

Exit strategy

Preparing your
business
for a successful sale



Tony Dignam
Agile Executives



John Kenefick
Novem



Robert Kelly
PTSB



Mark Doyle
Circulo

Welcome to our esteemed guests, colleagues and friends

partnering with



FULL
CIRCLE
ADVICE

Agenda

- Johnny Kenefick - Director, Novum
- Mark Doyle – Director, Circulo Tax Advisors
- Robert Kelly – Business Banking Manager, PTSB
- Tony Dignam – CEO, Agile Executives
- Closing





At Novem we Partner with Business Owners, Management Teams and Angel Investors to complete Management Buyouts / Buy-Ins



Management Buyouts | Buy-Ins

Strategic Pathways for Seamless
Successions and Acquisitions



Arthur Griffin
Partner



John Kenefick
Partner



John Fitzpatrick FCCA
Partner



- Management Buy-In
- Additional Acquisitions
- Exit to Private Equity



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Trilogy Technologies is an IT-Managed Services business that has evolved from a merger of a couple of small technology companies – Team DBA and IT Focus.

IT focus was a small IT-Managed Service business that the owner-manager had built up to a certain level but wanted to step back from the day-to-day management of the business. However, he wanted to continue to participate at a smaller level going forward. The company had a client list of small but successful companies mostly city centre Dublin.

We were aware of a first-class management team that was seeking a management buy-in opportunity that could bring significant value to the business they had connections to larger companies nationally.



- Management Buy-Out
- Operational Restructure
- Strategic Exit Planning



 www.berkley-group.com

We were aware of the Berkley Group recruitment company for several years, and we had used Berkley for a number of hires for a previous company. They were owned by a UK plc that had a few different recruitment companies under their brand. The original founders of Berkley had exited the business and it was being operated by local management.

So, we approached the local management team to discuss if they had an appetite for an MBO. The answer was 'yes'.

Tailored MBO/MBI Strategies

Strategic Pathways for Seamless Successions and Acquisitions

MBO/MBI solutions from Novem present a strategic pathway for Owner Managers confronted with succession planning hurdles, shareholder conflicts, or apprehensions about dealing with trade purchasers. The scarcity of suitable trade buyers or the hesitance to divulge sensitive details to competitors often renders MBO/MBI an appealing choice.

Choosing Novem for an MBO/MBI facilitates an effortless transition of ownership, significantly diminishing the risk of business interruption. This method promotes a stable working atmosphere, assuring employees and safeguarding the trust of existing clients and trade partners, thereby guaranteeing the smooth continuation of business activities.



- **Every Business has different challenges - No Single Solution – Be Proactive!**
 - **We would love to talk to Founders & Management Teams that are considering an MBO / MBI**

Reducing the tax costs arising on a company sale



Generally, a charge to CGT arises on the sale of shares in a company – 33%

How are taxes reduced?

- Availing of CGT reliefs:
 - Entrepreneurs relief
 - Retirement relief
 - Participation exemption
 - Ensuring the sale is subject to CGT rather than income tax
 - Pre-sale business restructuring
-
- **In most cases advance planning will be beneficial**

Entrepreneur relief

- Entrepreneur relief allows a reduced rate of CGT of 10%
- Lifetime limit - gains of €1m – max relief = €230k
- Must be a disposal:
 - By a “relevant individual”
 - Of “qualifying assets”
- Where shares in a company are being sold:
 - The individual must hold 5% or more of the ordinary shares,
 - The individual must have held the shares at least 3 years,
 - The individual must have worked more than 50% of their working time for 3 years out of the last 5 (consecutively), and
 - The company must be a qualifying company.

Entrepreneur relief – simple example

- Jim holds 100% of the shares in Bigco, he sells the shares for €2m
- Jim qualifies for entrepreneurs relief
- CGT relief of €230k

	Jim
	€
Gain	2,000,000
CGT €1m @ 10%	100,000
CGT €1m @ 33%	330,000
Total CGT	<u>430,000</u>

Entrepreneur relief – common planning steps/pitfalls

- Shares held by more than one family member e.g. a husband and wife
 - 3 year hold period and employment conditions
- Delaying sale until hold/employment period is satisfied
- Not satisfying the 5% shareholding test due to outside investors e.g. EIS
- Not satisfying the working time test due to multiple employments/directorships
- Where a holding company of a group is sold and the group itself is not qualifying

Retirement relief

- Retirement relief allows complete relief from CGT on sale proceeds of €750k (55-65) or €500k (66+)
- Maximum tax value of relief is €250k
- Once the thresholds are breached marginal retirement relief can apply
- More generous retirement relief for inter-family transfers
- To qualify:
 - Individual must be 55 +
 - Director at least 10 yrs with 5 yrs FT
 - Company must be a “family company”
 - Company must have been trading at least 10 yrs
- If the company holds investment assets relief can be diluted
- No need to actually retire to avail of retirement relief

Retirement relief – simple example

- Peter is 60, he holds 100% of the shares in TradeCo
- The directorship and trading conditions have been satisfied
- Peter sells his shares for €700k and qualifies for retirement relief
- What is Peter's CGT liability?
- Answer = Nil!
- A generous relief where the sale proceeds are modest!

Retirement relief – simple example

- Marginal relief limits the CGT to the lower of the actual CGT or 50% of the difference between the threshold and the proceeds
- Benefit of retirement relief reduces as consideration increases
- Table below is for individual aged 55-65

	€	€	€	€
Sales proceeds	1,000,000	1,500,000	2,000,000	2,500,000
Actual CGT @ 33%	330,000	495,000	660,000	825,000
Limit by RR marginal relief	125,000	375,000	625,000	875,000
CGT saving by RR	205,000	120,000	35,000	Nil

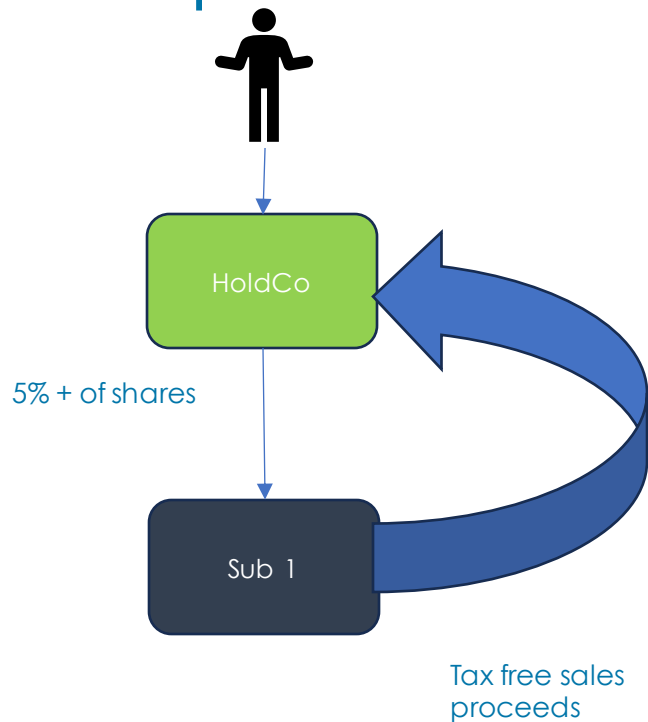
Retirement relief – common planning steps/pitfalls

- Shares held by more than one family member e.g. a husband and wife
 - Period of share ownership transfers between spouses
 - Directorship test to be satisfied independently
 - Interspousal transfers most effective before age 55/shares become qualifying
- Delaying sale until hold/employment/trading period is satisfied
- Holding of investment assets by a company at point of sale
- Not satisfying the full-time director test due to multiple employments/directorships
- Triggering a clawback of retirement relief by further sales

Participation exemption relief

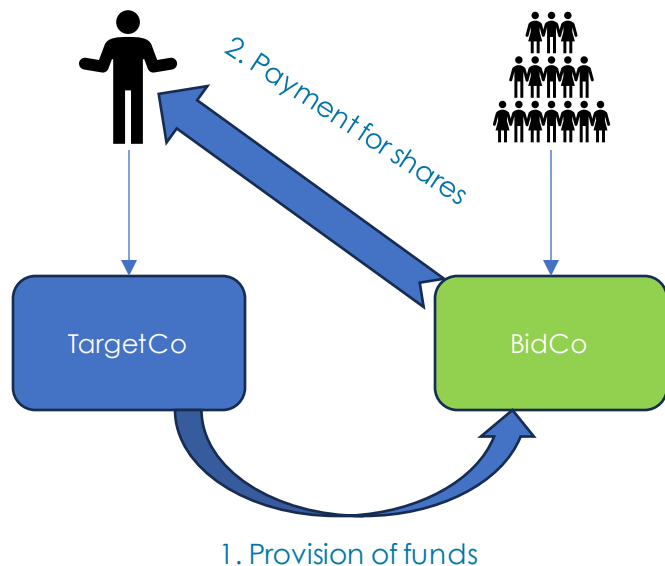
- Participation exemption relief allows full relief from CGT for a **company** on a sale of shares
- No limit on the amount of relief available
- To qualify:
 - Must hold not less than 5% of shares
 - Shares must have been held at least 12 months
 - Company being sold must be trading and not derive greater part of its value from Irish land/buildings
 - Company being sold must be tax resident in an appropriate jurisdiction (includes Ireland)

Participation exemption relief



- Can be a useful relief for portfolio investors
- Provides the possibility of a gross roll-up vehicle
- Provides flexibility to an individual seeking to take up tax residency abroad
- For the individual shareholder of HoldCo, the question remains how to access the sales proceeds from HoldCo tax efficiently if desired?
 - Liquidation – CGT event
 - Salary/dividend – IT event

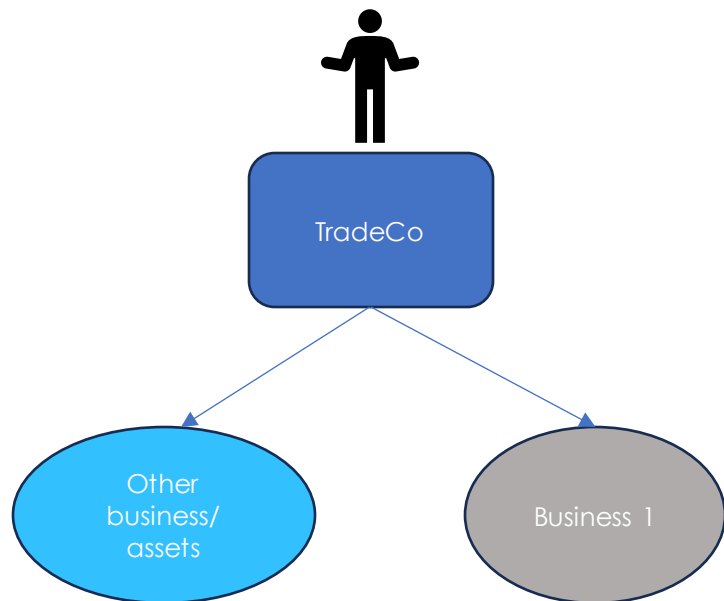
Ensuring the sale is subject to CGT and not income tax



- Where a company finances the purchase of its own shares the sales proceeds can be subject to income tax rather than CGT
 - Differential in tax rates
 - Non-availability of CGT reliefs
- Potentially applies to MBO type transactions but not limited to that
- Typically BidCo will now require outside finance to complete the deal

Pre-sale restructuring

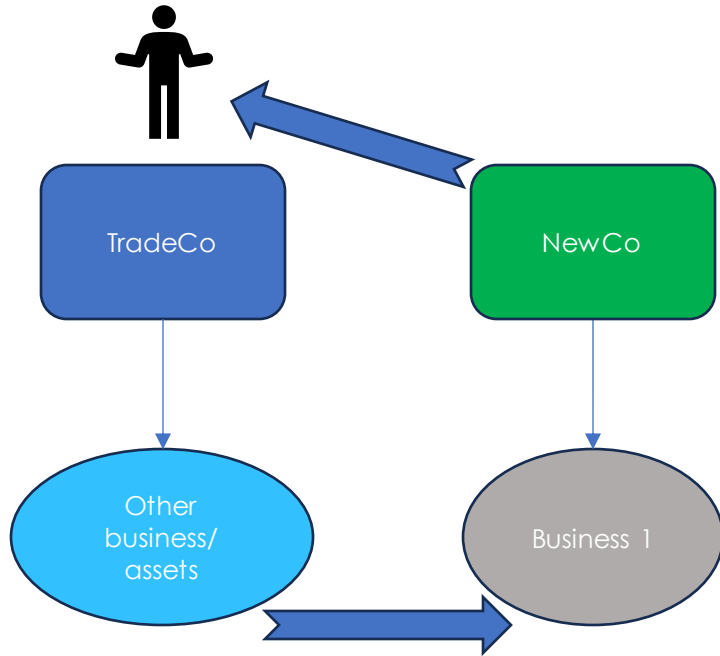
It is possible to restructure a business pre-sale tax efficiently



- A purchaser wants to acquire Business 1
- Other business/assets not to be sold
- Most favourable tax option is to sell TradeCo – not possible
- If TradeCo sells Business 1 this creates two layers of taxation
- If the Other business/assets are taken out of TradeCo by the shareholders this creates significant financial/tax costs
- What is the best option?

Pre-sale restructuring

TradeCo hives-out Business 1 to NewCo and NewCo is sold



- TradeCo hives-out Business 1 to NewCo on a share for undertaking 3 party exchange
- Hive-out can occur free from CGT and stamp duty due to tax reliefs
- Sale of NewCo is a CGT event for the shareholder:
 - Entrepreneur relief
 - Retirement relief
- Restructuring avoids 2 layers of tax on sales proceeds or the financial/tax cost of taking Other business/assets from TradeCo



Business Banking at PTSB

Find out how we can support your business.

Author: Robert Kelly,
Business Manager

Team/Division: Dublin,
Kildare, Wicklow

Date: 10/03/2024

Our Ambition and Purpose



PTSB is Altogether More Human.

We believe in the power of personal relationships and are dedicated to giving real support to your business.

Our Ambition

To be Ireland's best personal and business bank through exceptional customer experience.

Our Purpose

Working together to build trust with our customers and communities.

Our future

Our ambition as a business bank

To be the best business bank, we will;

- Deliver financial services solutions to business owners.
- Continue to shape our team of expert lenders as we expand.
- Apply our sectoral expertise.
- Build on our history and heritage as an Irish owned bank.
- Capitalise on the Ulster Bank acquisition to improve our product suite.
- Grow our market share substantially.

What we do

- We are a leading provider in the financial services market, offering customers a wide range of business banking products and services to suit our customers need.
- For us, it's about supporting our customers on an individual basis and we have a range of simple business banking solutions for your daily banking and lending needs, all delivered with exceptional customer experience.
- We take the time to understand your business. Where we can provide what is sought we execute at speed, and we will provide alternative solutions where relevant.
- Our dedicated team of specialised Business Banking Managers are available to meet in person, at a customer's business premises, over the phone, and through our nationwide network of almost 100 branches.

How we do it

- We are quick to respond.
- We remain solution focused.
- Simplicity is key.
- We understand your business by applying sectoral expertise allowing us to help, prepare and respond to market issues.
- We listen, structure and support to realise opportunities.
- We partner with relevant experts.



Our Partners

We believe in the power of personal and trusting relationships and we are dedicated to giving real support to small and medium sized businesses in Ireland.



Partnering with government agencies to facilitate loan schemes that address specific market challenges for SMEs.



Partnering with government agencies to facilitate loan schemes that address specific market challenges for SMEs.



PTSB has entered into a strategic partnership with Bibby Financial Services Ireland, to provide our new and existing customers with invoice finance products and services.



Recognising the vital contribution that the small business community makes to the Irish economy, PTSB is proud to support the SFA.



Partnering with Worldpay from FIS for the provision of merchant solutions.



Partnering with Digital Business Ireland who offer cutting edge training, insights, and advice to enable your business to grow, thrive and achieve your digital ambitions. PTSB is proud to be title sponsor of the Digital Business Ireland National Digital Awards.



PTSB is a partner of Guaranteed Irish and are proud to be title sponsor of the Guaranteed Irish Business Awards. In 2021, we were proud to be the first Retail Bank to be awarded the Guaranteed Irish Symbol for our contribution to communities across the country.

The licensed Guaranteed Irish symbol is the national symbol of trust and provenance for business in Ireland.

It is awarded to businesses based in Ireland that support sustainable jobs, contribute to our local communities, and are committed to Irish provenance.

Our customers – Dublin + Region 2022 Highlights

Manufacturing

- » SBCI BILS
- » €1 million

Agriculture

- » Commercial Mortgage
- » €300k

Project Mgt - Construction

- » SBCI FGLS
- » €495k

Builders Providers

- » Commercial Mortgage
- » €600k

Childcare Group

- » Multiple facilities
- » €4 million

Hotel

- » Commercial Mortgage
- » €4.45 million

Gym

- » Commercial Mortgage
- » €1.6 million

Serviced Offices

- » Commercial Mortgage
- » €2.1 million

Services

- » SBCI BILS
- » €1.75 million

Hotel

- » Commercial Mortgage
- » €1.7 million

Manufacturing

- » Commercial Mortgage
- » €600k

Road Markings

- » Cashflow Term Loan
- » €1.5 million

Hotel

- » Commercial Mortgage
- » €4.9 million

Retail / Wholesale - Beauty

- » SBCI BILS
- » €1.5 million

Wholesale

- » SBCI FGLS
- » €1.3 million

Furniture Retail

- » Multiple facilities
- » €7.2 million

Solicitors

- » Commercial Mortgage
- » €360k

Healthcare - Aesthetics

- » Cashflow Term Loan
- » €2.4 million

Online Jewellery Retail

- » Multiple facilities
- » €2 million

Furniture Manufacturing

- » Commercial Mortgage
- » €281k

MBO/MBI Examples | Key Credit Metrics

- Sector: Retail Pharmacy
- Owner retiring.
- Promoter purchasing 100% of the shares.
- Total investment of €885k required.
- €750k to purchase 100% of the shares - additional €135k to cover the assets.
- €350k contribution from promoters own savings.
- Bank funding €535k.
- Term - 7 years.
- Gross Leverage 2.8x (avg. adjusted EBITDA)
- EV LTV based on 5 x multiple of 3 year avg. EBITDA plus value of assets/stock.
- <€1m – typically no covenants.
- Conditions precedent – standard tax confirmations, proof of balance of funds etc.

- Sector: Construction Services
- MBO - Head of existing SMT sought to purchase 100% of the shares of the business via New Co having made significant positive changes.
- Directors (Husband & Wife) retiring.
- PP of €2.4m (€2.5m incl. costs).
- Total Bank Funding of €1.5m – balance from promoters own cash reserves.
- 5 year term.
- LTC 60%, EV LTV 63% (based on a 2.8x multiple of an adjusted EBITDA).
- Security: Mortgage Debenture, InterCompany Guarantee, Assignment over Keyperson Policy, Subordination Agreement, Assignment over lease.
- Covenants: Cap on director's remuneration, RCR of 1.X:1 to be maintained (EBITDA less tax/annual repayments), Provision of Financial Information, No further Financial Indebtedness above X without consent.

- Sector: Business & Administrative Services.
- MBI: €1.4m to assist with purchase of 48% of shares in a trading co.
- Total cost of acquisition €2.1m.
- Balance via Cash Reserves /Director Loans
- EV €4.4m (EV LTV of 32%)
- 10 year term.
- Gross Leverage 2.8x (vs policy max of 3.0x)
- Security: Mortgage Debenture, InterCompany Guarantee, Assignment over Keyperson Policy, Subordination Agreement.
- Covenants: RCR of 1.4:1 to be maintained (EBITDA less tax/annual repayments), Provision of Financial Information, No further Financial Indebtedness above X without consent.
- Shareholders agreed to full mortgage debenture over the TradeCo. so the entire business could be considered for repayment capacity purposes with the promoters setting up a New Co (50/50).

Our People – Dublin + Region



David McCarthy
Regional Head of Business Banking

Dave.mccarthy@ptsb.ie
087 361 1838



Philip Carey
Business Banking Manager

Philip.carey@ptsb.ie
087 338 0883



Ciarán Scanlon
Business Banking Manager

Ciaran.scanlon@ptsb.ie
087 260 1921



Robert Byrne
Business Banking Manager

Robert.a.byrne@ptsb.ie
087 149 7696



Wayne McNamara
Business Banking Manager

Wayne.mcnamara@ptsb.ie
087 281 7151



Robert Kelly
Business Banking Manager

Robert.kelly@ptsb.ie
087 956 5824



Niamh Griffin
Business Banking Manager

Niamh.griffin@ptsb.ie
087 103 2900



Emma Lohan
Business Banking Manager

Emma.lohan@ptsb.ie
087 052 8346

Unveiling strategies to streamline your exit process



Tony Dignam, Managing Director
Agile Executives

Background



Founded in 2019



Have supported over 1,000 businesses through over 100 consultants



Key services include fractional executives, mentoring and consultancy

Award Winning business



Winner Best Emerging
Business '21



Winner Outstanding Small
Business '23

Chosen Partner of State funded agencies

Largest provider of resources to Enterprise Ireland for a number of programmes



Chosen by SFA to deliver mentoring, training and consultancy through MentorsWork



Learn more at: mentorswork.ie



Chosen by InterTradeIreland, ETBs, DLR LEO and ISME to deliver mentoring programmes



Grants & Support

- **Small Firms Association**
 - MentorsWork
- **Enterprise Ireland**
 - Strategic Consultancy Grant
 - Digital Grants
 - Evolve Strategic Planning Grant
 - Business Growth Advisors
 - R & D Grants
- **LEO Grants**
 - Digital for Business
 - Consultancy Supports
 - Lean for Business

Grant support ▼

Digital Discovery Grant

Digital for Business

Digital Process Innovation

Free Grant Audit

Agile Innovation Fund

Strategic Consultancy Grants

R&D Tax Credit

RD&I Fund

Business Planning Grant

Finance Capability Enhancement Grant

Green consultancy

Value of a business



2023 – 5.1 times EBITDA



2022 – 5.4 times



Software 8.2, Construction 3.2

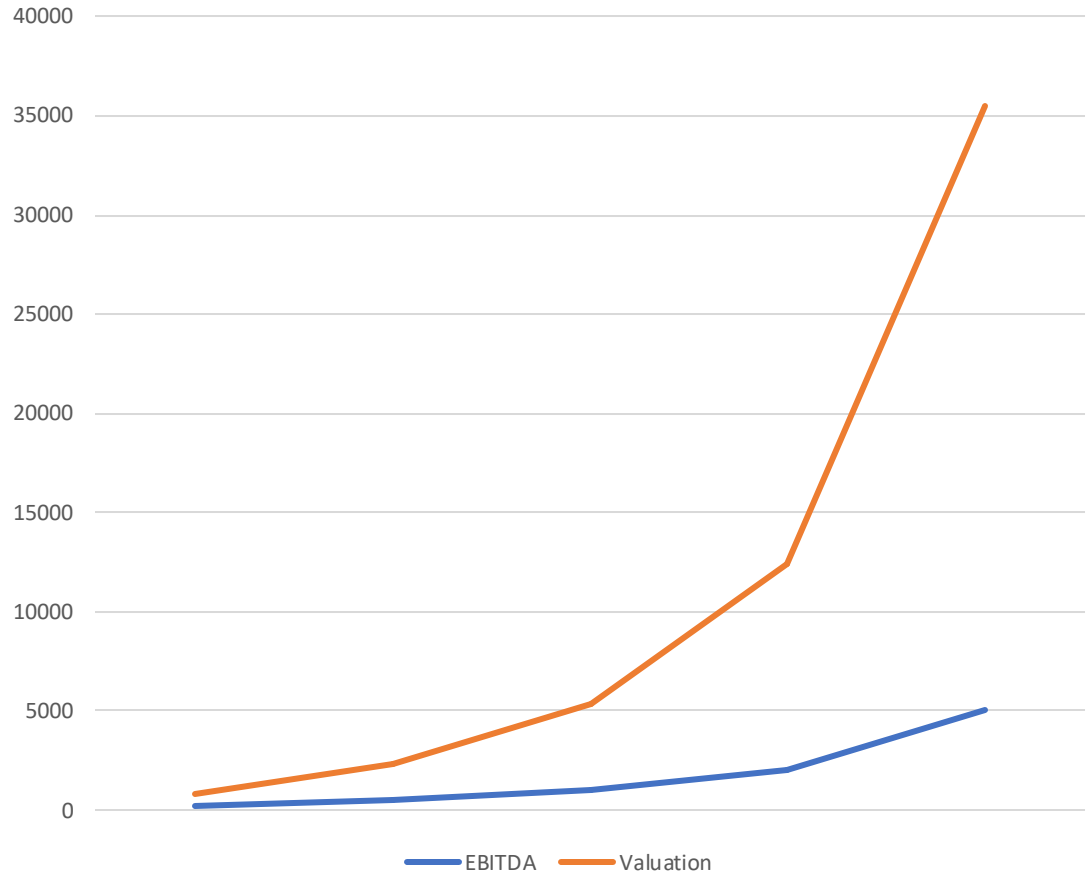
Valuation by Sector

Figure 6. Comparison of average EBITDA multiple by sector (Enterprise Value) between key Western-European countries

	United Kingdom & Ireland
Software Development	8.1
Healthcare & Pharmaceuticals	7.8
IT Services	7.6
E-commerce & Webshops	7
Agri & Food	5.6
Business Services	5.2
Industrial & Manufacturing	4.6
Media & Communication	4.1
Hospitality & Tourism	3.9
Wholesale Trade	3.8
Automotive, Transportation & Logistics	3.5
Retail Trade	3.5
Construction & Engineering	3.2
Average EBITDA multiples H2-2023	5.1

Business Multiple
Increases as EBITDA
increases

EBITDA to Business Valuation



Business Multiple Increases as EBITDA increases



Drive Revenue



Increase Profitability



Automate



Focus on sustainability – Reduce energy costs – Invest in Sustainable solutions – Increase EBITDA



Systemise your business - Think of it as a Franchise



Access Grants and Supports to Assist you



Build Your Team

- Sincere thanks to:

Our speakers: Johnny Kenefick, Mark Doyle and Robert Kelly

- Jen and Kritika
- Gerry Walsh, Dynamic Space Events



Agile Executives

Tony Dignam

tony@agileexecutives.ie



Novem

John Kenefick

jkenefick@druidcapital.ie



PTSB

Robert Kelly

robert.kelly@ptsb.ie



Circulo

Mark Doyle

mark@circulo.ie

partnering with



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