

A photograph of three people, two men and one woman, smiling and leaning over a white desk. The man on the left has a beard and is wearing a checkered shirt. The woman in the center has blonde hair and is wearing a blue top and orange skirt. The woman on the right has dark hair and is wearing a tan shirt. On the desk, there is a laptop, a glass of iced coffee, and some papers.

# Management Buyouts

The Ultimate Guide For You



**Forrester Boyd**

CHARTERED ACCOUNTANTS





# Introduction

A Management Buyout (MBO) can be one of the most effective ways for business owners to exit their company while ensuring its continuity and preserving the existing culture. This guide will walk you through the key aspects of an MBO, the benefits, the challenges, and a checklist to help you navigate the process successfully.

# What is a Management Buyout?



A Management Buyout (MBO) occurs when a company's management team purchases the business from the current owner(s). It's a popular option because it allows the business to remain in familiar hands, ensuring continuity for employees, customers, and suppliers.

MBOs are commonly used as an exit strategy for retiring owners or those looking to move on to new ventures while keeping the business intact.



# Why Consider a Management Buyout?



## Continuity & Stability

An MBO provides seamless continuity because the people taking over already understand the business's day-to-day operations. For employees and customers, this is often a reassuring option, as the management team remains in place, and business as usual is maintained.

## Keeping Control Within Trusted Hands

The business owner can feel confident that the company is being passed to a group of individuals who already know the business well and share its vision. This is especially important for family-owned businesses or businesses with a strong, unique culture.

## Financial Benefits

For the management team, an MBO presents an opportunity to own a business without starting from scratch. For the seller, the deal can offer a more straightforward exit compared to selling to an external buyer, with less risk of disruption.



“MBOs can provide both the buyer and seller with a solution that balances the continuation of the business and a smooth transition of ownership.”

– Business Insider



# The MBO Process

A Management Buyout can be a complex process that requires careful planning and financial structuring. Here's a step-by-step breakdown of what to expect:

## 1 Planning The MBO

The first step is to ensure that the management team is aligned with the idea of an MBO. Open and transparent discussions between the management team and the current owner are essential. It's crucial to assess whether the team has the skills and commitment needed to take over the business.

## 2 Business Valuation

A thorough business valuation is critical. Valuation can be done through methods such as earnings multiples, discounted cash flow, or asset-based valuation. An independent valuation will help ensure that the agreed-upon sale price is fair for both parties.



## 3

# Securing Financing

One of the biggest challenges in an MBO is financing the deal. MBOs are often funded through a combination of:

- ▶ **Debt financing: Loans or bonds.**
- ▶ **Private equity: An external investor providing the capital needed for the buyout.**
- ▶ **Vendor financing: The seller agrees to defer part of the payment over time.**

In 2022, private equity-backed buyouts accounted for 45% of all global M&A activity, showing the significant role external investors play in MBO financing ([CompareMoney](#)).

## 4

# Structuring The Deal

It's essential to structure the deal carefully, particularly if external financing is involved. The management team needs to ensure they are not over-leveraging the company, as too much debt can place immense pressure on future profitability.

## 5

# Finalising Legal & Tax Details

Work closely with legal and tax advisors to ensure that the buyout is tax-efficient and compliant with all regulations. This might include setting up new ownership structures, reviewing employment contracts, and ensuring that all financial and operational risks are addressed.

# Challenges of a Management Buyout



## Financing Hurdles

One of the main challenges of an MBO is finding the capital to buy the business, especially if the business is highly valued. This often requires significant debt financing, which can put financial strain on the company.

## Balancing Day-to-Day Responsibilities

While planning the buyout, the management team still has to run the business. This can create time pressures and added stress, making it essential to delegate responsibilities effectively and engage external advisors for support.

## Risks of Overleveraging

Taking on too much debt to finance the buyout can lead to financial strain. It's essential that the management team works with financial advisors to carefully assess the business's ability to service the debt after the buyout.

## Statistics

- 45% of global M&A activity in 2022 involved private equity-backed buyouts (CompareMoney).
- MBOs are becoming more common as an exit strategy, with 40% of business owners considering an MBO in their succession planning.
- Over 80% of successful MBOs retain the same workforce post-transaction, highlighting the continuity it provides for employees.

# Checklist for a Successful MBO

Here's a quick checklist to help guide you through the process:

- **Align Management Team:** Ensure all key members of the management team are aligned on the idea of an MBO.
- **Obtain a Business Valuation:** Get an independent valuation to establish a fair price for the business.
- **Secure Financing:** Explore financing options, including bank loans, private equity, and vendor financing.
- **Review Financials:** Conduct thorough due diligence to assess the company's financial health and ability to service debt post-buyout.
- **Legal and Tax Review:** Engage legal and tax experts to review the deal structure, including employment contracts and ownership structures.
- **Set a Transition Plan:** Establish a clear timeline for the buyout and the transition of responsibilities.
- **Communicate with Stakeholders:** Keep employees, customers, and suppliers informed about the buyout to maintain trust and stability.

## Get in Touch

A Management Buyout can be an ideal way to maintain continuity, secure business legacy, and give trusted employees ownership of the company. However, it's essential to plan carefully, secure the right financing, and seek expert guidance to ensure the success of the buyout.

If you're considering an MBO, contact us today for a consultation. We can help guide you through every step of the process—from planning and financing to finalising the deal.



This guide is for guidance only, and professional advice should be obtained before acting on any information contained herein. Neither the publishers nor the distributors can accept any responsibility for loss occasioned to any person as a result of action taken or refrained from in consequence of the contents of this publication.

**Publication Date: October 2024**



# Forrester Boyd

CHARTERED ACCOUNTANTS

[info@forrester-boyd.co.uk](mailto:info@forrester-boyd.co.uk)

[www.forrester-boyd.co.uk](http://www.forrester-boyd.co.uk)

Grimsby : 01472 350601

Louth : 01507 606111

Scunthorpe : 01724 863105

Skegness : 01754 761777

Beverley : 01482 889400

Lincoln: 01522 701843