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
Floatation

Sales of shares to the public
- Primary Market

- Highly regulated
  - Potential for fraud
  - Expensive
  - Get advise!
  - underwriter
Floatation 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