



MBO's, Mergers & Acquisitions



Along with mergers and acquisitions, management buy-outs have become an increasingly common feature of the Irish corporate landscape. Recognising the opportunities associated with running or expanding their own businesses, management teams are seeking to reap significant financial rewards. However, these deals are not without risk and there are a number of ways that the buy-out can under perform.

Risks associated with leveraged deals

The main risk for any management team is having the appropriate level of finance available to fund the initial payment to the vendor as well as future working capital requirements.

The danger is that all available money is used to purchase the business, leaving insufficient cash available to invest in growth or improve the overall cash flow of the acquired entity.

Managing this risk

- Ensure the deal is adequately and appropriately financed and the business can generate the additional cashflow needed to service any increased borrowings
- Detailed planning and sensitivity analysis are essential in ensuring there are no surprises going forward
- It is essential to ensure a healthy mix of debt and equity to achieve the right balance between maintaining ownership and control of the business, achieving the appropriate funding levels required and managing the appropriate business gearing ratios
- Aside from deciding on the overall amount of debt it is also important that the debt is structured appropriately. Bank of Ireland provides a range of business finance products that can be combined to deliver the right mix for your business. One such product is Invoice Finance, a flexible and increasingly prevalent funding tool that releases the value inherent in your trade debtors, often your biggest asset. Funds may be released from the debtor book at an early stage, to assist in the purchase of the business and also to provide an ongoing source of working capital.

Typical features of a successful deal

- A good financial track record
- An owner willing to sell for the right reasons and for a fair price
- An experienced management team
- Potential to improve business
- Continuous supply ensured
- Availability of ongoing working capital

Sources of concern for financial institutions

- Businesses that have lost the financial backing and management expertise of its parent company in the case of an MBO
- Lack of available security
- High levels of borrowing post acquisition

The legal structure and format of the deal is not standardised and needs to reflect the specific needs of any given transaction. Therefore, independent professional advice should be sought if a transaction is to be successfully executed.

We would like to work with you in assessing your current and future requirements and would be happy to deliver the appropriate solution to meet your needs.

For further information

call us on **01 614 0300** or contact your local **Bank of Ireland** branch.