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CASE STUDY – ACQUISITION OF OCTAVIA INFORMATION SYSTEMS LTD BY FIFOSYS LTD – a 32 day whirlwind of focused activity

LONDON, 13th JANUARY 2011

CLIENT: Fifosys Ltd, based in West Hampstead, London see www.fifosys.com

IIB ASSOCIATE: Peter Kroeger

NATURE OF BUSINESS: IT Managed Services, IT Outsourcing and Cloud Computing

Fifosys, founded in 2001, has been operating as an IT Managed Services provider since 2005 and has grown rapidly to a current turnover of £2.4m, of which £1.4m is generated from recurring services. The owner, Mitesh Patel, having completed the Business Growth Programme at Cranfield University, wishes to grow both organically and by acquisition.

In 2009, Mitesh engaged Peter Kroeger, a specialist Mergers and Acquisitions Adviser with considerable experience in the IT sector, to assist with strategic planning and acquisitions and to act as a mentor. Together they developed a profile of the type of business which, if acquired, would add skills, customers, technologies and management to Fifosys and provide a step change in its growth.

After unsuccessful approaches to three previous targets, Mitesh identified London Bridge-based Octavia Information Systems Ltd as a company that appeared to meet the required profile. Octavia was founded in 1998 and has revenues of £1.6m, of which £800,000 is generated from recurring services. Combining the two businesses will create a 45 person IT services business with revenues of £4m, of which over half is in recurring services.

Peter contacted the major shareholder of Octavia, and quickly established that Octavia was already under offer and preparing for a due diligence response. This meant that time was of the essence, so, working at a rapid pace, he:

- a. arranged a mutual confidentiality agreement signed by both principals
- b. started the discovery process and requested financial and commercial information to get a better idea of the fit
- c. arranged a meeting between the two principals; the fit seemed perfect and the personal chemistry was also very positive
- d. prepared a valuation range and business case for Mitesh, laying out the joint forecast profit and loss account, future cash flows and balance sheets and the potential “halo” effect of combining the two businesses
- e. reviewed the financing necessary for Fifosys to acquire Octavia and established that £500,000 was required to be raised in addition to Fifosys’ cash resources
- f. prepared a draft offer for Octavia which was made to the vendors; after some negotiation, a deal was agreed on 1st December, just a week after the first meeting
- g. drafted the Heads of Terms ensuring that the commercial terms were clearly understood by all the sellers. The Heads of Terms also included specific instructions to the lawyers in respect of the Sale & Purchase Agreement.

A completion date was set for 23rd December, before the Christmas holidays began, because Mitesh was due to leave on a long planned holiday returning on 11th January 2011. There were a number of issues that needed to be dealt with quickly:

1. raise £500,000
2. appoint a legal team; Nick Mallet headed up the team from DMH Stallard



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3. arrange financial and legal due diligence; this was performed by Colin Black, an independent Finance Director
4. agree service and compromise agreements for the exiting shareholders and directors of Octavia
5. draft a post acquisition plan for Mitesh to work on with the Fifosys management team

While performing the commercial due diligence, Peter dealt with all of these issues and kept a tight rein on the workload and the time and effort undertaken by DMH Stallard in preparing all the necessary agreements and Colin Black in conducting the due diligence. He also ensured that Octavia and its solicitors and accountants did their part and kept to the required timetable.

The initial approach to Octavia was made by Peter on 10th November and two weeks later, on 24th November 2010, the first meeting between buyer and seller took place. The transaction was completed on 23rd December 2010, just 32 working days from the first approach. The business was handed over to Mitesh by the Vendors on 12th January 2011.

TESTIMONIAL FROM MITESH PATEL

“Peter Kroeger is the consummate professional. He knew exactly what had to be done, by whom and by when. He chaired every meeting, kept me informed of the big picture, handled the detail, and cajoled everyone, including the sellers, to keep to the timetable. I had no idea how much work is involved in an acquisition. In fact, I suspect there is much more taking place than I actually saw since Peter, Colin Black and DMH Stallard handled so much of the detail. I felt in very safe hands. Because of this, during the due diligence and contract process, I had the time to think very clearly about how I am going to merge the two businesses and was able to bounce ideas off Peter and Colin. I will make this acquisition a success and I look forward to working with Peter through the integration process and onto the next acquisition once this one is bedded in” commented Mitesh Patel.

Mitesh can be reached on m.patel@fifosys.com or 0207 644 2610



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