

IDEAS | PEOPLE | TRUST

Private Equity

Prepare for Private Equity Investment

DEMYSTIFY

NAVIGATE

ACCELERATE

REALISE

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BDO – Navigate

Many of the world's most successful companies rely on their founder's entrepreneurial spirit, ambition and investment.



However, there may come a time when outside capital is needed to finance further expansionary growth, execute a full or partial exit for owners, or optimise their capital structure. A business faces three major considerations when selecting an appropriate source of finance:

- ▶ What is the business looking to achieve with the investment monies?
- ▶ How much investment is required?
- ▶ Which external sources should it be raised from and in which form – debt or equity?

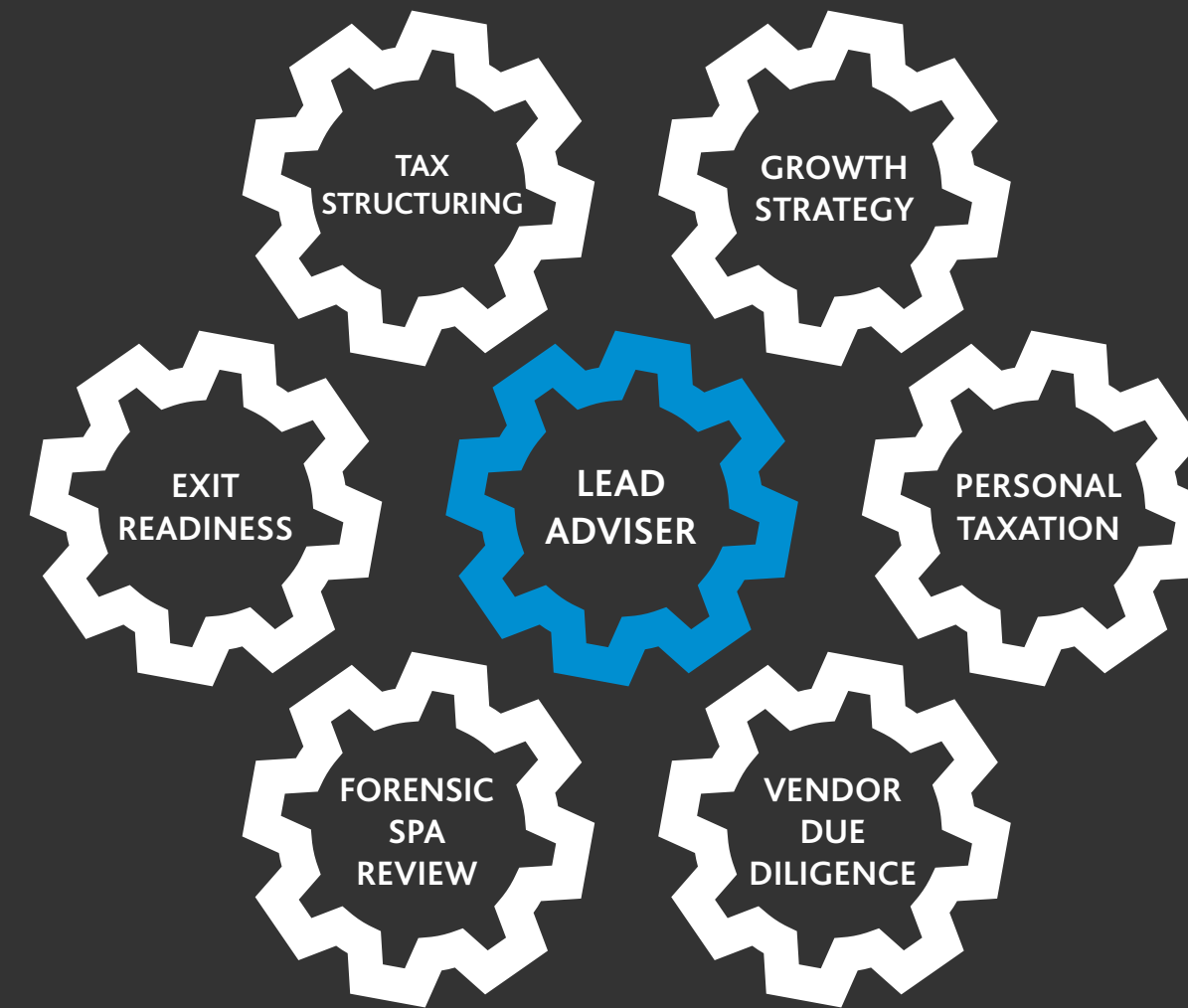
Many successful businesses looking to accelerate growth arrive at this crossroad and, whilst access to finance may not be a challenge, identifying the right partner to work with can be. That's why BDO has created this programme to help ambitious businesses thrive under Private Equity ownership.

Following on from Demystify, Navigate offers a roadmap for this complex and time intensive investment process.

Our commitment to the entrepreneur is founded in our heritage, we are passionate about supporting the entrepreneurially spirited businesses.

All too often we see situations where management teams have closed sub-optimal deals that lack alignment and where something is out of balance. We use our understanding of this market, Private Equity experience and the power of collaboration from across our firm to help businesses and their owners realise their full potential.

The BDO difference: Integrated advice & service aligned to your needs



Private Equity universe

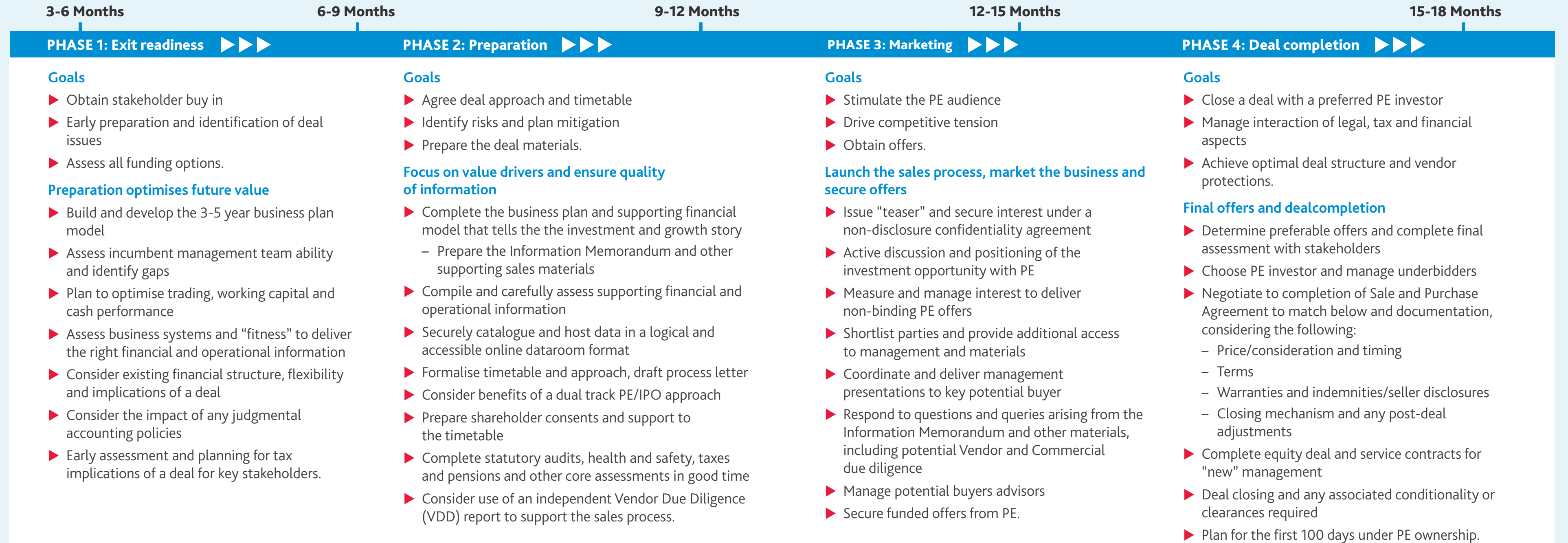
For private companies seeking to grow their business, the quandary of choice can make the first step of identifying potential investors complex. It is essential that your advisers work closely with you to understand your aspirations and to help navigate you to the right investment house.

Private Equity Investor type	Venture capital	Development capital	Family office	Sector specialists	Regional specialists	"Mid market" specialists	Buy and build	Operational / transformational specialists	International inbound
Investor description	Seed or early stage, often seeks to sector specialise as investments are ordinarily pre-profitability, or even revenue	Later stage, growth investors. Includes regional governmental or pseudo-government agency investment	Investment office of one or more High Net Worth individual(s) and associated family. Focus is on diversification and reinvestment of wealth into a range of asset classes, which frequently includes Private Equity-type investment	Focus on key growth sectors as core investment hypothesis	Regionally originated houses focused on specific geographies and regional industries	Active core of houses seeking transactions with a broad range of Enterprise Values in the UK	A subset of the mid-market, focusing on the acquisition of core "platform investments" upon which additional bolt-on acquisitions will follow	Seeking to transform suboptimal or underperforming businesses, which will typically be acquired at lower valuations	Overseas investors seeking acquisitions in UK
Investment style	Minority investor, backing a management team and the development of valued Intellectual Property	Minority investor with certain key minority control rights. Passive investment style	Both active and passive investor via majority and minority stakes in multiple business that are typically held for a longer period than other institutional investors. Often focussed on investment in sectors and businesses familiar to the underlying family	Use of activist sector experts to drive strategy and target specific acquisition targets	Local industrial knowledge and connections. Leverage local networks and relationships	Focus on deploying target levels of investment capital per deal in attractive businesses. Will require control.	Use of industry experts arbitrating combination synergies and knowledge of sectors	Use of operating partners to deliver transformational change, often including enhancement of management teams	Seeking complementary investments or geographic foothold in UK business environment

Plotting the investment process

Entering into a Private Equity (PE) investment is an exciting but all-consuming experience. BDO's collaborative and dedicated Private Equity team runs an efficient deal process during all phases. We do the heavy lifting which means management can focus on running the business and building value, maintaining trading performance and not becoming distracted with the deal. Our people focus on the drivers of value for Private Equity, mitigating risks and bridging the gap between the entrepreneurial and institutional mindsets.

This illustrative diagram provides a high-level overview into a typical investment process and timeline.



Building the business plan

Producing a compelling business plan to immediately grab and retain the attention of a potential investor is a critical element of a successful PE deal.

To help you create such a plan, here are the key questions that you must answer in the narrative:

Do you operate in an attractive market?

Confirm the size of the market for your products and services (known as the Total Addressable Market or TAM). Also give comfort that the market will continue to grow.

Can you take market share?

Describe the competitive advantage of your products and services. Also go further by explaining how you will maintain this competitive advantage in the future.

Can the management team deliver a growth strategy?

The background of the team should show they have the relevant experience to grow

the business. Also be clear on where gaps in the team might exist and how you intend to fill them.

Are you able to recruit and retain high quality staff?

Point to a track record of employing talented staff that remain with the business for a considerable time. Talk about the incentive schemes used to achieve this such as bonuses and share options.

Are the customer economics profitable?

Prove that the lifetime value (LTV) of a customer is far greater than the cost of acquisition (CAC). Another factor is to show that once you win a customer the majority stay for a long term. Illustrate this with details of the annual customer churn rate.

Does the business have high quality revenue?

Breakdown your revenue between the following categories: contracted; repeatable; and one off. The more revenue you have in the first two categories the more interested an investor will be.

Will your financial forecasts stand up to scrutiny?

The assumptions driving your forecasts must

be realistic and backed up with historic data. These forecasts must make sense in terms of the growth rate of the overall market and your competitors. Also ensure you have built in enough costs to support the top line growth.

Is the business well managed?

Prove this with high quality financial information such as monthly management accounts and accurate cash flow forecasting. Also highlight the operational key performance indicators (KPIs) that are used to manage areas such as the sales pipeline and service delivery.

It is important that any business plan is clear, balanced and well thought through. It is the 'story' that supports your forecast numbers.

Case study Why BDO

Veriton Pharma (“VERITON”)

Veriton is an established pharmaceutical company led by a highly experienced management team, with a vision to deliver both unlicensed and LICENSED medicines for paediatric and adult patients with unmet clinical needs. Headquartered in Surrey, Veriton employs around 40 people in the UK, Dubai and Australia serving the EEA, MEA and APAC regions respectively.

BDO advised the shareholders of Veriton on the sale to SERB, a European specialty pharma business backed by Charterhouse Capital Partners. BDO supported the shareholders and management team throughout the sale process including:

- ▶ Working closely with management to prepare the business for sale including preparing the IM and teaser and establishing the messaging on the company's growth strategy
- ▶ Assisting with preparing a detailed financial forecast model to present Veriton's ambitious growth strategy and product pipeline
- ▶ Identifying potential buyers, both PE and trade, and undertaking early discussions to gauge interest, as well as managing the discussions, management presentations and DD process with interested parties
- ▶ Providing financial, tax and commercial vendor due diligence to help Veriton prepare its approach to potential buyers and make the process more efficient
- ▶ Providing SPA and deal negotiation support, working closely with Veriton's legal team, in order to reach a successful completion.

“ Right from the start of the process, the BDO team were keen to understand the details of our business and very quickly got to grips with the key value drivers. They had the expertise that was required to support the project across all the relevant disciplines and the project delivery was very well managed and coordinated.

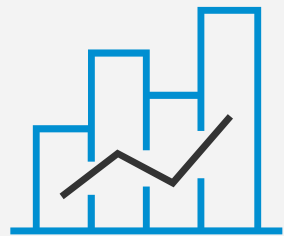
The BDO team were enthusiastic throughout and were extremely tenacious in making sure they understood our strategic plans and aspirations which was critical when the business backdrop changed (due to Brexit and COVID-19). I enjoyed working with the BDO team and despite this turbulent landscape, they helped us achieve an excellent result to the delight of myself and the shareholders. ”

Stephen Jones
Group CEO, Veriton Pharma

Private Equity in numbers

Private Equity specialists: the BDO team

BDO's Private Equity group is a highly collaborative network of more than 400 experienced advisers from all disciplines across the firm including audit, tax, M&A, transaction services and corporate advisory. This practical team has a profound understanding of the Private Equity industry, particularly in the mid market. Our people are part of the process at every level, interacting with funds, advising on deals, and working closely with portfolio companies to help them realise their goals.

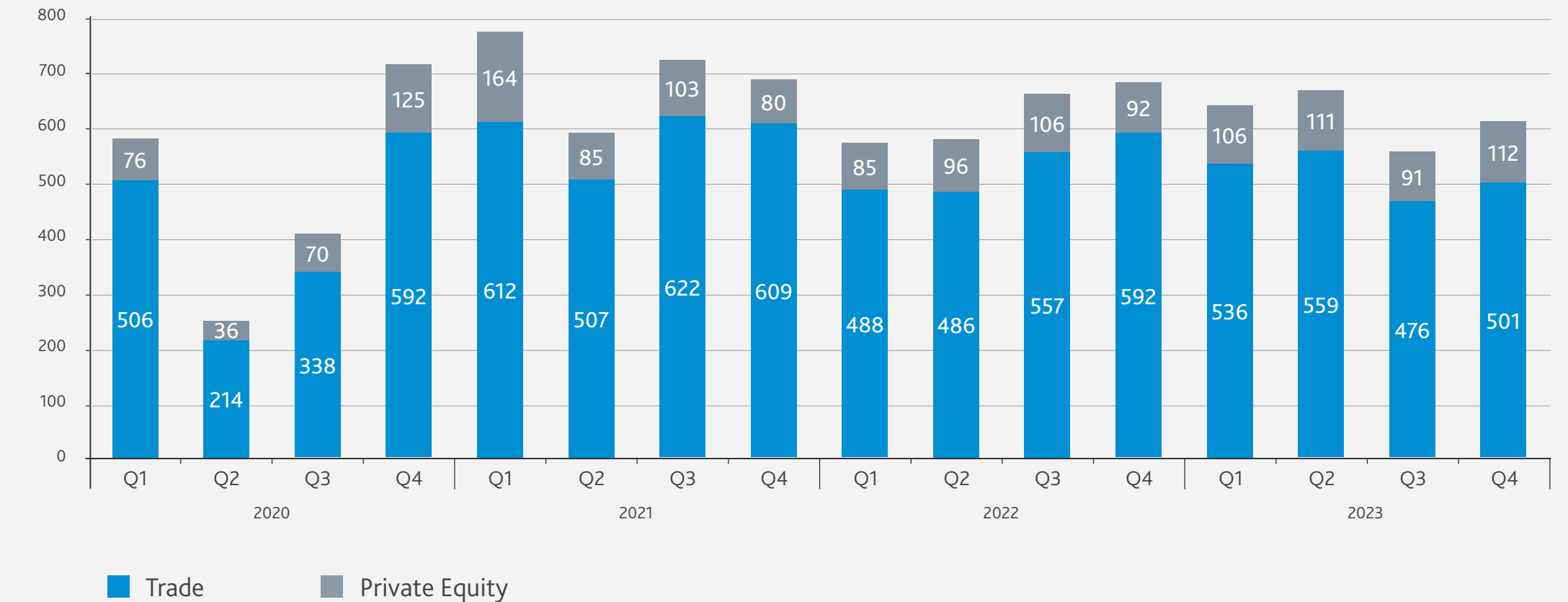


Our PE specialists are located where Private Equity is investing.

The investments we've made in infrastructure, resources and talent mean that we offer a powerful combination of service, scale and expertise; and through our deep working relationship with each client we can focus on their unique needs and deliver practical individual solutions.

We've never lost our agility and personal approach. We understand the intense pressure that comes with the challenge of entrepreneurial growth, and we work strategically alongside our clients. Private Equity can offer huge rewards to businesses, but knowing how to manage it effectively makes all the difference. That's where our team comes to the fore.

Q1 2020 to Q4 2023 volume of deals completed





Contact us

We want to hear from you

The journey to Private Equity investment may be complex, but whatever your motivation, we are searching for ambitious businesses to help navigate through this chapter and enhance future growth.

Contact **Jamie Austin** on +44(0)77 7192 8208 for more information. We look forward to meeting you and learning about your business.

Definitions and stats in this document have been sourced from industry bodies PitchBook Data, BVCA and ICAEW ('A Guide to Private Equity'; 'Private Equity Demystified').



Read the next in our series:

Accelerate

For Private Equity backed companies to focus on topics such as how to maintain alignment and generate growth.



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