



**Issue date: 19 April 2007**

## **OWNERS RISK LOSS OF VALUE THROUGH LACK OF SUCCESSION PLANNING WARNS NVM**

UK business owners and managers are risking their companies' profitability and their own value at exit through inadequate succession planning, warns small to mid-market regional private equity house, NVM Private Equity.

According to the report among 200 Managing Directors and Financial Directors of SMEs across the UK, conducted by NVM; one in three owner managed businesses (32%) do not have a succession plan in place for when the business leader decides to exit, retire or can no longer work. This lack of preparation risks vendors losing out on exit as they are unable to demonstrate the ongoing sustainability of the business.

Not just owner managed businesses are at risk. NVM has discovered that 43% of businesses are ignoring the issue, refusing to make succession plans as they can not find a successor they deem suitable. A further 38% simply refuse to acknowledge that succession planning is a problem.

Even more concerning is 38% of all SME businesses facing an exit situation in the next five years believe it is too early to make provisions for the impact this will have on the company. This is despite the fact that potential buyers want the succeeding management to have a demonstrable track record of delivering profitability if they are backing them to run the business going forward.

**James Arrowsmith, Investment Manager from NVM comments**

“Management, management, management is as much the mantra of buying a business as location, location, location is when buying property. When buying property location is deemed the most important factor as, within reason, most other aspects of the property can be changed. When buying a business a buoyant market or innovative offering may look attractive but markets drop and bubbles burst, however effective management can steer a business through most unknowns.

“Considering the importance that is placed on management it is vital that businesses demonstrate their contingency planning when the management itself is leaving. It is simply a matter of demonstrating there is new capacity to deliver the ongoing profitability of the business.”

With the increase in auctions and the lack of investor appetite for full MBIs, it is vital that exiting managers ensure their businesses are as appealing as possible to potential buyers. A departing owner manager with no or an inadequate successor makes buyers nervous and therefore likely to reduce their bid or not bid at all.

One solution to the succession planning dilemma is to recruit a replacement prior to the planned exit to work within a business on a consultancy level, and perhaps giving them the option of going on to buy the business. “This can work well for vendors as they maintain control during the handover and know they are leaving the business in safe hands. They are also more likely to realise the full value of the company when they exit” says Arrowsmith.

Private equity houses, as the most prolific buyers of owner managed businesses, are well positioned to identify suitable candidates. Arrowsmith continues “NVM can work with owner managers to identify a suitable successor that is in everybody’s best interests. Bringing someone in who is properly incentivised and brings management experience from previous positions is often a more profitable option than handing over the reins to an internal candidate or family member who may accept the role more out of duty than merit or ambition.”

-Ends-

**For further information please contact:**

**Lansons Communications**

- Karen Mignon - 020 7294 3685 [Karenm@lansons.com](mailto:Karenm@lansons.com)
- Caroline Macleod-Smith – 0207 566 9702 [carolinems@lansons.com](mailto:carolinems@lansons.com)

**NVM Private Equity**

- Liberty Bollen - 0118 951 7000 [liberty.bollen@nvm.co.uk](mailto:liberty.bollen@nvm.co.uk)

**NOTES TO EDITORS**

The research was carried out by Continental Research in November 2006. Interviews carried out with 200 Managing Directors and Financial Directors of SMEs across the UK with an annual turnover of over £1m

**NVM Private Equity Limited (NVM)**

NVM is independently owned with over 20 years' experience of investing in UK businesses. Our managers live and work on the ground in regional business communities across the UK. NVM manages over £180m of funds and is a generalist investor specialising in making equity investments in UK unquoted companies. We consider opportunities requiring between £1m and £10m.