

Contents

Preface v
Acknowledgements vii
Table of statutes xi
List of cases xv

1 Introduction 1

What is a management buy-out? 1
Is the deal likely to be on? 3
Price 4

2 Purchasing the target 11

Buy-outs of listed companies 11
Valuation methods for private companies 13
The vendor's objectives 15
Practical pricing 17
Negotiations 20

3 Can the finance be raised? 22

Introduction 22
Types of finance 23
Interest rates 26
Requirements of bankers and investors 31
Structuring the deal 36
What is the maximum debt finance that can be raised? 38
Structuring the equity 41
Mezzanine finance 47
The vendor 48
LBO based lenders 49

4 Tax considerations 51

Overview 51
Objectives 52
Methods of structuring the buy-out 53
Purchase of Target by Newco 54
Outright purchase of assets by Newco 64
Purchase of trade of vendor through hive-down into Target 65
Purchase of Target's assets by management team in partnership 65
Repurchase of shares 66

Demergers	70
Finance	73
Transfer of Target's trade to Newco	78
Tax relief for managers	79
Other tax considerations	83
VAT	85

5 The legal aspects 87

Introduction	87
The legal position of the members of the buy-out team	88
Planning the buy-out	98
Implementing the buy-out	127
Post acquisition	155

6 Pensions – the forgotten element 156

Introduction	156
Types of pension scheme	157
Sources of information and initial appraisal	159
Understanding an actuarial valuation	162
Implications for buy-out	168
The negotiations – summary	181
Acquisition agreement	183
Establishment of new scheme	184

Appendices

1 Glossary of buy-out terms	188
2 Accounting for the buy-out	194
3 Accounting for pension costs	198

Table of statutes

References in this Table to *Statutes* are to Halst showing the volume and page at which the annota

	PAGE
Banking Act 1979 (4 <i>Statutes</i> 457)	98
Bankruptcy Act 1914	102
Capital Gains Tax Act 1979 (42 <i>Statutes</i> 620)	
s 41	130, 131
62	67
72	71
77	71
78	58, 59, 71, 76
79-81	71, 76
85	145
86	71, 72
88	59, 100, 134
89	133
134	62
Companies Act 1929	
s 45	113
Companies Act 1948	
s 54	113, 116
Companies Act 1981	
s 42-44	113
Companies Act 1985 (8 <i>Statutes</i> 107)	60, 65, 97
s 35	145
47(1), (2)	101
53(1)	119, 120
54(1)	120
60	98
(1)	98
81	98
104	100
137	116
151	74, 97, 113, 115, 116, 117, 125, 134, 135, 193, 196
(1)	113, 114, 116
(2)	114, 115, 116
(3)	114
152	113
(2)	117
(3)	114
153	113, 117, 118, 119
(1)	97, 113, 115, 135
(2)	115
(4)	117
154	113, 119, 129
(1), (2)	117

bury's Statutes of England (Fourth Edition)
 ted text of an Act may be found.

	PAGE
Companies Act 1985 – contd	
s 154(3)	116
155	74, 113, 114, 115, 117
(2)	117, 129
(4)	117, 118, 119
(6)	118
156	113, 114, 115, 117
157	113, 114, 115, 117
(2)	119
158	113, 114, 115, 117
(2), (4)	119
159	112, 114
160, 162	112
163(2)	104
171–177	112
263(1)	116
(3)	112, 116
264	116
309	87
(1)	86
(2)	87
312	93
313	93, 100
316(3)	93
317	93, 94, 97
320	87, 93, 94, 125, 134
(1)	93
330	117
346	94
425	105, 116
428	120
429	105, 120
459	94, 88
743	117
Sch 4	145
Companies Act 1989	
s 108	145
132	117
Companies Securities (Insider Dealing)	
Act 1985 (8 Statutes 829)	107, 108
s 1(1), (2)	108, 109
(3), (4)	109
(5)	108, 109
(6)–(8)	109
3	108
Fair Trading Act 1973 (47 Statutes	
125)	94

xii *Table of statutes*

	PAGE
Finance Act 1971 (42 Statutes 425)	
Sch 8	72
Finance Act 1972	
s 79	54, 56
Finance Act 1980 (43 Statutes 809)	
Sch 18	71
Finance Act 1981 (43 Statutes 856)	
s 80	83
Finance Act 1984 (43 Statutes 1018)	
s 64	62, 75, 76
(2)	76
(6)	62
Sch 13	59, 76
Finance Act 1986	186
Finance Act 1988	144
s 77	61
(1)	54, 57
78	56, 146, 147
(1), (2), (4)	55
(5), (6)	55, 56, 57
79	56
80(2), (3), (6)	55
86	56
(1)	57
96(5)	67
141	120
Sch 11	62
Finance Act 1989	60, 149
s 67	68
139	76
(2)	62, 75
Sch 5	68, 69
Financial Services Act 1986 (30 Statutes 254)	98
s 47	98, 99, 100
(1)	98, 99
(2)	99
Income and Corporation Taxes Act 1970 (42 Statutes 385)	
s 267	69, 71, 72
273	61, 62, 77
278	61, 71, 72
279	71
280, 281	60
286(7)	74
Income and Corporation Taxes Act 1988 (44 Statutes 1)	
s 12(2)(a)	80
13A	68
(2)	79, 80
14(2)	59
75	73
94	62
130	73
135	58, 61
162	61
(3)	58
185	147, 148
188	81
209	65
(1)	72
(2)	59, 76
213	69

Income and Corporation Taxes Act

- *contd*

s 213(1)	69
(4)-(12)	70
214	69, 71
215	69, 70
216, 217	69
218	69, 70
219	81, 65, 66
220, 221	65, 66
225	66, 81
231(3A)	68
245	77
247	60
278	72, 129
291(1), (2)	77
300	77
338	73
343	61, 64, 72, 77
349	76
360, 361	79, 81
363(1)	79
393(1)	73
(9)	78
402	73
(6)	73
403	73
(4)	73
404-408	73
409	63, 73
410	62
416	75, 79, 146
419	73, 74
(4), (5)	73
574	63, 66, 68, 81
575(1)	67
576	81
707	59, 66, 73, 100, 133, 134
713	76
768	64, 77
838(1), (3)	60
839	72
840	146
Sch 4	74
Sch 9	147, 148
Sch 30	78
Insolvency Act 1986 (4 Statutes 717)	
s 110	69, 71
123	101, 118
(1)	103
(2)	102, 103, 118
214	103
238	101, 102, 103
239	101, 102, 103
(4)(b)	102
240(2)	102
244	103
245	102
(1)	102
435	102
Monopolies and Restrictive Practices (Inquiry and Control) Act 1948 ...	
	94

	PAGE
Prevention of Fraud (Investments) Act 1958 (30 <i>Statutes</i> 126)	
s 13	98
Restrictive Trade Practices Act 1976 ..	136
s 6(1)(a)–(f)	136
21(2)	136

Table of statutes **xiii**

	PAGE
Social Security Act 1986	153
Value Added Tax Act 1983 (48 <i>Statutes</i> 598)	
s 29(A)	84
Sch 6A	84

List of cases

	PAGE
Bacon (MC) Ltd, Re (1989)	102
Bell v Lever Bros Ltd (1932)	86, 88
Belmont Finance Corpn Ltd v Williams Furniture Ltd (No 2) (1980)	116
Bott (E) Ltd v Price (Inspector of Taxes) (1987)	68
Brady v Brady (1989)	115
Caparo Industries plc v Dickman (1989)	122
Clark v Workman (1920)	110
Coco v AN Clark (Engineers) Ltd (1969)	91
County Palatine Loan and Discount Co, Re, Cartmell's Case (1874)	88
Craven (Inspector of Taxes) v White (1989)	51
Dawson International plc v Coates Patons plc (1988)	87, 110
Ebrahimi v Westbourne Galleries Ltd (1973)	87
Fowler v Faccenda Chicken Ltd (1987)	90
Furniss (Inspector of Taxes) v Dawson (1987)	51
Gething v Kilner (1972)	86
Heather (Inspector of Taxes) v P-E Consulting Group Ltd (1972)	68
Heron International Ltd v Lord Grade and Associated Communications Corpn plc (1983) .	110
Hirsche v Sims (1894)	88
IRC v Duke of Westminster (1936)	51
JH & S (Timber) Ltd v Quirk (or Quirke) (1973)	64
Jeffs (Inspector of Taxes) v Ringtons Ltd (1986)	68
Kirby (Inspector of Taxes) v Thorn EMI plc (1986)	61
Marshall (Thomas) (Exports) Ltd v Guinle (1979)	89
Percival v Wright (1902)	86
Pergamon Press Ltd v Maxwell (1970)	86, 88
Posgate & Denby (Agencies) Ltd, Re (1987)	87, 94, 96
Produce Marketing Consortium Ltd (No 2) (1989)	103
Ramsay (WT) Ltd v IRC (1982)	51
Rutter (Inspector of Taxes) v Charles Sharpe & Co Ltd (1979)	68
Smith & Fawcett Ltd, Re (1942)	86
Snook (James) & Co Ltd v Blasdale (1952)	81
Walford v Miles (1989)	95
Weight v Salmon (1935)	58
Wood Preservation Ltd v Prior (Inspector of Taxes) (1968)	64
Zim Properties Ltd v Proctor (1984)	131