

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
- Civil liberties: Identity, privacy, censorship, ownership etc
- Intelligent agents (e.g EPG)
- PDA's/ Cell phones - what personal systems we will all be carrying?
 - GPRS, 3G
- 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
- 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/>