

EXIT PREP: INSIGHTS INTERVIEW



This month, we've sat down with Zack Goddard, who is a Partner in Clearwater's Industrials & Chemicals team, having joined Clearwater in 2017. He is part of the Manchester M&A team, where he leads the firm's UK efforts within the specialist Industrial and Infrastructure Services market.

Clearwater is an independent Corporate Finance firm focused on unlocking the potential in every business. With a team of over 475 professionals across 20 international offices, we bring deep expertise and global reach to every assignment. Working alongside directors, shareholders and investors, we advise on the full range of corporate finance activities, including M&A, company sales, management buy-outs and fundraising.



WHEN FOUNDERS AND MANAGEMENT TEAMS BEGIN THINKING ABOUT AN EXIT OR LIQUIDITY EVENT, WHAT ARE THE MOST COMMON MISCONCEPTIONS YOU SEE AROUND PRIVATE EQUITY VERSUS A TRADE SALE?

"Sometimes there can be a misconception that if you want the best valuation in a process, that will come from a strategic trade buyer. Of course this can be the case, but we regularly see Private Equity (PE) coming out on top in terms of valuation and deliverability. With an increasing number of "thematic" investors in the market and a shortage of high-quality assets, when they find an asset that fits their investment strategy, they can often pay a premium price and execute quickly.

There is also sometimes an expectation that if you sell to trade, shareholders get 100% of their cash on day 1 and can exit at completion or shortly after. We are increasingly seeing trade buyers (particularly PE-backed platforms) requiring management succession in the same way an institutional investor is likely to need. Therefore, early succession planning and recruitment is often a key feature of our pre-preparation workstreams with clients."

WHAT ARE THE KEY FACTORS THAT SHOULD SHAPE THE DECISION BETWEEN A PRIVATE EQUITY TRANSACTION AND A TRADE SALE, PARTICULARLY FOR MANAGEMENT TEAMS ALREADY OPERATING WITHIN A PE-BACKED ENVIRONMENT?

"It's important to consider a range of factors. Clearly valuation is important in all transactions but other factors such as deliverability, cultural fit, sector expertise, future growth strategy, ongoing incentivisation, cash out levels, legal terms etc. all need consideration.

However, I think the main thing that management teams need to be comfortable with going into a PE investment is the ongoing commitment to work in partnership with an investor to grow the business and deliver a future return. It is important to ensure alignment from the outset and confirm there is a commitment and confidence from the ongoing senior team to deliver the plan that has been presented to investors."

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HOW IS THE CURRENT MARKET INFLUENCING THE DECISION BETWEEN PRIVATE EQUITY AND TRADE BUYERS, AND ARE YOU SEEING ANY NOTABLE SHIFTS IN APPROACH?

"We have been experiencing a volatile macro-economic and geopolitical environment for several years, particularly since Covid with tax incentives to keep businesses under family ownership also becoming increasingly unattractive for many. As a result, we are seeing more business owners considering de-risking events. This backdrop is creating more opportunities for PE to come in and provide partial cash out to shareholders whilst backing management teams to deliver exciting growth plans."

WHAT SHOULD BUSINESSES BE DOING 12-24 MONTHS AHEAD OF A TRANSACTION TO ENSURE THEY ARE WELL POSITIONED, BOTH OPERATIONALLY AND FROM A LEADERSHIP PERSPECTIVE?

"Succession planning is something that should be addressed early. As a shareholder group or senior management team, having open discussions around objectives and time commitments can allow for future planning and recruitment. Going into a sale process with a complete management solution creates good optionality whether it is a trade or Private Equity deal and if individuals are seeking an exit in the short term, having a plan for replacements and a succession story that can be clearly articulated is important.

We are also seeing an ever-increasing focus on data. Consider early creation of a detailed financial model and data cube to not only improve internal reporting but also create a good track record of historical data that can be utilised in a process."

IN YOUR EXPERIENCE, WHERE DO FOUNDERS AND MANAGEMENT TEAMS MOST OFTEN GET THINGS WRONG, AND WHAT ADVICE WOULD YOU GIVE EARLY IN THE PROCESS?

"Once shareholders have made the decision to embark on a transaction, naturally most then want to get it done quickly. However, we often spend a lot of time in the preparation phase, ensuring no stone is left unturned and the business is as well prepared as possible for a process. This can become frustrating for clients, but it allows the actual "in market" part of the process to run quickly and allows us to maintain momentum and maximise competitive tension.

We also encourage shareholders to remain open to a variety of options including different types of investors. Shareholder objectives can often change throughout a process so ensuring optionality is maintained for as long as possible is also sensible to ensure certain exit routes are not dismissed too early. We often see clients going into a process thinking they would never do a Private Equity deal but once they have met a few funds and see the potential future value creation opportunity, their objectives and preference can change."

*For further discussion around the insights shared above, or to learn more about how Clearwater supports businesses and investors, please contact Zack on: zack.goddard@clearwatercf.com.

