

## 8. Growth and Exit routes

- New markets: horizontal and vertical expansion
- Problems of growth; second system effects
- Communication
- Exit routes: acquisition, floatation, MBO or liquidation.
- Places to look for new enterprises
- Conclusion: now you do it!

# New markets

- Horizontal

- Similar products or services
- New Customers
  - Geographical/Export
  - New application area
  - New pricing

- Vertical

- New products or services
- Similar customers
  - New model
  - Vertical integration

# Problems of growth

- Communication
- Control and Monitoring
- Structural change; different skills, people
- Formalisation
- Cash
- Second system effects

# Communication

- Formal channels
- Charters
- Newsletters
- Company meetings and informal events
- Needs conscious effort: company culture

# Management structures

- Groups and sub-groups
- Charters
- Reporting structures

# Exit routes

- Acquisition
  - Trade sale
- Floatation
  - Sell to the public
- MBO
  - Sell to the staff
- Liquidation
  - Sell the assets

# Acquisition

- Natural process
  - Wildflower model
  - Forced sale
- Marriage
  - Doesn't happen quickly
  - Courtship
    - Selling the company as a product
    - Pre-nuptial relationship
      - Distributor/customer
      - JV
      - Competitor
  - Tying the knot
    - Due diligence
  - Clergy
    - Lawyers. Bankers, accountants
    - M&A
  - Honeymoon
    - Learning to live together
    - Culture clash
    - Rationalisations
    - Lock-ins

# How much is it worth? Valuation

- Asset value
- NPV of profitability
- DCF
- Utility
- Comparison with other similar
- Market value
- Probabilistic methods
  - Matrix
  - Black Scholes
- Paper vs Cash
- Lock-in periods



# Floatation

- Sale of shares to the public
  - Primary market
  - Highly regulated
    - Potential for fraud
    - Expensive – about £1M minimum
    - Get advise!
      - Underwriter
- Admittance to an exchange
  - Listing: admitted to the Official List (UK: LSE)
  - Public trade shares between each other
  - Secondary market
  - Usually immediately following primary market
  - Market maker
- Primarily for raising capital
  - £5-£10m
  - Valuation for the company
  - Capital raising
  - Exit for founders and investors
    - Lock-in

# Management Buy-out

- MBO
  - Buy-out
    - Variants
- Easier to fund
  - Existing cash flow, staff, customers etc
  - Easier to value
- Mature company
  - New blood

# Liquidation

- Voluntary
  - Stop trading
  - Asset sale
    - Not usually as valuable as going concern
    - Except for Asset Stripping opportunities
  - Distribute proceeds
- Compulsory
  - e.g failing to pay the taxman
  - Bankruptcy
    - Illegal to trade if insolvent
    - Receiver and Directors accountable to Creditors (not shareholders)
    - Half-way houses:
      - Bankruptcy (insolvency) need not force liquidation
      - Administration (US Chapter 11)
      - Creditors arrangement – talk to them
    - Bank guarantees
      - Arrangement
      - Talk to them EARLY

# Managing Traumatic Change

Exits and M&A are traumatic times within the company. Change counsellors recognise four stages:

- Denial
  - Need information: who, what, when
- Anger
  - Needs sympathetic hearing
  - Safe environment
- Resignation
  - Needs information and planning
  - Small steps, quick wins
- Acceptance

# Watch Points - a personal list

- Internet and Digital TV evolution
- Civil liberties: Identity, privacy, censorship, ownership, dark web etc
- Intelligent agents (e.g EPG)
- Electronic currency
- PDA's/ Cell phones - what personal systems we will all be carrying or wearing?
  - GPRS, 3G, 4G, LTE+ vs wifi
- Voice recognition
  - Wristwatch systems/glasses/wrist bands
  - Tactile interfaces
- Embedded and SoHo systems
  - Cars now have more compute power on-board than the moon lander
  - Home networks/Internet of Things (Taxonomy?)
- Reversion to local data
  - “Personal server”

# Conclusion

- Building the future
  - Social Responsibility
- Generation of Wealth
- Generation of employment
- Now you do it!
- <http://www.camring.ucam.org/>