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**Role Play**

**Licht aus (Lights out):**

Role of Fischer

06/2024-6913

This role play was written by Eva Shen, John Rizzetto, Jusuf Merukh, and Tobias Funke, INSEAD MBA Alumni, under the supervision of Martin Schweinsberg, Associate Professor of Organisational Behaviour at ESMT Berlin, Horacio Falcão, Professor of Management Practice of Decision Sciences at INSEAD, and Eric Uhlmann, Professor of Organisational Behaviour at INSEAD. It is intended to be used as a basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation.

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General Information (For All Parties)

Intelligente Beleuchtungssysteme (IBS) is a fast-growing German manufacturer of home automation products. IBS’s products are sold via electronic wholesalers who sell to electricians. Electricians sell and install the product both in new build residential as well as new build commercial buildings. The European electric wholesale market is dominated by a few large traditional (mainly brick and mortar) players with a high market share and strong customer loyalty. Recently, new pure-play online wholesalers have emerged and are growing rapidly. Due to their low-cost structure, they can be competitive on price, despite selling less volume than the large players. Any savings from cheaper procurement will not be passed through to the ultimate customer but will stay with the electrician, and in most cases the end-costumer will not know the brand of product installed in her/his home.

IBS competes with large, diversified electronics and industrial companies. The competition is mainly servicing the market via the top 2 traditional wholesalers, while IBS found its niche in online wholesalers as well as in smaller local wholesalers.

The underlying market for home automation products is growing above 10%. The main drivers for market growth are increased penetration of home automation solutions in new built residential buildings, driven by consumer preferences (increased connectivity) as well as increased regulation for energy efficiency.

Over the past years, IBS has significantly outgrown the market with annual revenue growth of 20-35%. IBS’ successful strategy centers around self-developed innovative products at a significantly lower price point than competing products, which makes them highly popular among electricians. IBS has further focused on a particular technological niche in the home automation space, targeting the high-end segment. Despite the significant scale and resource disadvantages vs. its competitors, IBS managed to gain substantial market share. Given the very lean and focused product portfolio, the company operates at a very high level of efficiency resulting in EBITDA margins of more than 50%, which is unheard-of in this industry.

Ms. Fischer has founded IBS about 20 years ago and has led the company ever since. While refurbishing her home, she increasingly became frustrated with the high market prices of home automation products and the lack of desired features. Being an electrical engineer by training and convinced that she could develop better products at a lower price point herself, she launched IBS. Since then, Ms. Fischer has run the company as CEO and has developed some of the most innovative products in the current portfolio.

As Ms. Fischer is approaching her 55th birthday, she is considering selling the company. She does not have any children who could take over the firm. She has hired the investment bank GT Corporate Finance to advise her on the potential sale of the business. Erika Haldermann, who is leading the sales process, has been working in the industry for many years and has focused on the construction segment in the past. As customary in this industry, the investment bank will be paid a certain percentage of the transaction value upon the successful sale of the company.

Over the past weeks, Ms. Fischer had several discussions with leading private equity firms in Europe that would be interested in acquiring IBS. After initial rounds with a broader group of potential acquirers, the field has been narrowed down to few potential parties. Also, competitors of IBS would be highly interested in acquiring the company.

Today Ms. Fischer and Ms. Haldermann are meeting with Ms. Preiss and Mr. Trachtner, both Partners at TCP Capital Partners, to negotiate acquisition terms. The parties have met during the due diligence on IBS, where Ms. Fischer has presented TCP Capital Partners with her business plan for IBS. However, they have not yet discussed the concrete terms of the potential deal. TCP Capital Partners is a leading European private equity firm with several offices around Europe. They have been interested in acquiring IBS for a long time and have signaled strong interest to Ms. Fischer and Ms. Haldermann over the previous weeks while conducting due diligence. Given their strong footprint and experience in this sector, they seem like a good partner to accelerate growth for IBS and expand its operations into new geographies.

On their way to this important meeting, both parties are discussing their strategy for the upcoming negotiation, hoping to be able to sign this deal ahead of the approaching Christmas break.

Role of Ms. Monika Fischer – CEO and Owner of IBS

You are Monika Fischer, the founder and CEO of IBS. Almost all products developed and sold by the company have been developed by you. You see the company as your brainchild and most people consider you a real technology nerd. You strongly believe that IBS‘s products are significantly better than those of the competition. Not only have you developed products with distinctive designs, but you have also added many new functionalities. IBS’s switches made from glass with reprogrammable displays have won various innovation awards, which you are very proud of, and despite many attempts, the competition was not able to successfully copy the product. At the same time, IBS’s products are up to 30% cheaper than the competing products. Despite the significantly larger size of the competitors, you do not consider them a real threat to your business. You are very convinced that your company will continue to perform strongly and will grow significantly faster than the projections you have shown to the potential buyers in the due diligence meetings.

As the business has grown, your responsibility has increasingly shifted from spending most of your time developing products to general management tasks, which you do not really enjoy. While you see a strong potential for the future of the firm, you are personally not motivated to lead an expansion to new markets, to lead more people, or to accelerate growth. Indeed, the opposite is the case. You would prefer to step down as CEO immediately after the acquisition and retire in your newly built (and of course fully automated) vacation home in the Alps. If a potential buyer would require you to stay with the company as part of their offer, you could only see yourself in a role that is entirely focused on product development. However, your clear preference is to spend as little time as needed in the office (0 to 2 days a week).

Although you wish to take a step back, you care deeply about your employees and know everyone personally. It is very important to you that the company will be run by a capable management team that is aligned with the firm values centered around leadership by technological innovation, trust, and respect for employees as well as the development of the local community. Consequently, your involvement in the recruiting of a future CEO is very important to you.

Given your approaching retirement, you prefer to sell all your shares in IBS, but the investment bank has already informed you that a private equity firm would most likely ask you to stay invested in the company going forward while giving full control to the new owner. This is done to give the new owner confidence about your business plan for the company which you presented to them. After considering carefully, you concluded that you could accept keeping as high as a 15% stake in the company but would ideally prefer a stake as close to 0% as possible. You might be willing to agree to more than 15%, but only if the private equity firm offers outstanding value on the other issues that are important to you.

Due to IBS’s high profitability, you have received significant dividends over the past years, and you are happy with a moderate standard of living. You do not have any children, which is why you have decided to use the proceeds from the sale of IBS to establish a foundation that will focus on the regional development near IBS’s headquarter as well as on the development of elderly care facilities.

Selling to a Competitor

For you it is obvious that you would never sell to any of IBS’ competitors as you want to preserve the IBS brand and generally have a relatively low opinion of the other firms in the industry. Consequently, you prefer an agreement with a private equity player that would also provide a guarantee not to sell to a competitor in the future.

The Investment Bank

One of the key roles of the investment bank, besides organizing the overall sales process, is to give you guidance on the expected valuation for your company. You have no experience in selling companies, so it is very hard for you to assess what a fair value for IBS may be. You have selected GT Corporate Finance after speaking to various parties due to their excellent reputation as well as the highest indicated valuation levels. In fact, Ms. Haldermann from GT Corporate Finance has already approached you 3 years ago, and you have kept in contact since. You have agreed to a fee structure that will pay GT Corporate Finance 1.5% of the final valuation. The contract also mentions an optional fee of up to 0.25%, which can be paid at your full discretion. You would consider this extra fee if Ms. Haldermann helps you reach an outstanding agreement with TCP Capital Partners.

Over the past months, you have been working closely with Erika Haldermann, Managing Director at GT Corporate Finance. In preparation for the upcoming meeting, you seek Ms. Haldermann’s guidance on the expected valuation and negotiation tactics.

To be clear, you should aim to agree on an **equity valuation** of the firm, in other words its total financial value [of all shares] in the company, as well as what percentage of the company the seller will retain (if any). The payment from the buyer to the seller will be less than the equity valuation, if the seller retains some percentage equity.