

Private Equity Insight

Sale & Investment



Private Equity's investment of private capital into businesses, whether on a full or partial buy-out basis, has enjoyed exceptional success and there is now more than £2.3 trillion of funds in Europe alone looking to either invest in, or purchase outright, emerging, mid-market businesses. A key to the success is Private Equity's high yield when other asset classes have floundered - but how have they achieved this?

Much has been said about their ability to leverage financing, but their success in steering businesses through rapid scale-ups has been of key importance and something that trade buyers, who integrate companies, can rarely deliver.

This means that seeking Private Equity investment today may be a better sale option than a trade sale. This is particularly true when sellers retain an interest and have the option to elevate the retained stake, potentially five times or more, as the capital injected into the venture catapults latent growth. Superabundant capital can be like rocket fuel for the right ventures.

Private Equity is both admired and misunderstood in equal measures. If you are looking at a sale or investment in your business, is Private Equity an option and could it be the right solution for you? We can share some of our thoughts on this.

*"Private Equity
is part of
the post-
pandemic
solution to
drive growth
for emerging
mid-market
businesses."*

Avondale

"I am delighted and excited for the Tyrefix team, as I believe that with the support of Literacy Capital, the business will now have the resources required to capitalise on the significant growth opportunities available."

Adrian Johnson
Chairman, Tyrefix

The rise and rise of the elevator deal

An elevator deal is a majority Private Equity sale where the owners retain a stake, with the prospect of a secondary sale - typically at triple or more value. This is often used by retiring sellers, but also by some entrepreneurs looking to de-risk whilst bringing in both Private Equity capital and the know-how to enable growth and scale-up strategy.

Many emerging, mid-market businesses are held back by owners having all their investment on the line. An elevator sale changes the ownership and brings in value-added expertise to enable the scale-up. Such deals have a proven track-record, particularly amongst added-value Private Equity firms. 2020 was the first year that Avondale completed more elevator deals than trade. This was driven, in particular, by the pandemic, but also by owners focusing on the merits of these deal structures and the future benefits. The initial sale provides them with financial and time wealth, but they also get to participate in the onward journey, typically as an investor, and sometimes as the CEO, to see how their business grows with capital behind it.

Sale and investment hits the road

Tyrefix-UK
PLANT TYRE SERVICES NATIONWIDE



Tyrefix Plant Tyres (UK) Ltd ("Tyrefix"), a family-owned provider of emergency tyre repair and replacement services for plant equipment across the UK was sold as a platform investment to Literacy Capital in an elevator deal, with the family retaining a stake in the business. Headquartered near Leicester, the business was established over 34 years ago by husband and wife, Adrian and Diane Johnson, and is run on a day-to-day basis by their son, Oliver Johnson. The founders will be retiring as part of the transaction, and Oliver will remain CEO and become a shareholder for the first time.

Tyrefix has established an excellent reputation over the years and is well positioned for scale-up. The company's fast-response service minimises downtime on-site from tyre damage for customers and provides assurance that equipment adheres to health and safety regulatory standards. Tony Buffin joins the board as a Non-Executive Director and brings six years' of relevant experience from his role as Group COO and CFO of Travis Perkins Plc between 2013 and 2019. A new CFO role has also been created. Tyrefix will focus on growth in existing markets, identifying opportunities for expansion into adjacent markets and further professionalising the operations. Literacy Capital is the investment vehicle run by Paul Pindar, one of the UK's leading entrepreneurs and CEOs, and a founder of Capita. Avondale were lead advisors.

What is Private Equity?

Private Equity – the term can refer to an individual's or family office's wealth being used to make acquisitions, but more typically it is used in relation to more specialist 'partnership firms' which collectively, via both high net worth individuals and institutional investors, raise 'funds'. Limited partners invest their money into funds that the general partners of the Private Equity firm use to buy companies. The aim of Private Equity is to seek to maximise the growth and profitability of the acquired companies over five or more years, for example, and ideally to secure a future sale at three to five times the initial purchase price (minus debt taken), to get a return for themselves and their investors.

Private Equity bring capital, financial expertise and corporate acumen. They almost always seek to retain the management team and often the founders for continuity and industry expertise, usually with these parties retaining a stake to gain further value on the second exit. Private Equity works well for high-growth potential businesses that need capital to expand. With access to capital, they will often add 'bolt-on' acquisitions to further accelerate growth and value, something that most private companies do not do. However, some good trade buyers may also be Private Equity-led by nature of their own shareholding.

Superabundant Capital is the Rocket Fuel for business scale-up.

There is £2.3 trillion of funds in Europe looking for companies to acquire/invest in.

Private Equity now accounts for nearly a third of all M&A (source Pitchbook).

Should I sell to Private Equity?

Are you an emerging mid-market business? That is, do you have forecastable, reliable profit earnings in excess of £500,000 (adjusting for the pandemic)?



Do you have a strong management team that can scale-up the business - perhaps in a fragmented sector that is ripe for acquisitions?



Do you want to de-risk before going for growth and would capital accelerate growth?



Are you and your team willing to be challenged, and prepared to accept deep fiscal and management discipline?



The fall towards almost negative interest rates may drive up valuations as 'survivor' companies become more attractive - but also as Private Equity value an entry into scale-up growth markets.

The Myth versus The Reality

With so much private money looking for yield, Private Equity is becoming an increasingly attractive option. However, there is scepticism from entrepreneurs about the 'suits and spread-sheets' perception - but is this justified?

Does Private Equity really drive growth?

A typical Private Equity cycle of ownership sees them seeking to achieve a return of two or more times the initial investment on a sale three to seven years after purchase. This means Private Equity is effectively the property developer of the company world - they develop, then realise. With low yields in other asset classes, some investors are keen to hold these assets for longer - patient capital. In this respect they could be compared to property developers turned 'buy-to-let' landlords. Sticking with this analogy, you have good landlords and good developers and so it is with Private Equity. Some only focus on the bottom line and see your business as a cash-point machine but in such a competitive world, most Private Equity firms have learnt that the leveraged and driven model is not enough. They understand that they must add value in ideas, contacts, innovation and contribution. Capital, of course, also helps to drive growth for new products, territories and acquisitions and as such is the fuel that "fires up" growth. Without it, reaching that next level is a real challenge, or it takes too long and the opportunity is missed. Combining capital investment with the right management team, Private Equity create a joint vision on change, capability and ambition.

What will change?

There is inevitable change, whether you sell to a trade buyer or Private Equity. If you are exiting completely, this may not be relevant to you, but if you are going to have some continued involvement in the business, retain some equity or perhaps you are just concerned about the staff and the legacy you leave behind, this inevitable change is a point to consider. A trade sale could create opportunities for you and your staff within the wider organisation. It might also enable access to new markets and customers, and/or new territories. On the flip side, trade buyers will commonly look for economies of scale and human resources is an easy target. There will probably be cultural differences between the two organisations that need to be managed and these can be difficult and complex. Equally, the need to integrate systems and a the potential loss of the business's brand and identity should also be considered amongst many other aspects. Increasingly, Private Equity will build a management team that supports change where appropriate.

How do PE firms see Covid-19?

All Private Equity houses we have spoken to since the crisis began, see Covid-19 as another factor to consider in the overall economic lifecycle, but that is all. Of course, the correlating economic drag does impact them, particularly those with mature portfolios, where managing and maintaining assets will be high on the list. Nonetheless, with funds raised, capital deployment is their method of wealth creation and therefore Private Equity will continue to invest, particularly in sectors that prove resilient. The fall towards almost negative interest rates may drive up valuations as 'survivor' companies become more attractive. The price that investors will pay for a share of a company's profits is only partly determined by the level of profits today - the potential growth run-rate is also critical. For both sides, satisfaction is not attained through doing deals, nor simply in the accumulation of assets. It is built around relationships which lead to an enriched experience as well as return. If you are considering a full or partial exit, Private Equity might be a good strategy and can be explored alongside trade options.

Is it better to own 100% of a company worth £10 million or de-risk and own 30% of a company worth £50 million? Larger companies nearly always trade at greater multiples of earnings than smaller ones. Hence why so many Private Equity firms are keen on acquisitions or 'bolt-ons' to create scale. Private Equity corporate governance and re-positioning of a business can also bolster value.

North Downs
specialist referrals



The directors of NDSR decided to sell their highly successful veterinary practice. Avondale assisted in both preparing the business for sale and leading the deal. A multitude of bids was secured but the best match was with Private Equity group, Sovereign Capital and Willow's, a veterinary group. This resulted in both investment and a sale. The NDSR's directors were delighted with the outcome as the directors all retained shares in the new business and continued to work to maximise its potential, aided by the new investor/acquirer. The business has since exceeded all expectations for growth, generating an extraordinary 700% uplift in the company's EBITDA and providing a significant increase in share value.

"Professional and approachable. A great team to work with."

Myra Forster-van Hijfte
Director NDSR

Avondale

Avondale is a leading business advisor that helps ambitious owners and management realise value and secure investment to buy or sell companies, or scale-up with Private Equity. Audacious, authentic and ambitious partners.

av@avondale.co.uk

+44 (0)207 328 7837

Minority investments can only be introduced to certified sophisticated investors; a person who meets the requirements set out in article 23 of the promotion of Collective Investment Schemes Order, in article 50 of the Financial Promotions Order, or to Private Equity investors regulated by the FCA.