points that value was an understandably key area of interest for attendees. There was broad agreement that value is inherently linked to timing and the importance of having conversations with advisers as early as possible to establish and ultimately demonstrate that value to a buyer or investor.

FUNDING

James explored how the factors a potential buyer may consider in valuing a business are consistent with what NEL look for when identifying and working with potential investees:

"The two British Business Bank funds we operate at NEL, investing up to £2 million ,cover a variety of options, including acquisitions, management buy-outs and buy-ins, and supporting shareholder exits. Naturally, when considering an investee, we look at all of the factors we are discussing today. These include cash flow generation, ability to service debt on both a historical and look forward basis, strength of finance function, management structure, quality of earnings and the USP of the business."

The key conclusion was that preparing your business foranexit event can be aligned with preparing your business to attract funding and scale. Therewas agreement that this framing presented business owners with flexibility and encouragedafocussed approach to growth whilst allowing agility and broadening the strategic optionsavailable. James added:

"Information and documentation are key when we work with an investee, both in terms of demonstrating a narrative of growth and cash generation, as well as credible forecasting to show financial covenants can be complied with. Timely, transparent provision of accurate information is key to getting a deal over the line and ensuring that investor confidence is built in both the target and the incoming management team."

DEAL STRUCTURE

The discussion moved onto exploring the options available to business owners when considering an exit, from a strategic sale to a trade buyer or to private equity through to a management buy-in or buy-out or a transition to employee ownership. A key theme was that the profile of a potential buyer was fundamental to both deal structure and the factors relevant to enhancing deal readiness, given that different buyers will have different priorities. Carl shared his thoughts on the key exit options: The deal structure that can be achieved when selling a business to a trade buyer is very different to the deal structure that can be achieved if the same business is sold to private equity or management. Typically, when selling 100% of a business to a strategic trade buyer who is acquiring said business to gain access to a new client base, new products, services or software and benefit from synergies / cost savings, a buyer will want to bring about change post-acquisition, whilst realising cost savings, which often means earn outs will run for 3-12 months post close and will be linked perhaps to turnover or GP, vs profitability, given the vendors ability to control the profitability of the business they are selling post close. When selling to a well-funded, strategic trade buyer often any earn out will equate to c20-30% of the

enterprise value, with the remaining 70-80% being paid in cash on completion. In some instances where a trade buyer plans to make considerable changes to the business they are acquiring, post purchase sellers advisors can agree with the chosen buyer for there to be no earn out, but instead deferred consideration, meaning c20-30% of the EV will be paid post completion, again typically over a 3-12 month period, but irrespective of how the business performs, thus enabling the buyer to make any changes they see fit to the acquired business, given regardless of the impact of such changes, the vendors deferred consideration won't be impacted.

When selling a business to a Private Equity investor, who wont have the knowledge, experience or desire to operationally run the business they are buying, they will require the business being acquired to have an experienced, committed senior management team in place, who believe in the future growth of the business and therefore wants to remain with the business for the medium term. A PE buyer will typically want to buy c70% of a business, leaving c.30% of the equity in the hands of the senior management team running the business, so that they are aligned. The PE investor will also want the seller(s), if not the same as the senior management team, to show their confidence in the senior management team by agreeing to defer some of their value, whether it be via vendor loan notes, which will attract interest and be paid in the years following the sale, earn out or reinvestment into equity. The
key point to appreciate here is that typically, when a shareholder group sell to a trade buyer,
they will receive a greater % of the consideration in cash on completion of the deal vs when selling to Private Equity.

Another way of funding a management led transaction (MBO) without needing to bring in a financial / PE investor, is by bringing in a sensible level of term debt (c.1.5 to 4 x Adj EBITDA), whilst also asking the seller to defer some of their value, as vendor loan notes or deferred consideration. Whilst this option will ultimately mean the vendor(s) receive less cash on close vs the amount they would have received by selling the business to trade, selling to the existing senior management team, should one exist, will likely better protect the legacy the shareholders have built due to the business continuing to be ran independently by the current management team. It also provides a way of the sellers enabling management to acquire the business and become the sole, or controlling shareholders, which isn't often possible when unlocking a MBO alongside a PE investor. Selling a business to the existing management team also means there is no need to market the business for sale to potential trade buyers, which materially reduces confidentiality issues, and commercial sensitivities that may exist when marketing a business to potential trade buyers, who are often competitors. When selling to management, who have knowledge of the business they are buying, the scope of warranties the sellers need to give can be materially reduced, as can the liability cap, along with the scope of due diligence to be carried out (depending on how the MBO is to be funded).

There was clear emphasis on advisers working closely together to protect value, particularly where deals involve an earn-out or deferred consideration. Timing was again a theme here, with Ben adding his thoughts on how to ensure legal mechanisms are in place to protect the purchase price and when to agree these:

"We often discuss with sell-side clients the optimal time to raise protections for deferred consideration with the buyer's team. Our view in general is that these conversations should happen early at the heads

of terms stage to ensure the parties are aligned, particularly if we are looking for formal security, post-completion restrictions or accelerated payment provisions. In the context of an earn-out, we work closely with corporate finance and tax advisers to ensure that the metric by which the earn-out is being measured cannot be inadvertently suppressed. By way of example, where the earn-out is measured by EBITDA, we would want to be explicit about the nature of the exceptional items that should be added back and any high-level restrictions on funds leaving the business. The key with protecting deferred consideration is to communicate your expectations to the buyer early and be clear internally on what is a priority."

TRANSACTING

The discussion was rounded off with the attendees sharing their experiences of transacting and the key points to cover when looking to enhance sale readiness, including the challenges of the due diligence process. Ben shared his thoughts from a legal and practical perspective:

"Undoubtedly, the due diligence process can be the most time-consuming part of the transaction process for a business owner. I would echo James' earlier thoughts that documentation is key. Being able to readily respond fully to queries a buyer or funder will ordinarily raise represents good practice in any context. Again, speaking with your advisers early is important, given the due diligence process will typically involve matters ranging from the company registers, insurance, employees, pensions, property, commercial contracts and beyond. Having the information readily to hand, or clarity on which internal teams are best placed to assist, can make the process less onerous and, crucially, demonstrate credibility to a buyer." **The link was made between the outcome of the due diligence process and the warranties and indemnities a buyer may then request in the main transaction document. Ben added:**

"The more comprehensive the responses to the due diligence enquiries, the stronger the negotiation position can often be when it comes to warranties and indemnities in the share purchase agreement. A significant part of our role when acting on sell-side is to protect the purchase price by narrowing the warranties and indemnities to a reasonable level and negotiating limitations on liability, including an aggregate cap, de minimis thresholds before claims can be pursued and time limits."

CONCLUSION

This event highlighted the variety of factors relevant to exit and funding strategies, from the practical levers you can pull to drive and demonstrate value to the material considerations when exploring exit options right through to the intricacies of transacting.

The meaningful contributions from our attendees generated an insightful and lively discussion, drawing on their experiences across a variety of sectors, whilst linking the conversation to common challenges and opportunities faced by all business owners.

Hay & Kilner

Key themes from the event were timing and being empowered by information and knowledge, working hand-in-hand with your advisers from an early stage to best understand, drive and retain value with a view to being equipped to achieve the best outcome.

ABOUT THE HOSTS

Carl Swansbury FCA – Founder and Head of Corporate Finance at RGCF, Winner of the Insider Media Dealmaker of the Year Award, Winner of the NEAA Corporate Finance Deal of the Year Award (multiple times), Speaker and Compere, High growth board advisor / NXD, and founder and host of the "Confessions of a CEO/Entrepreneur" podcast.

- Carl qualified as a chartered accountant with international advisory firm PwC, before joining RSM to specialise in corporate finance.
- Carl joined RG, the largest, longest established independent advisory firm based in the Northeast, but advising clients nationally, in May 2011 to set up and scale
- the firm's Corporate Finance business.
- Carl advises shareholders of privately owned businesses, entrepreneurs, investors and management teams on all aspects of corporate finance and business strategy,
- including advising on company acquisitions and disposals, MBOs and MBIs, fundraising and refinancing, whilst providing boards with strategic advice focussed on fuelling growth.
- Carl is the founder and host of the "Confessions of a CEO/Entrepreneur" podcast.

Ryecroft Glenton is an independent firm of Chartered Accountants and Business Advisers based in the North East, with a heritage dating back to 1901. The firm provides clear, practical and commercially focused advice to businesses, entrepreneurs and individuals across all aspects of accountancy, tax, audit, wealth management, outsourced | FD and corporate finance. With a strong belief in creative thinking and long term relationships, Ryecroft Glenton works closely with clients to help them navigate change, make informed decisions and achieve sustainable growth.

Ben Jackson – Senior Associate in Hay & Kilner's Corporate team.

- For over a decade, Ben has advised shareholders, businesses, funders and investors throughout the North East and beyond on mergers and acquisitions, equity and debt investments and joint ventures, consistently leading and delivering on significant transactions.
- Twice shortlisted as Emerging Dealmaker of the Year in 2024 and 2025

Hay & Kilner is one of the North East's leading full-service law firms, trusted by businesses, individuals and families for 80 years. We combine exceptional legal expertise with a genuinely people-first approach. That means clear advice, straightforward conversations and support you can rely on at every

stage. Whether you're protecting your business, resolving a family matter or planning for the future, we're here for you.

James Katirai – Head of Investments, NEL Fund Managers.

James oversees NEL's investment activity, collaborating with business owners and intermediaries to identify and deliver funding opportunities. He brings extensive experience from previous roles at Metro Bank and Lloyds Bank, advising a broad range of SMEs and Large Corporates across the UK, Europe, and US.

NEL Fund Managers is a leading business investor in the North East, specialising in tailored financial solutions and strategic support for small and medium-sized enterprises. With over 30 years' experience and more than 1,000 investments completed, NEL works with ambitious businesses seeking funding from £25,000 to £2 million, often alongside other investors. The team is committed to bespoke guidance, connecting clients with a network of sector experts to help them achieve their growth ambitions.

Get in touch with our Corporate Team to find out how we can help you.