

Business Studies

L8 - Growth and Exit Routes

Jack Lang and Stewart McTavish

jal1

sam56

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!
 - undewriter

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

Kübler-Ross model - 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

https://en.wikipedia.org/wiki/Elisabeth_Kübler-Ross

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>

<http://www.cue.org.uk>

<http://www.cutec.org>

<http://www.enterprisenetwork.group.cam.ac.uk>

Feedback !!!!!