

Private Equity

# Supporting the private equity journey

A companion guide for management teams



IDEAS | PEOPLE | TRUST

**BDO**

# Welcome

BDO's collective experience enables us to offer support across the various stages of the Private Equity lifecycle.

This Companion Guide outlines matters to address as well as potential BDO services and solutions throughout this journey.

**The Private Equity ("PE") environment has proven resilient across macro-economic cycles. PE firms have both the funds and the appetite to invest where they believe there is a supportable growth story.**

Private Equity investment can support you in developing your business over a relatively short time period and, whilst each situation is unique, there is a well-trodden path.

Selecting the right Private Equity investor is one of the most important decisions you will take. Do they have expertise in your sector, a shared vision for your business and are your objectives aligned? Is there a good cultural fit?

This document outlines many of the matters to address throughout the Private Equity journey, summarised opposite across four stages.

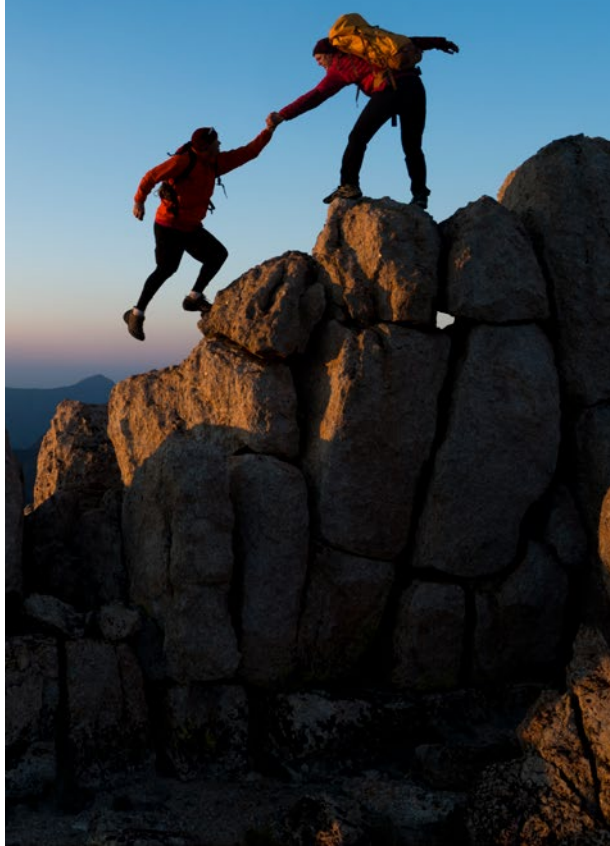
As will become apparent, there are numerous factors to consider and decisions to make. You will navigate those key moments confidently with our advice and support.

- 1 Demystify**
  - ▶ Assessing whether Private Equity is the right source of investment
  - ▶ Considering the ideal outcome long term for you and your business.
- 2 Navigate**
  - ▶ Investigating which Private Equity partner is right for you
  - ▶ Navigating the investment process through to completion.
- 3 Accelerate**
  - ▶ Delivering growth through a PE investment cycle
  - ▶ Ensuring agenda alignment across stakeholders.
- 4 Realise**
  - ▶ Preparing proactively in advance of the next capital event
  - ▶ Managing the timing and cadence of any deal process.



### Suggested further readings

For more context around **How to make Private Equity work for you** – [Click here.](#)



# Phase 1

## Originating the deal ('Demystify')

### Are you:

- ▶ Considering how to free wealth tied up in your business (de-risk)?
- ▶ Looking for funding or expertise to help grow your business?
- ▶ Seeking to incentivise existing or new management?
- ▶ Trying to sell your business or raise money?

	Deal landscape assessed	Contact initiated	Appoint advisers	Initial meeting	Follow-up	Indicative offer
Matters to address	<ul style="list-style-type: none"> <li>▶ Critique of market and competitor landscape</li> <li>▶ Be aware of recent sector deals</li> <li>▶ Assess preparedness for an off-market approach.</li> </ul>	<ul style="list-style-type: none"> <li>▶ Draw up short list of PE Houses</li> <li>▶ Agree lines of communication</li> <li>▶ Establish confidentiality protocols.</li> </ul>	<ul style="list-style-type: none"> <li>▶ Formalise response to inbound enquiry</li> <li>▶ Consider need for intermediaries</li> <li>▶ Prepare option planning scenarios.</li> </ul>	<ul style="list-style-type: none"> <li>▶ Test investment thesis</li> <li>▶ Establish working relationship between key stakeholders</li> <li>▶ Align value expectations and strategic rationale.</li> </ul>	<ul style="list-style-type: none"> <li>▶ Maintain momentum</li> <li>▶ Assess internal capability</li> <li>▶ Provide sufficient information to enable an offer to be tabled.</li> </ul>	<ul style="list-style-type: none"> <li>▶ Receive Letter of Intent from PE House</li> <li>▶ Reaffirm appetite to engage</li> <li>▶ Understand transaction parameters.</li> </ul>
BDO services & solutions	<ul style="list-style-type: none"> <li>▶ Outline sector and market dynamics and current positioning</li> <li>▶ Assess turnaround or performance improvement opportunities</li> <li>▶ Evaluate financial systems and control environment</li> <li>▶ Understand industry tax landscape</li> <li>▶ Provide access to risk assessments tools and methodologies.</li> </ul>	<ul style="list-style-type: none"> <li>▶ Facilitate introductions to the right parties</li> <li>▶ Educate on asset valuation methodologies</li> <li>▶ Consider management and equity incentivisation</li> <li>▶ Identify KPIs and assess reporting requirements.</li> </ul>	<ul style="list-style-type: none"> <li>▶ Act as advisor to manage bi-lateral or wider process</li> <li>▶ Finesse commercial and financial story</li> <li>▶ Identify preliminary areas of risk and opportunity</li> <li>▶ Revisit any findings from prior audit management letters</li> <li>▶ Assist with risk management (horizon scanning).</li> </ul>	<ul style="list-style-type: none"> <li>▶ Predict PE House positioning and areas of focus</li> <li>▶ Identify options to mitigate supplier risk</li> <li>▶ Consider likely deal structures</li> <li>▶ Assess tax position and potential incentives.</li> </ul>	<ul style="list-style-type: none"> <li>▶ Guide and support strategy</li> <li>▶ Undertake personal, financial and wellbeing check</li> <li>▶ Undertake a Data Analytics assessment and extent supports the value story</li> <li>▶ Adopt technologically driven solutions (eg finance and accounting tools).</li> </ul>	<ul style="list-style-type: none"> <li>▶ Benchmark valuation (eg market multiples)</li> <li>▶ Advise on exclusivity vs wider process and negotiate Heads of Terms</li> <li>▶ Compare alternative funding options (financial and structural)</li> <li>▶ Consider tax implications for vendor, management and company.</li> </ul>



## Phase 2

### Plotting the deal process ('Navigate')

#### Are you:

- ▶ Assessing an approach from Private Equity?
- ▶ Considering what financial information you need to provide?
- ▶ Requiring guidance in managing the transaction process?
- ▶ Considering appropriate sources of finance?

	Readiness assessment	Preparation	Marketing	Negotiation	Financing	Deal completion
Matters to address	<ul style="list-style-type: none"> <li>▶ Ensure business plan and strategic growth drivers are realistic</li> <li>▶ Present suitable financial metrics</li> <li>▶ Take account of assumed tax profile and capital structure.</li> </ul>	<ul style="list-style-type: none"> <li>▶ Develop investor shortlist and clarity over value story</li> <li>▶ Set up proposed acquisition and financing structure</li> <li>▶ Mandate and progress VDD materials.</li> </ul>	<ul style="list-style-type: none"> <li>▶ Hold investor meetings and address follow-on queries</li> <li>▶ Receive offers against a set timetable</li> <li>▶ Ensure DD analytically supports the articulated value story.</li> </ul>	<ul style="list-style-type: none"> <li>▶ Consider offers and share supplemental information</li> <li>▶ Outline management terms</li> <li>▶ Agree insurance in relation to the deal, including potential W&amp;I cover.</li> </ul>	<ul style="list-style-type: none"> <li>▶ Frame deal structure, including debt vs equity split</li> <li>▶ Determine covenant terms and need for compliance certificate</li> <li>▶ Understand funds flow implications.</li> </ul>	<ul style="list-style-type: none"> <li>▶ Ensure appropriate SPA wording and obtain tax approvals</li> <li>▶ Prepare post deal action plan</li> <li>▶ Consider acquisition accounting and audit tender requirements.</li> </ul>
BDO services & solutions	<ul style="list-style-type: none"> <li>▶ Validate growth strategy, including KPIs &amp; financial reporting</li> <li>▶ Prepare and/or stress test the business plan and financial model</li> <li>▶ Flag likely areas of tax challenge</li> <li>▶ Track performance improvement initiatives (such as working capital or cost reduction)</li> <li>▶ Run risk assessments, including supply chain and EU GDPR/UK GDPR compliance.</li> </ul>	<ul style="list-style-type: none"> <li>▶ Draft investor deck and consider merits of a debt staple</li> <li>▶ Prepare suite of VDD reports (eg Financial, Tax, Operational Cyber and Commercial)</li> <li>▶ Check basis of any historical share option valuations</li> <li>▶ Assess controls readiness and any internal resource constraints</li> <li>▶ Design of new operational models and structures (if appropriate).</li> </ul>	<ul style="list-style-type: none"> <li>▶ Prepare Information Memorandum and Teaser</li> <li>▶ Circulate VDD materials and hold meetings with potential investors</li> <li>▶ Provide comfort over integrity of financials</li> <li>▶ Provide third party assurance (eg vendor management)</li> <li>▶ Ascribe value to tax attributes.</li> </ul>	<ul style="list-style-type: none"> <li>▶ Develop a deal overlay with key returns analysis to allow offer comparability</li> <li>▶ Discuss SPA and what protections will be offered</li> <li>▶ Provide guidance on management incentivisation package</li> <li>▶ Guide on technical accounting challenges.</li> </ul>	<ul style="list-style-type: none"> <li>▶ Fulfil Debt Advisory role, including coordination and review of lender documentation</li> <li>▶ Support negotiations, agreement of heads of terms and deal structure</li> <li>▶ Advise on tax impact of structuring considerations</li> <li>▶ Seek audit view on covenant compliance.</li> </ul>	<ul style="list-style-type: none"> <li>▶ Assist documentation of transaction, including SPA review</li> <li>▶ Perform tax valuation of management equity</li> <li>▶ Support the finance team through a complex transaction</li> <li>▶ Plan purchase price allocation work</li> <li>▶ Deliver statutory audit services (PE specialist teams).</li> </ul>



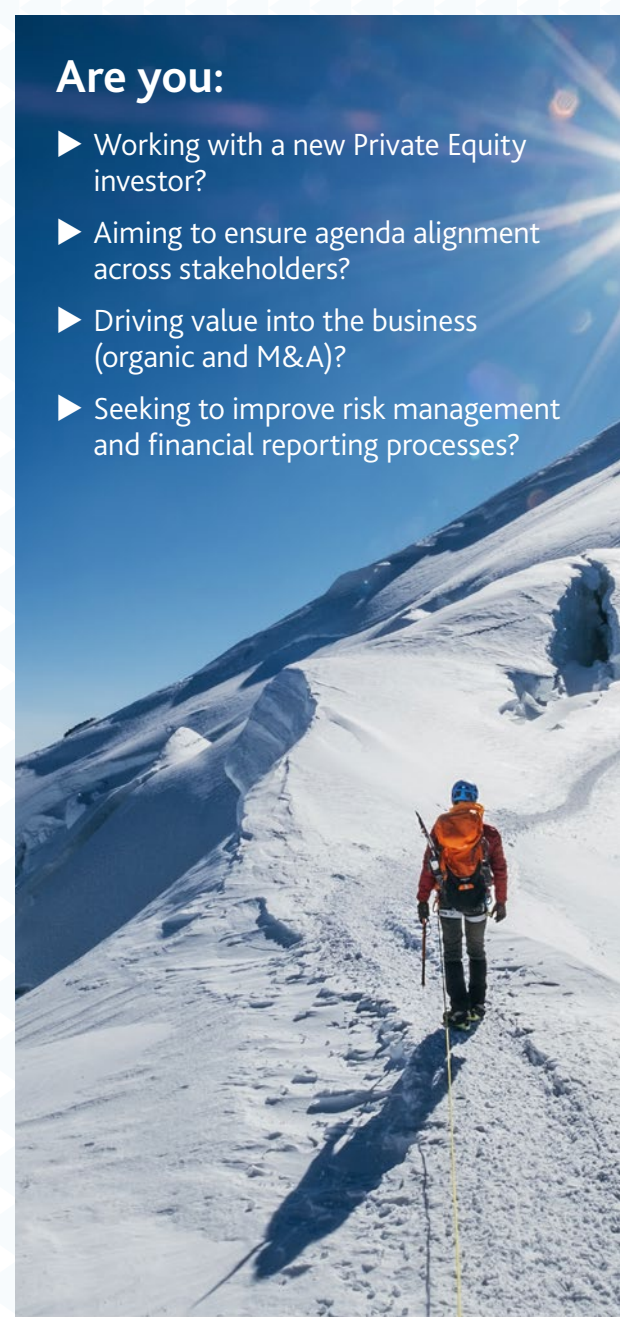
# Phase 3

## Delivering post deal growth ('Accelerate')

### Are you:

- ▶ Working with a new Private Equity investor?
- ▶ Aiming to ensure agenda alignment across stakeholders?
- ▶ Driving value into the business (organic and M&A)?
- ▶ Seeking to improve risk management and financial reporting processes?

	Agenda alignment	Financial environment	Platform	Team dynamics	Strategy roll-out	M&A potential
Matters to address	<ul style="list-style-type: none"> <li>▶ Align views on purpose &amp; intent and 100 Day Plan</li> <li>▶ Establish protocol around communication and roles of various stakeholders</li> <li>▶ Make a decision on audit firm and GAAP adoption.</li> </ul>	<ul style="list-style-type: none"> <li>▶ Consider post-completion issues, including refinement of financial information</li> <li>▶ Adapt budgeting and forecasting approach</li> <li>▶ Finalise governance and risk management protocols.</li> </ul>	<ul style="list-style-type: none"> <li>▶ Review IT systems and infrastructure</li> <li>▶ Strengthen finance team and organisation structure</li> <li>▶ Report on compliance with regulatory and accounting requirements.</li> </ul>	<ul style="list-style-type: none"> <li>▶ Consider leadership gaps and areas of board development</li> <li>▶ Review share option schemes</li> <li>▶ Develop recruitment and retention processes, including talent pipeline.</li> </ul>	<ul style="list-style-type: none"> <li>▶ Articulate organic growth drivers, including new market entry and proposition development</li> <li>▶ Improve operational and working capital approach</li> <li>▶ Consider accounting implications.</li> </ul>	<ul style="list-style-type: none"> <li>▶ Agree buy &amp; build strategy and identify opportunities</li> <li>▶ Assess potential for any non-core divestments</li> <li>▶ Formalise post-merger integration, including audit alignment.</li> </ul>
BDO services & solutions	<ul style="list-style-type: none"> <li>▶ Identify opportunities and support implementation of performance improvement initiatives</li> <li>▶ Programme manage delivery of the 100 Day Plan, including cyber assessment</li> <li>▶ Share views on pros and cons of different GAAPs</li> <li>▶ Modify outsourcing needs and financial reporting requirements</li> <li>▶ Provide risk management training and business continuity management advice (including governance reviews).</li> </ul>	<ul style="list-style-type: none"> <li>▶ Support with Finance Transformation projects</li> <li>▶ Lead a financial health-check and operations assessment, including contract and supplier management processes</li> <li>▶ Undertake PAYE &amp; VAT reviews for areas of opportunity</li> <li>▶ Identify areas of control environment improvement (including via IT and internal audit)</li> <li>▶ Provide internal audit and fraud training.</li> </ul>	<ul style="list-style-type: none"> <li>▶ Identify financial restructuring and business transformation opportunities</li> <li>▶ Perform IT assessment on systems, including privacy managed services ad ERM tools</li> <li>▶ Identify potential corporate structure matters which may impact value extraction.</li> <li>▶ Defined the new operating models (TOM)</li> <li>▶ Assess potential for tax incentives (eg R&amp;D tax credits).</li> </ul>	<ul style="list-style-type: none"> <li>▶ Create bespoke strategies to ensure management/ shareholder alignment</li> <li>▶ Benchmark existing remuneration model</li> <li>▶ Provide view of productivity measures and optimisation of back office functions</li> <li>▶ Guide over accounting for share options</li> <li>▶ Provide cyber and privacy training.</li> </ul>	<ul style="list-style-type: none"> <li>▶ Provide operational, liquidity (working capital) and value creation services</li> <li>▶ Conduct review to stress test existing strategy</li> <li>▶ Frame tax implications of any strategic shift (eg move to new territories)</li> <li>▶ Undertake third party assurance to support new market entry.</li> </ul>	<ul style="list-style-type: none"> <li>▶ Introduce potential M&amp;A targets</li> <li>▶ Provide bolt-on DD and tax structuring support</li> <li>▶ Support identification and delivery of post-merger integration synergies</li> <li>▶ Provide accounting guidance for bolt on acquisitions &amp; any hive up of trade/assets.</li> </ul>



# Phase 4

## Managing the exit process ('Realise')

### Are you:

- ▶ Likely to go through a capital event over next two years?
- ▶ Formalising an exit preparation approach?
- ▶ Looking for opportunities to enhance operational effectiveness?
- ▶ Refining your value story and strategic approach?

	Decision to sell	Identify buyer community	Timing assessment	Controlled process	Competitive tension	Successful exit
Matters to address	<ul style="list-style-type: none"> <li>▶ Gauge macro environment and underlying business growth</li> <li>▶ Consider level of inbound enquiries and stage of PE Fund cycle</li> <li>▶ Formulate persuasive equity story.</li> </ul>	<ul style="list-style-type: none"> <li>▶ Evaluate basis of the transaction</li> <li>▶ Identify likely interested parties based on strategic fit</li> <li>▶ Gauge levels of PE, trade and international interest.</li> </ul>	<ul style="list-style-type: none"> <li>▶ Assess transaction readiness, including articulated value story and market specific factors</li> <li>▶ Establish views on valuation range</li> <li>▶ Formalise operational plan, such as succession planning.</li> </ul>	<ul style="list-style-type: none"> <li>▶ Prepare supportable business plan and financials, including risks &amp; upsides</li> <li>▶ Mandate VDD materials (or reporting accountant for IPO)</li> <li>▶ Offer management presentations to select interested parties.</li> </ul>	<ul style="list-style-type: none"> <li>▶ Reiterate key messages and avoid surprises</li> <li>▶ Control access to management and maintain timetable discipline</li> <li>▶ Develop staple financing options.</li> </ul>	<ul style="list-style-type: none"> <li>▶ Negotiate final offers</li> <li>▶ Seek optimal deal structure</li> <li>▶ Minimise risk of tax liability arising for management and/or investors.</li> </ul>
BDO services & solutions	<ul style="list-style-type: none"> <li>▶ Engage as M&amp;A adviser, including views on optimal timing for a capital event</li> <li>▶ Run Exit Readiness session, incl exit route options (eg IPO vs PE vs trade)</li> <li>▶ Conduct pre-exit performance improvement programme</li> <li>▶ Mitigate data, cyber, privacy risk through assessments</li> <li>▶ Perform tax planning and corporate structure assessment.</li> </ul>	<ul style="list-style-type: none"> <li>▶ Undertake global buyer search</li> <li>▶ Assess eligibility for an IPO exit (if a potential option)</li> <li>▶ Comment on areas of potential KPI refinement</li> <li>▶ Articulate impact of any GAAP conversion issues</li> <li>▶ Advise on FRP – controls environment.</li> </ul>	<ul style="list-style-type: none"> <li>▶ Benchmark valuation based on M&amp;A market knowledge</li> <li>▶ Undertake assessment of digital platform and control environment</li> <li>▶ Identify areas of potential operating efficiency</li> <li>▶ Review of cyber process and data systems, including remediation plan</li> <li>▶ Advise on the structure of any transaction.</li> </ul>	<ul style="list-style-type: none"> <li>▶ Ensure operating model is suitable for a sale (or IPO) process</li> <li>▶ Fulfil M&amp;A role to manage the deal process</li> <li>▶ Prepare suite of VDD services (Financial, Tax, Operational and Commercial)</li> <li>▶ Implement a new or upgraded sustainable ERP/finance function.</li> </ul>	<ul style="list-style-type: none"> <li>▶ Manage interactions, including diverse buyer pool and management interaction</li> <li>▶ Frame any key transitional arrangements</li> <li>▶ Fulfil Debt Advisory role</li> <li>▶ Consider personal tax advice for vendor and management team.</li> </ul>	<ul style="list-style-type: none"> <li>▶ Assist documentation of transaction, incl SPA review</li> <li>▶ Prepare Locked Box Paper or completion accounts as appropriate</li> <li>▶ Perform tax valuation of management equity</li> <li>▶ Collate information required for tax reporting for investors and management.</li> </ul>

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