

The buy and build strategy to growth.

BOLT ON ACQUISITION CONSIDERATIONS



The buy and build strategy to growth

Recent competition for prime assets has led sponsors to seek creative ways to deploy their capital. Increasingly, we are seeing sponsors adopt a buy and build strategy to accelerate growth and generate high returns for investors. Since 2017 we have acted on over 30 bolt-on acquisitions and they have tended to fall into one of three scenarios:

1. Quick access to new markets
2. Platform for quicker growth
3. Opportunistic change of strategy

Whichever the scenario, executing a successful bolt-on acquisition can present a unique set of considerations and challenges. With one of the largest teams in the UK, corporate M&A with a private equity backdrop is at the heart of our business. We leverage the depth of our expertise to help our clients navigate expanding their business step by step.

30

No. of bolt-ons since Jan 2017

12

No. of private equity houses we represented in bolt-ons

71

No. of private equity M&A specialists

Investors represented



We trust Travers Smith again and again for our bolt-on acquisitions. They deliver clear, commercial advice – proactively anticipating key issues and identifying potential solutions. Their insight into the market is invaluable and their commitment to client service is evident – they are always a pleasure to deal with.

Adam Brown, The Access Group



Key considerations



Funding

How will the transaction be funded?

Does the buyer group have sufficient corporate cash, or will banks or investors provide additional capital?

Consider drawdown timings.

Will proof of funds be required by the seller?



Investor consent and involvement

Agree a process early on for keeping the investor directors and the Topco Board abreast of developments to ensure that the final approval process is straightforward.

Where equity finance is provided, investment committee approval is likely to be needed from the sponsor so factor that in at an early stage.



Financing documents

If a buy and build strategy is contemplated at the outset of an investment, permitted acquisition criteria should be included when the debt documents are first negotiated. Keep these requirements in mind during the transaction to ensure that discussions are held at a suitably early stage with the banks.



Tax

Tax risks in the target group should be uncovered in due diligence and dealt with in the transaction documents. Key risks often include historic liability under EMI and other option schemes, other risks around employment taxes for employee shareholders, and issues relating to VAT compliance. Acquisitions from corporate sellers also give rise to potential de-grouping charges, discussions around post-completion use of reliefs, and separation from existing tax groupings.

How to avoid common pitfalls



Always remember the exit horizon for the main investment. Avoid the sellers having any ability to block or challenge your ultimate exit and ensure that any material risk items arising out of the due diligence are resolved in good time before the ultimate exit.



Operational changes might be needed to work locations and employment terms to ensure consistency and to allow synergies to be realised. There will be legal and 'hearts and minds' considerations in respect of any changes, however minor.



It is important to ensure that the non-compete undertakings given by the sellers are sufficiently robust to protect the interests of the target business.



If the target management team are required to effect any handover or stay with the business for any significant period, ensure that the transaction terms are sufficient so that the management team remain motivated to deliver. Will the sellers be offered sweet equity in the existing structure?

Key contacts



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Pro bono

- Refugees at Home (matching spare rooms with refugees' needs).
- Advocates for International Development (focused on eradicating global poverty).
- City YMCA (supporting new hostel construction and its merger with YMCA North London).



Diversity & inclusion

- Diversity by Design art initiative.
- Trans-inclusive policies and activities.
- Dedicated support and awareness-raising not just in Mental Health Awareness Week, but 24/7.
- Ranked 12th in the Stonewall Top 100 LGBT Employers List.



Corporate social responsibility

- Travers Smith Foundation.
- Major charity partnerships.
- Community engagement through local organisations and schools.
- Supporting emerging artists through our CSR Art Programme.

