



Management Buy-Out (MBO) Transaction

Commercial Legal Services

Sector:	Leisure, Tourism and Property Company
Enterprise Size:	R100m+
Project Duration:	24 months

Introduction

Addison Comline have undertaken numerous Management Buy-Out (MBO) transactions and have developed some unique transaction structures in this regard.

Our structures provide an effective mechanism for management/ next generation owners to purchase shares in the company they work for. The benefits of the structures are directly dependent on the growth in earnings of the company concerned. This avoids a problem which frequently occurs under share purchase and share option schemes in which the participants can benefit from stock market fluctuations and share price movements which have no direct linkage to the company's underlying profit performance (or, conversely, they can be penalised by adverse general stock market conditions, despite good profit growth). It also caters for succession planning considerations where a founder shareholder wishes to align the interests of new prospective owners with the overall performance of the business.

We have developed the structure for SA companies, so, the tax and corporate structures are in line with our laws and regs. There remains an overlap and consistency given double-taxation structures between South Africa and the broader African nations.

The structure has particular benefit for a tightly controlled enterprise (e.g. family businesses) looking for an efficient succession planning tool. Getting ownership into the hands of management (or children) can be a painstaking and expensive affair. This solves much of the issues in the process by creating alignment and value-added approach to succession. Having a professional alongside can also help diffuse the tension created through this process. We were approached to structure a succession planning transaction with established businesses.

These transactions are particularly suited for businesses that are bankable and likely to be valued in excess of R100m+.

Objective

- Develop strategy in collaboration with the client.
- Scoping Session
- Draft Agreement
- 'Designated Officer' service
- Verify allocation of slices
- Facilitate a quarterly meeting between participants to resolve any matters arising between meetings that require a formal meeting.
- Manage the dispute resolution process
- Provide independent advice and consultation on an ad hoc basis.
- Act as a second level of mediation should AL and FB be unable to resolve a matter between participants.
- Close-out' the Framework

Our approach

We performed a full business assessment that included analysis and suggestions related to operations, finance and risk environments.

Work performed

Our assessment tool enables us to understand the business owner and business better. Our assessment covers 5 core areas of every business:

1. Investment & financial performance
2. Business development, marketing and sales initiatives
3. Processes, internal capacity and compliance
4. People, teams, management and organisational development
5. Innovation, R&D and new business initiatives

We established:

1. The current health of the business
2. What you should be doing to increase revenue, reduce risk and improve profitability.
3. Improve the organisation, business value and the success of the team.

Outcomes achieved

Due to the hugely efficient nature of accelerated participation and the low entry cost, the benefit of this structure, as compared to other current schemes, include:

- Creating value for participants and the company.
- Goals of management and shareholders are aligned from the outset.
- Provides a long-term incentive for management.
- Shares are capital in nature from the outset.
- Flexible for new participants and early departures.
- Easy & cost effective to understand and administer for accounting and compliance.
- Tax consequences are clearly understood & beneficial.
- Reviewed by two independent tax advisors.
- Low entry value for participants.

Client feedback

“ We highly recommend AddisonComline to business owners that are looking for strategic advice regarding a transaction or corporate restructuring process that will result in the best possible outcome for the business. We had a seasoned business advisor work with us to understand the complexity of transactions and how the world of corporate finance works. ”

For further insights and our services or visit www.addisoncomline.co.za

About Addison Comline

Addison Comline provides insight, advice and direction to senior executives, business owners and shareholders with an emphasis on high-impact, value-enhancing work that is clearly understood and supported by our clients. Our services include corporate finance, legal and business-owner solutions, for example share structures, incentive structuring and succession plans. Our custom designed solutions help clients achieve their business and financial goals.

Areas of expertise

Corporate finance

Providing access to funding sources, capital structuring solutions and enhancing investment decisions.

Legal services

Corporate & commercial legal services including contractual negotiation, drafting, vetting and management; M&A transactions; corporate structuring and corporate finance; private equity & Financial transactions; personal client estate structuring and wealth management and corporate governance.

Business-owner solutions and services

Advice, assistance and help for entrepreneurs and owners of business who require specialist solutions to enhance and realise sustainable value within their enterprise as well as for themselves.

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