

# Business Studies

## L8 - Growth and Exit Routes

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## 8. Growth and Exit routes

New markets: horizontal and vertical

Problems of growth; second system effects

Communication

Exit routes: M&A, IPO, MBO or liquidation

Places to look for new enterprises

Conclusion; over to you!

# New markets

## Horizontal

- Similar products or services
- New Customers
  - Geographical, application, pricing

## Vertical

- New products or services
  - New model, vertical integration
- Similar Customers

# 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

- Sell to another company

Floatation

- Sell to the public

Management Buy Out

- 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 process
- Clergy - lawyers, bankers, accountants, M&A specialists
- Honeymoon - learning to live together, culture clash, rationalisations, lock in



# Valuation - how much is it worth?

Asset value

NPV of profitability

DCF

Utility

Comparison with similar

Market value

Probabilistic methods - matrix, black scholes

Paper vs Cash

Lock-in periods

# Flootation

Sales of shares to the public

- Primary Market
- Highly regulated
  - Potential for fraud
  - Expensive
  - Get advise!
    - undewriter

# Floataction II

Sales of shares to the public

Admittance to an exchange

Primarily for raising capital

# Floatation III

Primarily for raising capital

- £10m +
- Valuation of 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

# Liquidation II

## 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)
    - Creditor 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

- need sympathetic hearing
- safe environment

## Resignation

- needs information and planning
- small steps, quick wins

## Acceptance



# Where to look for startup ideas?

## Jack's list

- Internet and Digital TV evolution
- Civil liberties: identity, privacy, censorship, ownership, dark web, etc
- Intelligent agents (e.g. EPG)
- PDA's / Cell phones
- Electronic currency
- Voice recognition
- Embedded and SoHo systems
- Reversion to local data
- 3D & AR

# Conclusion

Building the future - social responsibility

Generation of Wealth

Generation of employment

Now you do it

<http://www.camring.ucam.org>