



November 2011

Tylee+Co welcome you to another edition of its newsletter. This edition has a business exit/succession theme, reflecting some of the work we have been doing this year. We recently advised on several business sales and also co-presented a paper at the national LawLink conference in April, titled 'Maximising Value from Business Exits in Today's Market'.

Recent Assignments

Corporate Finance Transactions



Meridian Energy

Tylee+Co acted as lead advisor to Meridian Energy on the **divestment** of its subsidiary Right House to the Mark Group.



Flagmakers

Tylee+Co advised the founding shareholder on the **management buy-out** of Flagmakers.



Transpower

Tylee+Co assisted Transpower with the **amalgamation** of its subsidiary Energy Market Services.

Strategic & Financial Advisory Services



Independent Technology

Tylee+Co provided indicative **valuation** advice.



Enable NZ (an operating division of Mid Central District Health Board)

Tylee+Co provided an intangible asset valuation for internal purposes.



RHE Infrastructure Services & Codec Software

Tylee+Co, together with Shoreline Partners, provided deal structuring advice on the merger of RHE Infrastructure Services & Codec Software.



Tylee+Co also:

- In conjunction with Shoreline Partners, assisted an IT software applications and services company develop a growth **strategy** centered on mergers and acquisitions.
- Provided **dispute resolution** services in relation to the supply of software development services.

Maximising Value from Business Exits in Today's Market

Tylee+Co principal, Dougal Tylee, attended this year's national LawLink conference in picturesque Wanaka in April. Dougal co-presented with Toby King of Cameron Partners Investment Bankers, on 'Maximising Value from Business Exits in Today's Market'.

Lawlink is a network of 18 independent law firms located throughout New Zealand, who compete in different market places. The network links over 430 lawyers and 430 support staff. Lawlink firms share ideas, resources and business processes. They also benefit from enhanced buying power, as well as access to best practice and a broader network of experts.

Our presentation covered topics including current market dynamics, activity drivers, market structure, valuation 101 and maximising value. We concluded our presentation with the following key take-aways:

- **Planning and Preparation** - preparing a business for sale can take many years, but it will be worth it from a value perspective.
- **Fundamentals** - understanding how value is derived is important. It is vital to articulate differences between other businesses, and presentation of the value "story" will differ depending on the business characteristics.
- **Supply/Demand and Timing** - market dynamics and cycles impact outcomes. Although market activity has declined, drivers of M&A activity have not disappeared.
- **Advisor Model and Process Design** - choosing the right advisors can have a material impact on outcomes achieved – often the difference between success and failure, and will impact value. Sale process design plays an important role in value maximisation, particularly in this climate.

For a copy of the full presentation, please email me on dougal@tylee.co.nz

Right House Divestment - Press Release

As mentioned on page 1, Tylee+Co acted as lead advisor to Meridian Energy on the divestment of its subsidiary, Right House, to UK based Mark Group.

1 July 2011, press release

Meridian sells Right House Subsidiary to International Energy Saving Business Mark Group

Today, Meridian Energy completed the sale of its Right House subsidiary to Mark Group, an international energy saving business with operations in the UK, Australia and North America. Right House gives Mark Group entry to New Zealand and represents a growth opportunity for the company.

Meridian established Right House three years ago recognising the opportunity for improved energy efficiency in the residential sector.

Andrew Robertson, Business Development General Manager, Meridian, says *"Meridian's incubation of this model for New Zealand has reached a stage where growth of the business can be better driven by an international company with the same objectives. Meridian will continue to work with Mark Group for the benefit of our customers."*

Chris Brazendale, President, International Operations, Mark Group, says *"Starting in the UK as a regional company performing home insulation, we have grown to become an energy efficiency expert with a 1,500-strong workforce in 25 worldwide locations. The 'whole house' approach to energy saving has been at the core of the Right House business since day one meaning that the business is a wonderful fit with Mark Group. Right House matches our model for growth and we are looking forward to a very positive future with them on board."*

Following today's announcement, all Right House employees and operational bases will be retained and Hamish Sisson will remain as Chief Executive Officer. Commenting on the acquisition, Mr Sisson added, *"We're excited about joining Mark Group. Given the company's clear success both in the UK and overseas, we believe this will present a great many opportunities for us and our associates in the future."*

Right House has operational bases in Auckland, Christchurch, Hamilton, Taupo and Wellington. It employs approximately 80 staff and has a sales forecast of over \$20million NZD for the current financial year.

Business Owners Prefer Gradual Exit Over Time

A Succession, Ownership & Pay survey, by Moyle Consulting and Deloitte, in September 2011 found private business owners prefer a gradual exit over time compared to an outright sale. A gradual sell down allows business owners to implement a succession plan over time and allows a smoother transition to new owners. New owners could include management, employees, family members, or third parties with the right attributes. However, a worrying fact is that most business owners don't have any formal plan in place as to how they will transition out of their business, or who their successors will be.

This nationwide survey also found there was a switch away from outright sale due to the majority of business owners believing it was not a good time to sell. Reasons cited included the current climate of economic uncertainty, restrictions on access to local capital and a perceived lack of buyers. However, the question of whether it is a good time to sell now is not shared by all commentators. Some believe there are many potential buyers, and that business owners risk being unable to sell for several years if they are waiting for their company profits to improve.

Another aspect of the survey focused on the importance of having a remuneration policy in place that clearly outlines remuneration, incentive schemes, performance pay and employee share plans. These mechanisms can boost employee motivation and loyalty, and also provide more exit options for business owners with employees who can represent a good cultural fit for the business.

The respondents to this survey were all private New Zealand businesses with median annual revenues of \$7m and median total employees of 21.

The ANZ Privately-Owned Business Barometer 2011 also found there is a preference for gradual exit stating: *"Over the life of the Barometer, there has been a steady decline in people saying 'I'm either all in or all out'. Peaking at 27 percent of respondents in 2008, this has steadily declined until this year only seven percent of respondents are looking at a clean exit."* The Barometer also indicated a potential successor can be much more than just a source of capital, and could bring complementary skills, knowledge, networks and advice.

If you are considering a gradual exit or outright sale, Tylee+Co can assist you to explore the options. We have expertise in:

- Becoming 'sales ready'
- Identifying buyers
- Structuring transactions, including partial share sales over time
- Funding the purchase of new or existing shares, including via vendor finance
- Valuing shares and businesses
- Senior management incentive and retention strategies.

Best Wishes

On behalf of Tylee+Co, I wish you all the best for the remainder of 2011. Take care over the Xmas and New Year holiday break and enjoy the summer ahead.

In the meantime, we look forward to hearing from you with your corporate finance queries and assisting your business achieve the outcomes you require.

Dougal Tylee
Director

Tylee+Co provide investment banking and corporate advisory services

Corporate Finance Transactions	<ul style="list-style-type: none">• Business sales• Mergers & acquisitions• Management buy outs• Equity capital raising
Strategic & Financial Advisory Services	<ul style="list-style-type: none">• Business & share valuations• Strategic reviews & business plans• Financial modeling & analysis• Litigation support including expert witness services

For a confidential discussion, please contact Dougal Tylee: m: 027 326 3965 dougal@tylee.co.nz www.tylee.co.nz