

# Mergers, Acquisitions and Exit Planning

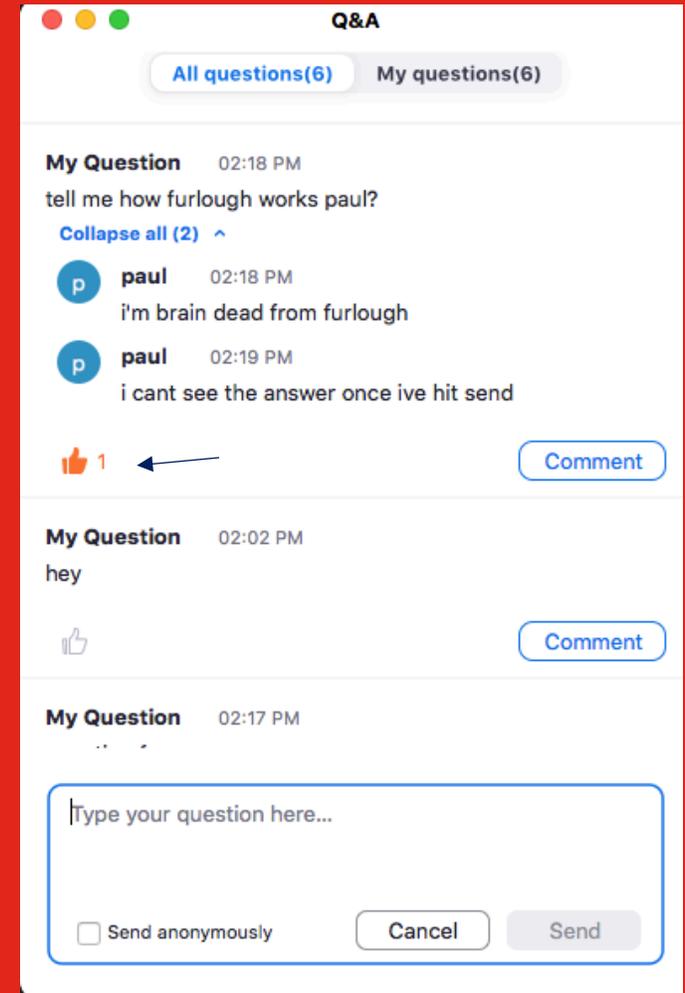
Presented by Lee Manning and Bradley Placks

# House Keeping

Please click on the Q&A button at the bottom of your screen and write your questions in there. Once the presentation is over, we will be holding an open Q&A with Marketing Co-Ordinator Charlie Horne.

If you see someone has already asked the same question as you, please click on the 'thumbs up' icon to vote for that question to be answered. Please do not ask the same as someone else.

Please also get a pen and paper ready if possible, as this is an interactive webinar, and we encourage you to take part.



# Our Values



**make a  
POSITIVE IMPACT**



**get it  
DONE**



**deliver to a  
HIGH STANDARD**



**always  
MAKE TIME**



**dare to  
BE BOLD**

offering you the best business and accounting advice in the game.

# We think **big.**

We offer a holistic approach in order to provide our clients with clear commercial financial advice and solutions.

Our core services include:

- Strategy
  - Profit First
  - Cashflow Management
  - Wealth Management
  - Corporate Finance
  - Tax Planning
  - Forecasting and management
  - Systems integration and organisational management
- 
- Alongside this we provide routine compliance services such as accounts, tax, VAT and payroll.

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# Today's Speaker – Lee Manning FCCA



I am one of the founder partners at Raffingers. I specialise in strategic business planning, cashflow management and profit improvement in order to improve business performance and financial results. I am also a Profit First certified professional.

With 32 years' experience working in practice, I also provide business advisory, audit, accountancy and tax services to SME's and owner managed businesses.

# Today's Guest Speaker – Bradley Placks



With over 25 years of experience within the Recruitment/Recruitment Technology industry, I have founded and led a variety of businesses, including being a Co-Founder of Broadbean.

I have successfully exited four businesses as well as experiencing a merger. Having invested in a Corporate Finance business specialising in M&A within the recruitment sector, I understand how to create value within your business.

I work as Chairman/Non-Exec Director to a number of businesses within the recruitment sector

# Today's Agenda

- How has Covid impacted the recruitment sector
- Predictions for 2021 and beyond
- Budget Update
- IR35 update
- M&A Benefits
- Q&A session



# General Update

- How has Covid impacted the recruitment sector?
  - Perfect storm – IR35, Brexit & Covid
  - Furlough used by most firms to retain staff but used it to get rid of dead wood
  - BBL & CBIL's taken where needed
  - Some stats:
    - Healthcare & tech proved resilient – depends what area focused on senior management roles hard. Tech contracts resilient showing modest growth. Perm placements put on hold.
    - Education long term placements strong but short term collapsed.
    - Aviation & automotive immediate steep drop in demand.
    - Construction stalled with near full termination of contractor placements for several large employers.
    - Financial & professional services have seen the sharpest decline, but essential roles have paused. FD and FC roles have continued but more junior and less critical roles put on hold. Niche such as actuarial and restructuring/insolvency positions expected to see a rise in demand.



# Predictions For 2021 and Beyond?

Five actions to best position for an anticipated exit from lock-down:

1. Rolling cash management assessment
2. Active relationship management
3. Strong leadership
4. Staff engagement
5. IT investment

In the longer-term, a positive outlook is expected for the recruitment industry with three key trends emerging:

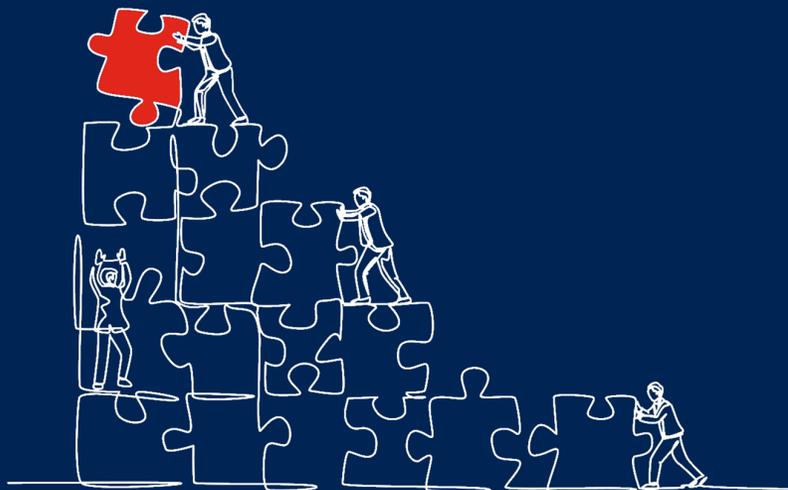
1. The long-term outlook for recruitment is wholly positive
2. Working practices are expected to undergo a step change to online
3. Recruitment industry consolidation

# Budget Update

- Corporation tax increase
- Super Deduction of 130% on investments in equipment
- Apprenticeship incentives
- Furlough extended but need to contribute from July
- New Recovery Loan Scheme

# IR35 – Who is Affected?

- Those who withdraw money from their personal service company (PSC) as a dividend rather than salaries or leave money in the company
- Only medium and large business
  - Satisfy 2 or more of the criteria in Companies Act (CA) 2006:
    1. Annual turnover not more than £10.2m
    2. Balance Sheet total of not more than £5.1m or
    3. Have no more than 50 employees



# IR35 – Who is Liable?

- If a chain of intermediaries and contractors is used to provide a contractor's services – you need to decide who needs to consider the tax status and/or withhold tax and national insurance (NIC's).
- The organisation paying the contractor is liable to undertake the Check for Employment Status for Tax (CEST test) and deduct tax and NIC.
- This will mean increased admin costs and loss of profits as employers national insurance (ERS NIC) will need to be paid at 13.8%



# Employment Status

It is anticipated that a contractor who is determined to be employed for tax purposes may claim they are also a worker for employment rights and be entitled to holiday pay and subject to minimum wage regulations and unfair dismissal rights.

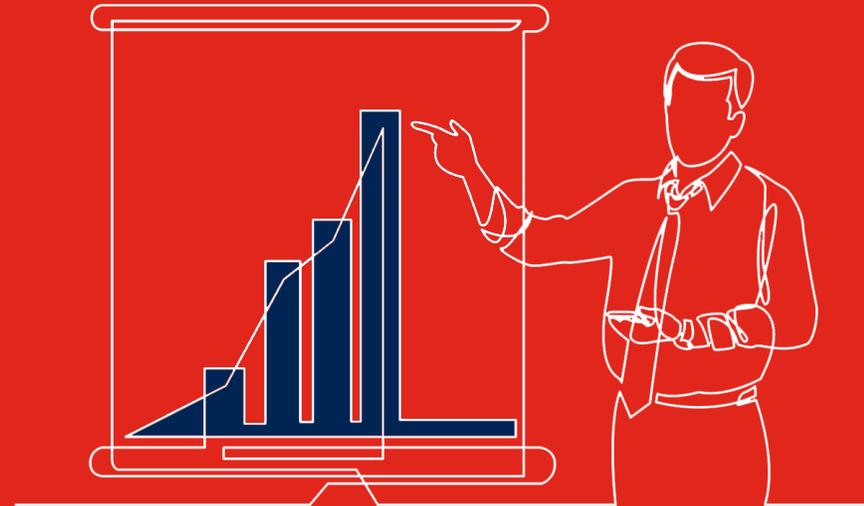
This needs to be done for each contractor and a blanket approach should not be applied.

Responsibility of the end client to establish arrangements to consider any disputes from the PSC about the Status Determination Statement (SDS). 45 days limit to respond in writing to the PSC with the outcome of the review of the dispute.

# Who is Legally Responsible For The Tax Liabilities?

The organisation with the responsibility for issuing the SDS, or the fee payer if an Agency is involved, is responsible for any employment tax liabilities arising.

HMRC can also recover the tax from another "relevant person". A relevant person is any party involved in the payment to a PSC. This means HMRC can recover tax from the highest party in the labour chain which is not complying with the legislation.



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# What Are The Solutions?

1. Amend contracting arrangements so the contractor is genuinely engaged on a self-employed basis. HMRC looks at the reality of the situation rather than just the contract, so any such changes do need to be carried out in practice.
2. HMRC can open an investigation to check you're not a disguised employee at any time. This means that the only way to avoid IR35 is to make sure you're legitimately self-employed.

# Tips of The Trade

**Always make it clear** in your contract that you're an independent contractor.

**Make sure you're in control** - You should get to decide how, when and where you do your work. You should also specifically reserve the right to turn down jobs you don't want to work on. More importantly, keep proof that you have this freedom, such as email trails.

**If possible, exercise your right to send a replacement** - This shows the HMRC that the obligation to fulfil the work doesn't entirely fall on you.

**Don't put all your eggs in one basket** - HMRC is more likely to believe you're a legitimate business if you serve more than one client. In any case, it's never a good idea to rely on just one client for all your income.

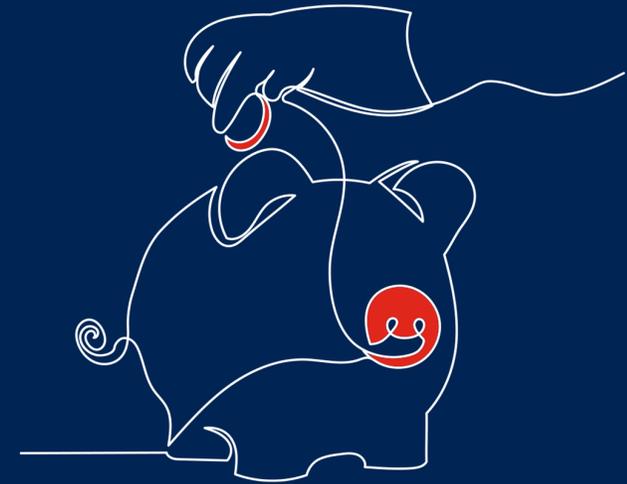
**Avoid getting sucked in** - Don't let clients include you on their organisational chart, website or give you company business cards. It's probably also a good idea to turn down benefits your client gives their employees.

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# Types of Deals

- Outright Sale
- Partial Sale
- MBO
- De-risk
- Employee Ownership Trust (EOT) – currently no CGT
- Must be a commercial transaction. HMRC will not accept artificial structures designed simply to avoid tax



# Valuation Conundrum

Majority of businesses impacted by Covid, current year performance depressed

## SELLERS VIEW

Current year is artificially low



## BUYER'S VIEW

Previous performance is history, future is speculative



## HOW TO BRIDGE THE GAP?

### **Deal structure including an Earnout**

Enables value to be increased based on future performance

Take tax advice to ensure Earnout is taxed at current CGT rates

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# Earn Outs

- Need careful negotiation
- Short term v medium term objectives (e.g. hiring new employees)
- Who makes decisions (e.g. opening new offices)
- Protections (e.g. not redeploying staff)
- Avoid step changes (where £1 more or less profit can have a significant impact on value)

# Key Value Drivers



Quality of second  
tier management



Perm v temp  
contract mix



Compliance



Client  
concentration

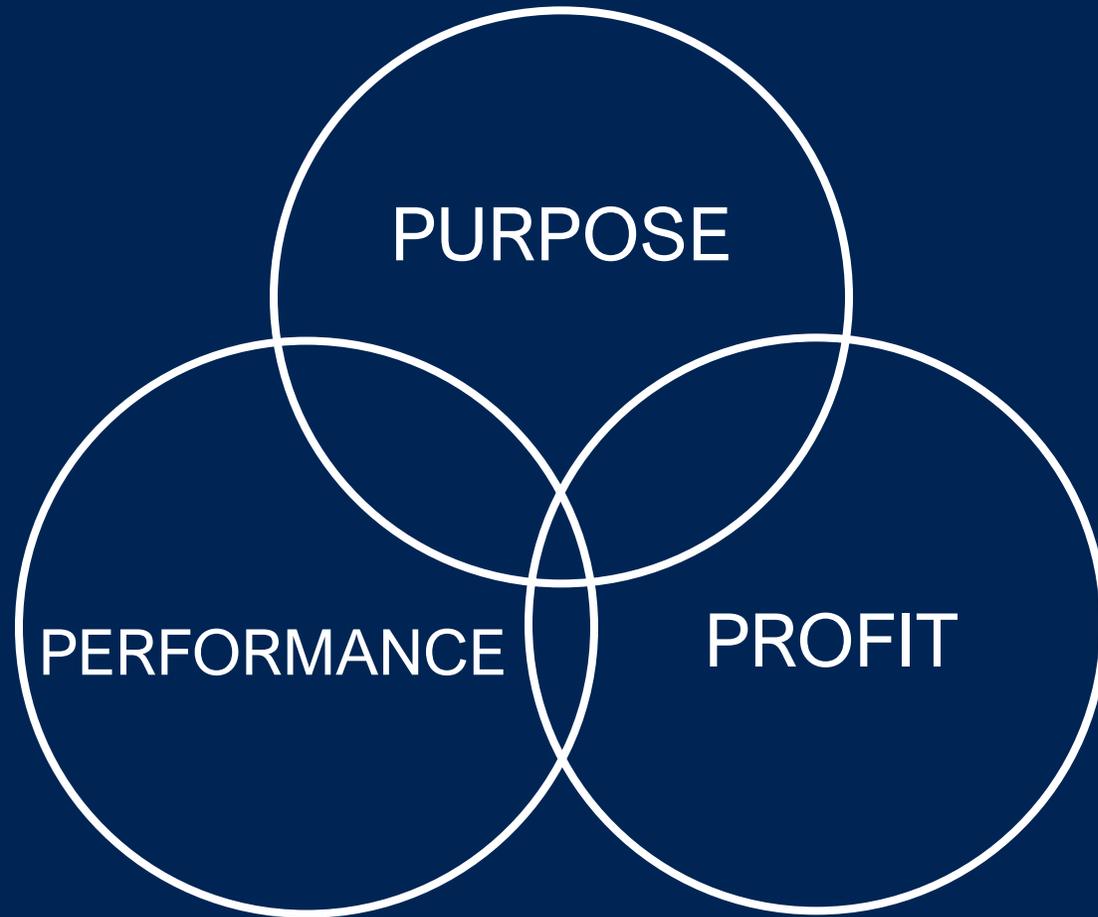


Treatment of  
debt

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# Impacting The Future Face Of Business



# Points To Consider

- Be agile enough to keep up to speed with your clients
- Look after yourself, your people and your contacts
- Understand your market and the trends for future growth
- Develop deeper relationships to increase loyalty
- Have a purpose, have a vision, make sure your team are with you and are on board
- Love what you do and let those around you see that you do

# Contact Details

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# Questions?



# Thank You



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