*"To be effective outside, you need regular appointments with yourself".* FADELA AMARA, Politician & Activist.

# BEING EXIT-READY

## How PE-VC-invested companies can prepare successful exits in India.

**By Francois Montrelay, Managing Partner, P2P Consultants**

With our combined experience as business managers, strategy consultants, investment bankers, and Board members, we at P2P Consultants, have developed an in-depth understanding of exit processes and why they often fail.

In this article, we focus on the measures Companies should take to make themselves Exit-Ready and prepare a successful exit.

We also outline the Governance systems one should put in place to make those measures effective.

**Do you have an Exit Strategy?**

## CONTENTS

# ABOUT THE AUTHOR
## FRANCOIS MONTRELAY, P2P CONSULTANTS

**Francois Montrelay** founded P2P Consultants in 2003. P2P Consultants then evolved to a 25-person group of Partners and Consultants in France, Germany, India, and Japan.

Francois advises the CEOs and Boards of client companies, focusing on:

- Strategic Consulting to develop and implement growth strategies.
- Strategic and Financial Advice to PE and VC Funds to prepare successful exits.
- M&A and Fund Raising services to a select number of mid-market clients.

He is an Advisory Board Member at GIEOM, an Indian Technology Company providing Business Excellence software and analytics to large organizations.

He also teaches Strategy & Finance at French Engineering School ESTP.

Francois has over 20 years experience of hands-on management experience in large international services companies and SMEs.

Prior to creating P2P Consultants, he was as Senior Vice-President at ABN AMRO Global Transaction Services where he managed Strategy, Marketing, and Customer Loyalty programs in over 40 countries. He was also the Head of Strategic Marketing at ACCOR SA, the European Leader in Hotels and Corporate Services, and Regional Head for Africa then Eastern Europe of US Consulting Engineers Louis Berger Inc.

# A SUCCESSFUL PE-VC EXIT
## REQUIRES AN EXIT-READY STRATEGY

In India, 60% of PE-VC investments aged 6 years or more are still un-exited*.
That's US$14Bn **locked and** invested at no return.
**Do you have an Exit Strategy?**

### 01

#### EXITS FAIL BECAUSE OF POOR PREPARATION

Exit is NOT the time to discover issues and problems.

A company going for exit has:

- Clear strategy and model
- Predictable value to shareholders
- Established financial processes
- Understood buyers' universe

### 02

#### EXIT IS A FULL PART OF THE BOARD'S AGENDA

In addition to Strategy & Finance, Boards must also keep exit in their line of sight:

- Knowledge of exit partners
- Exit options
- Value-at-stake
- Exit horizon options

### 03

#### GOOD GOVERNANCE CAN ACCELERATE EXIT

Bringing the right resources and processes on-board will maximize chances to develop a successful exit strategy.

* Source: Avalon Consulting and Venture Intelligence

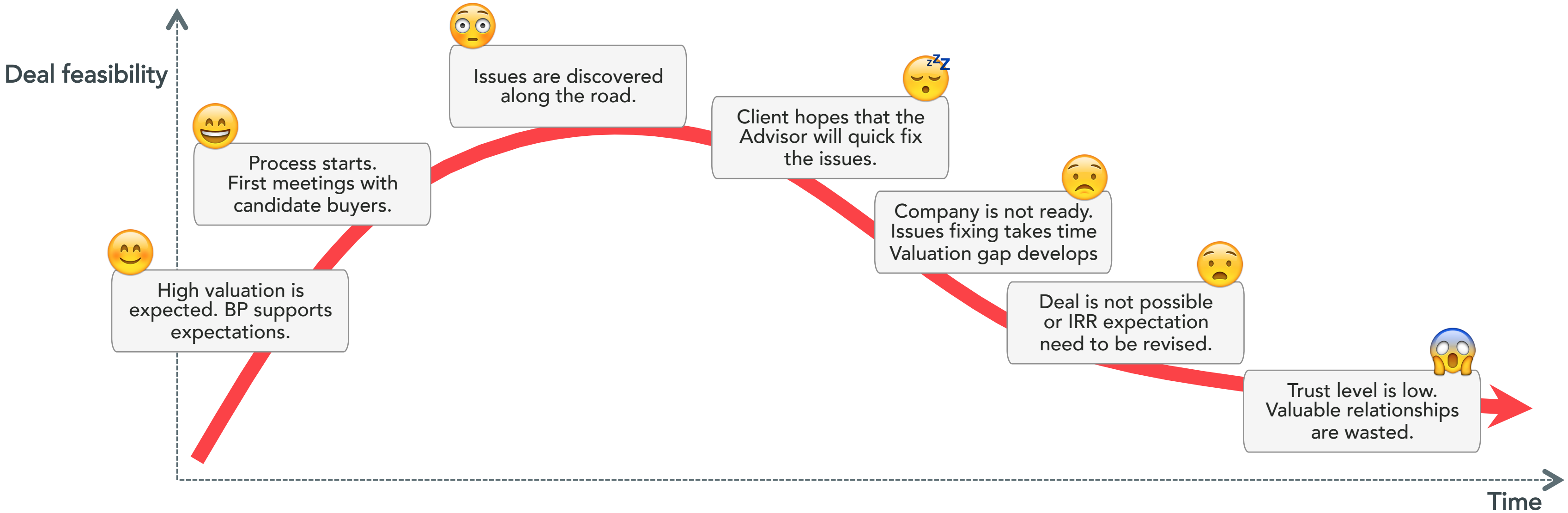
# WHY EXITS FAIL

- A FAMILIAR SCENARIO…
- WHY COMPANIES ARE NOT EXIT-READY
- CULTURAL COLLISIONS

# A FAMILIAR SCENARIO…

## HOW PE-VC EXITS OFTEN FAIL

Going into an exit, a Company's business plan gives you every reason to expect a high valuation.
After the first meetings with buyers, issues are uncovered that we hope M&A Advisors will fix.
But problems are deep-rooted and take time to solve. IRR targets and exit calendar need to be revised.
Relationships between the Company and potential buyers are irreparably damaged.




**EXIT PROCESSES | FROM EUPHORIA TO DISAPPOINTMENT**

# WHY COMPANIES ARE NOT EXIT-READY

## 6 REASONS THAT CAN DERAIL AN EXIT

Many of the issues might have been overlooked in a heady period of investment.
They will create doubt or suspicion from potential buyers.
They also lead to unrealistic exit calendars and valuation expectations.

> *"A manufacturer producing sub-standard quality industrial equipment at low cost might hope a Western buyer will invest to build a low-cost offer for small projects in emerging markets.*
>
> *But most international players compete on technology leadership for much larger projects.*
>
> *While the manufacturer may be more profitable than potential buyers, its hopes could be unrealistic."*

### 1. Too many offers

- Several parallel offers. Few may be scalable, with few or none at critical size.
- Limited synergy between offers will put financial pressure on the company.
- The Company make difficult decisions.

### 2. Over-confidence in a low-cost model

- A low cost base is an asset.
- But the business should also involve real expertise to make a difference.
- Almost no buyer will buy a cost base only.

### 3. Mixed business model

- Many Indian companies have hybrid models.
- These put pressure on the balance sheet and hinder growth.
- This model may also be unattractive for Western buyers who can't see how to integrate it into their own organization.

# WHY COMPANIES ARE NOT EXIT-READY

## 6 REASONS THAT CAN DERAIL AN EXIT (contd.)

Many of the issues might have been overlooked in a heady period of investment.
They will create doubt or suspicion from potential buyers.
They also lead to unrealistic exit calendars and valuation expectations.

*" A Professional Services company in the Transportation sector may be tempted to accelerate growth by taking Design & Build projects with a large Procurement component.*

*This will not only put pressure on its balance sheet but also create an unbridgeable gap with potential buyers who are looking to scale asset-light and high-end Services offer. "*

### 4. Working Capital constraints

- Companies may hope a buyer includes them in a larger cash pool, helping them escape their own working capital constraints.
- This would certainly impact the acquisition price.
- This would also clash with the culture of a buyer with high financial discipline.

### 5. Weak internal processes

- Financial & other processes are created for the exit but are not used in reality.
- This will raise questions about the reliability of information provided to buyers.
- Buyers will question the feasibility of post-acquisition integration.

### 6. Simplistic growth strategy

- Management concentrates on cost, price, and market access.
- Market evolutions, innovation, customer service, brand, etc. are neglected.
- Potential buyers want to lead across all business dimensions.

# CULTURAL COLLISIONS
## CAN BE DEAL KILLERS

Deals happen when companies feel their goals are aligned, their cultures don't conflict, and there is mutual trust. Lack of exposure to Western businesses can create an unbridgeable gap at exit time.

> "*Strategies must reflect an intimate understanding of your domain's financial dynamics.*
>
> *Business plan projections must be grounded and substantiated with facts, plans, and real execution.*
>
> *An Indian promoter starting a negotiation from twice the expected price has all chances to break the trust from his negotiation partner.*"

### The future is not granted

- There needs to be a separation between facts and hopes when it comes to the future developments of your company.

### Time usually does not play in your favor

- Most Western buyers want quick decisions and clear deal terms.
- Protracted discussions are a sign of low trust and fatigue.
- Having a good relationship does not mean you have an agreement.

### Not everything is negotiable

- Bridging large valuation gaps in negotiations is almost not feasible.
- Once the perception about a business is established, you can't reverse it.
- A decision is a decision.

# FIVE MEASURES TO BE EXIT-READY

- AN AGENDA FOR THE BOARDS

# AN AGENDA FOR THE BOARDS

## EMBEDDING EXIT REQUIREMENTS IN THE STRATEGY

Boards should ensure that all the dimensions of a future exit are known and looked after to deliver the right strategy, to exit at the right price and within a controlled calendar, in agreement with LPs.

### 1. Clarify exit options and partners' requirements

- Interact with potential buyers and discover their value drivers.
- Identify how to meet their technical and financial requirements.
- Understand how this will affect your business model.

### 2. Define strategic options to deliver IRR thresholds

- Develop strategic scenarios to bridge gaps and attach financial and valuation-at-exit scenarios to them.
- Assess the business and financial feasibility of the scenarios.

### 3. Develop your exit calendar to match your IRR goals

- Do the necessary trade-offs between financing, IRR targets, exit horizon.
- Decide on an exit calendar and agree with LPs.
- Develop a strategic roadmap to reach desired valuation goals.

### 4. Formalize a change agenda and monitor progress

- Have the Management write a tactical plan that they can execute.
- Do the necessary changes in the organization.
- Set up and enforce monitoring and control systems.

### 5. Provide exposure to Western business culture

- Ensure the Board and the Management interacts with Western peers.
- Learn about their skills and their way of doing business.
- Understand their negotiation practices.

# WHERE YOU WANT TO GO

## YOUR EXIT IS ALWAYS IN YOUR LINE OF SIGHT

Once an Exit-Ready approach has been implemented, important changes occur in the Company. Those changes will generate confidence from potential buyers and deliver anticipated IRR.

**STRATEGIC PATH** ................................. **Clear, with executable steps to reach identified targets.**

**FINANCIAL OUTCOME** ......................... **Pre-agreed with all from shareholders.**

**EXIT CALENDAR** ................................. **Pre-agreed with VCs / PE and their Investment Committees.**

**REPORTING & MIS** .............................. **In place, geared to the strategy, and with historical depth (not made-up).**

**EXPOSURE TO BUYER'S CULTURE** ......... **Already gained. Discussions are natural.**

**DUE DILIGENCE** ................................. **Easy to perform.**

# HOW GOVERNANCE CAN ENHANCE EXIT-READINESS

- AN ADAPTED GOVERNANCE TO MAKE EXIT STRATEGIES MORE EFFECTIVE

# AN ADAPTED GOVERNANCE
## TO MAKE EXIT STRATEGIES MORE EFFECTIVE

Implementing change can be an immense task all the more when PE-VC investors own a minority stake. That's why a successful exit must be supported by the right business practices.

### 1. Reinforce Boards

- With non-Executive members who can bring sector knowledge and expertise, and challenge the Management.
- With Advisory Committees to provide guidance on strategy-making.

### 2. Enforce effective reporting systems

- Build a healthy discipline way ahead of an exit.
- Improve the Management's ability to step back from daily operations.

### 3. Implement an Exit-Ready approach

- Adopt the **FIVE MEASURES TO BE EXIT READY.**
- Identify issues and solve problems before they block an exit.
- Steer an upcoming exit with full knowledge of the facts.

# ABOUT P2P CONSULTANTS

- HOW WE HELP COMPANIES TO BE EXIT-READY
- INTRODUCTION TO P2P CONSULTANTS
- CONTACT US

# HOW WE HELP

## OUR EXIT-READY APPROACH FOR PE/VC INVESTED COMPANIES

We provide a unique blend of Business Management, Consulting and Financial Advisory experience, in India and globally, to help you make the right decisions.

### WE TEAM-UP WITH YOU TO GENERATE EXPECTED VALUE.

#### 1. Build a path to Exit-Readiness

- Assess company's value and attractiveness to buyers.
- Identify gaps in the business and financial models to reach desired IRR.
- Focus of Management and Board on key strategic matters.
- Facilitate decision-making re. Exit Calendar and Value-at-Stake.
- Facilitate the development of action plans and reporting systems.

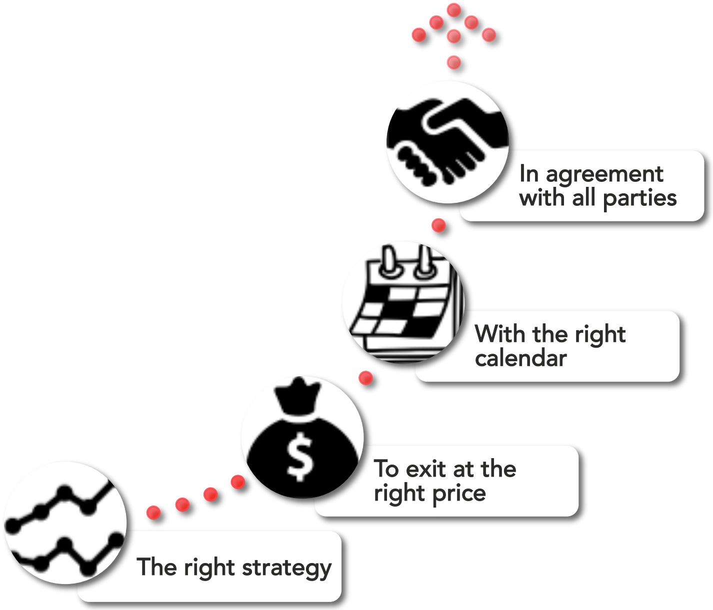
#### 2. Support, not do instead of you

- Make your team build strategies that they can implement.
- Facilitate consensus between Financial Investors and Management.

#### 3. Bring knowledge and expertise

- We know Business Management and Corporate Finance.
- We provide exposure to international buyers and businesses.
- We bring in specialized experts in virtually any sector.

### EXIT - READY PROCESSES | KEY BENEFITS



# P2P CONSULTANTS

## SMART STRATEGIES AT WORK

P2P Consultants is a boutique Corporate and Financial Advisory firm with offices in France and India, and partner offices in Japan and Germany.

Our team is made of senior business managers with CXO-level international experience in P&L accountability, M&A, Fund Raising etc.

We work with Boards and CEOs who want to make decisions and implement them.

### KEY ACTIVITIES

**CORPORATE ADVISORY: Helping your company generate value.**

**FINANCIAL ADVISORY: M&A, Fund-Raising, Capital Organization.**

**EXIT-READY: Helping PE & VC-invested companies get ready for an exit.**

### REFERENCES: UPON REQUEST

### KEY PEOPLE

**Francois Montrelay - Managing Partner**
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