



Management Buyout

How to extract value from your business

**JACKSON
STEPHEN**
ACCOUNTANTS / ADVISERS

A REAL ASSET

How to extract value from your business

There eventually comes a time when business owners are ready to step out of their business. This could be for retirement or because the owners want to pursue alternative interests. The mechanism to achieve this usually involves either selling the business or passing it on to the next generation.

There are also situations where it may not be possible to sell the business, for example where the business is too reliant on one key customer or supplier or where there is no recurring revenue stream.

In other cases there may not be any family members to pass the business on to or perhaps the family do not wish to be involved in the business.

In these situations it may be worth considering selling your business to the management team in what is known as a Management Buy-Out or MBO. There are various ways of doing this, for example:

- The owners sell all or the majority of their shares to the management team on deferred terms
- The management team obtain funding to buy out all or the majority of the owners shares
- Bring in Private Equity investors alongside the management team to part fund the buy-out
- Do a phased buy-out – part now and the rest after a few years

The owners usually stay involved in the business for a period of time after the MBO has taken place in order to facilitate a smooth hand over to management. During this time the owners can continue to receive a salary and if some shares have been retained it may be possible to take dividends as well.

Tax and Structure

With careful planning an MBO can be structured tax efficiently so that the business owners can claim Entrepreneurs' Relief on the sale of their shares to management and only pay 10% capital gains tax.

Valuation

We can prepare a valuation of the business using accepted valuation methodologies to form the basis of negotiations between the owners and management.

Funding

If it is decided that management require funding to complete the MBO, we have relationships with a number of funders who specialise in this type of transaction.

Affordability

Once a price has been agreed we can prepare profit forecasts and cash flow projections to prove whether the transaction is affordable to management. This information will also be required before approaching any funders.

Legal advice

The owners and management will require legal advice in relation to an MBO transaction. This will involve the preparation of all appropriate legal documents and advice to the management team to ensure they understand their obligations and responsibilities.

If you are a business owner and you would like to discuss planning for an MBO in more detail and explore the opportunities for your exit, please contact our Tax Partner, Steve Crompton, on the details below to arrange an informal meeting.

STEVE CROMPTON

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