



Diversification Case Study

DikDok HA has put a proposal to its Board to acquire a company that provides M and E engineering services to a variety of clients, including HA's, seeking carbon reduction solutions to both new build and existing properties.

The owner of the company has run it for 20 years and is looking for an exit strategy which will enable him to carry on working for the next 2 years as MD, with 50% of the purchase price paid at acquisition by the HA, and the remainder in 2 years when the MD will retire.

The HA CEO believes this is an excellent opportunity to diversify the services offered by the association, and set up the M and E company as a separate commercial subsidiary to the main HA. The acquisition price of £1.5million can be raised from the HA's current borrowing arrangement from PMTM Bank, which allows for onlending by the Association of 15% of the total facility (£40m).

The company currently makes a profit of around £100,000 before tax, but the CEO is confident with the right branding lots of other HA's would buy their services, as well as having the expertise in house to help the HA on its journey to carbon neutral and energy efficiency.

As a Board member, think about what sort of information would you be expecting to see in a business case for this proposal? What are the obvious questions and challenges you would expect to see at a Board discussion?