

Mission Possible: Turning Illiquid but Robust SMEs Liquid via Frankfurt-listed MBH Corporation

MBH Corporation (M8H.GR) was formed to provide investors access to SMEs in a liquid, tradable form via the company's shares, which since November 2018 have been listed in Frankfurt.

Callum Laing, the company's Singapore-based co-founder and CEO, has been spearheading MBH's purchases of SMEs in sectors ranging from education to training to care homes, and in locations from the UK to New Zealand. Agglomeration, which MBH has trademarked as its corporate strategy, is their proprietary process by which smaller, stable, profitable companies convert their private shares at an agreed pricing into public shares in MBH, which then works with those businesses to accelerate their growth trajectory using the strategies and resources of the listed group, including expertise, skill transfer, best in class practices, cross-selling to other group companies and where appropriate, zero-cost funding for new growth projects. Laing met with Hubbis recently to offer up his vision for MBH, his irrepressible enthusiasm and to highlight how HNWIs and family offices can participate in the SME market via MBH's listed, liquid stock.

MBH Corporation (MBH)

paints itself as a new style of corporation, which the founder Laing says is designed to maximise shareholder value by facilitating access to a diverse portfolio of highly motivated, high growth, small to medium-sized enterprises (SMEs).

Callum Laing is both Co-Founder and CEO of MBH, as well as being Ambassador for deal website DealGateway.com, and also High Commissioner for the World Business Angel Investment Forum. He has written three best-selling business books, including his most recent titled 'Entrepreneurial Investing'. (To access a copy of Callum's latest book, courtesy of MBH, entitled Entrepreneurial Investing – Connecting Sophisticated Capital with Talented Small Businesses, please [CLICK HERE](#)).

"MBH is all about bringing together a growing range of profitable, best in class businesses with a unique formula for growth," he begins. "As a diversified investment holding company, the company acquires small to medium enterprises (SMEs) across multiple geographies and sectors that are well established, profitable and looking to scale."

He explains that by leveraging his firm's trademarked 'Agglomeration' strategy, MBH is able to create substantial shareholder value through the consistent and accretive acquisition of excellent companies. "And for the wealth management industry, as a new style of corporation," he reports, "the access we offer investors is of course of great interest, as HNW and ultra-HNW clients seek to diversify their holdings and seek new ideas for future portfolio growth."

Laing's Key Priorities

The first priority is growth, Laing reports. "In our first year as a listed company, we have gone from zero to 10 companies, and a combined pro forma revenue of USD110 million, with combined EBIT of USD10 million, yet we still have cash of USD4.5 million, and that makes us one of the fastest growing small-cap stocks around," he explains. "So, our first priority is continuing to attract great companies. Those companies, as I explained, are solid and reliable and have a long history, but it is MBH which offers the high growth as the vehicle holding more and more of these businesses."

Laing predicts MBH will achieve a USD1 billion market capitalisation within three years, based on his projected EBIT of USD50 million by then.

The second priority is the organic growth of the companies in the group, as he says almost all of them are able to attract bigger contracts and more senior staff by being in the MBH fold.

And his third key priority is to build that ecosystem so that if acquisitions in the portfolio want to utilise group services for access to capital or group buying, MBH offers the appropriate infrastructure and ecosystem.

A HUGE SLICE OF THE GLOBAL ECONOMY

SMEs, he explains, make up 50% of GDP in most developed countries yet remain off-limits to investors. These are business owners, men and women, with decades of experience in their industry who have already figured out the client/product fit and their own unique selling proposition. "The businesses already in the MBH portfolio do simple things well - they provide childcare to children, build houses for families and cook meals for hungry people. They sell a good service for money. And he quips that "weirdly, many of them make profits too, year after year!"

And yet this little known and profitable section of the market known as SMEs has previously remained off-limits to so many

smart investors. "SMEs are often considered too illiquid and too risky," he comments, "and many of us might have been burnt by investing in a friend's new business with a promise of an exit in a few years, whereas those that have successfully achieved that are almost as rare as the 'Unicorns' that form our portfolio today."

THE EQUITY STORY

MBH aims to achieve scale, EPS growth, organic growth and synergies. "We buy ownership through the purchase of 100% of the businesses, and the founders are incentivised by helping boost our earnings and credibility through increasing revenues and profits in the businesses they founded and that they continue to run within MBH," Laing explains.

**CALLUM LAING**

MBH Corporation

"We obtain access to deals that we consider undervalued and that offer three significant value drivers – they are immediately EPS accretive acquisitions and projected to continue to be so, they offer robust organic growth potential, they are often synergistic between companies in the group."

Typically, the founder is still running the businesses MBH acquires, and Laing and colleagues aim to add about 10 to 20 companies a year. "By using our own stock for the acquisitions and not overpaying," he explains, "every acquisition that we do is immediately earnings per share accretive. So, it makes us a very fast growth and profitable company."

THE AGGLOMERATION™ SOLUTION

Laing believes MBH has pioneered a strategic growth model in the form of its trademarked Agglomeration™ approach. "The core principle is that the corporation protects and preserves what made a business profitable," he elucidates, "and the places the same into a community of like-minded businesses with the sole intention of enhancing the value of each individual group company."

Getting Personal with Callum Laing

Laing is originally from New Zealand and lives in Singapore with his English wife and two children. "It is simple," he says, "because we operate a holding company, and that gives me global flexibility. Singapore is one of the best possible countries to live in worldwide for health, education, infrastructure, lifestyle, business, and so forth. I spent a lot of time on the plane, and Singapore has half the world's population within a five-hour radius. And I have been in Asia for 20-plus years."

Although hailing from Auckland, Laing grew up mostly in the UK, in Cambridge, and although he went to university in Sunderland, he soon dropped out and set up his first business in Amsterdam as a recruitment company providing IP engineers to telcos around Europe.

"It was incredibly successful," he reports, "which was more down to the fact it was the height of the dotcom boom than any huge talent on my part. I then came out to Asia and jumped on the mobile phone and value-added services bandwagon at an early stage, again the right timing and the right sector. And from that, I have got involved in a wide range of businesses, from sports events companies to restaurants, and CRM agencies."

Around five years ago, he began working with his current business partner Jeremy Harbour. Harbour is well recognised in the business community as being one of the foremost thinkers in the small business M&A space, an award winning entrepreneur in his own right and owner of Harbour Club, a 3 day, small business deal making training program that has had a huge impact, not just on those that attend, but also on the flow of deals they can access. "We had a similar objective," he reports, "solving the riddle of offering small businesses and offering their owners liquidity through connection to the capital markets, with end-investors eager to participate in the great growth potential these businesses offer. I had been in Singapore for about five years when roughly five years ago, we began devising our agglomeration methodology. MBH is the child of that, and is approaching two years old, while we listed in Frankfurt on November 18 and will announce our first-year numbers at the end of April."

Laing and his wife, who is English, have been together for more than 20 years, have two daughters, aged ten and six. "They all love our life in Singapore," he remarks. Spare time might be spent keeping fit in the gym, or when more time permits snowboarding in favourite resorts such as Hokkaido in Japan.

Laing is also a keen author of books on small businesses and on entrepreneurial investing, having written three books titled Progressive Partnership, Agglomerate and most recently Entrepreneurial Investing.

With Agglomeration, profitable companies convert their private shares into public shares in MBH at an agreed multiple. Locked up for 365 days, company owners are then incentivised to accelerate their growth trajectory using the resources of the plc including expertise, skill transfer of best in class practices, cross-selling to other group companies and where appropriate, zero-cost funding for new growth projects.

Each business retains its autonomy by following appropriate, agreed Corporate and Financial Governance and business owners are incentivised financially to enhance shareholder value for themselves as shareholders and for MBH, of course.

"What we have found at the moment is that, especially amongst small family offices and smaller institutions, they are very keen on the small business space," he reports. "SMEs can rapidly double or triple profits, but it is tough to capture that growth and potential; hence we offer access with the liquidity of the PLC. We offer diversification and scalability."

REACHING THE (ENGLISH-SPEAKING) WORLD

Laing lives and works out of Singapore. "It is warm here," he reports, "it is a great hub for accessing companies across the globe, and as a holding company, we already have companies in New Zealand, Singapore and the UK, while the pipeline comprises the US and Canada. The only proviso, as you might guess, is we prefer English language markets. While my family is here in Singapore, I spend most of my time on the plane meeting with investors or

talking to those companies. I have been in Asia for over 20 years."

Laing explains that there are a few key points of similarity between the businesses MBH buys. "We are incredibly focussed on a very small niche at the top of multiple different industries," he elucidates. "Companies that we work with are typically debt-free, profitable, small businesses that are in the USD1 to USD10 million EBIT range, and most of them are at least 20 years old perhaps with a founder in their 50s or 60s."

He explains the targets are not high-tech, fast-growth glamorous businesses; in fact, he says these are typically "slightly dull businesses" that are capable of

churning out profits every year, including construction companies, air-conditioning maintenance, carpet cleaning, education and training, engineering companies, or similar.

SOLVING THE RIDDLE

"The problem that we are addressing is if you are a profitable small business that is doing, for example, USD10 to USD100 million in revenue, you have few options. Banks won't finance you. Most investors will avoid because you are too illiquid and therefore,





perhaps too risky. But, when we assemble many such businesses into a listed company wrapper, not only do those businesses tend to grow faster because they can now access bigger contracts, but investors have a diversified portfolio, and they have the full liquidity of a PLC. Those investors can thereby support the SME segment and participate in its growth, without being locked up for years, possibly decades at a time."

Laing highlights what he calls the 'scale paradox' that many smaller businesses face. "Because they are relatively small, they are not able to go for the really big contracts, and because they can't get the really big contracts, they remain quite a small company. That is the recurring paradox they so often face."

Laing elaborates on the challenges for SMEs. "They create great value for their clients, their staff, the whole ecosystem of suppliers, partners, and so forth, yet so often the founder-owner is the one who doesn't extract a commensurate amount of value out of their business. They have a nice salary, nice dividends, but compared to the economic footprint of the business it is often only a fraction of what they are achieving, so the only way to monetise that is to sell it."

NOT THE TYPICAL SALE

But typically, such a sale would be to a bigger company and normally structured as a three-year or five-year earn-out. "Yet the problem with us entrepreneurs is we don't make very good employees," Laing observes. "These founders get sold to a bigger company that so often then comes in and tells them how they should be running the business, and either they get asked to leave, or they leave in disgust. This is too often the case."

And this was the essence behind MBH. "We created a PLC exclusively for the use of good, small businesses where the founder doesn't want to exit," he explains. "The founder swaps 100% of the shares to MBH stock, and keeps operating the business exactly the same as they always have, same brand, same control over people, same culture, but now when they might pitch for business, they are part of a USD100 million global PLC not a USD3 million local business."

When it comes to attracting senior staff, the SMEs can then offer them stock options. If the SME wants to go out and buy a business, they have a currency - MBH stock - to make those acquisitions.

INCENTIVES BUILT-IN

But it is not an automatic bed of roses for the SMEs once they opt to join with MBH. "In the first year, companies need to do at least 80% of their last year's EBIT; otherwise we reserve the right to unwind the deal," Laing reports. "And the way that we structure the deals is as a multiple of EBIT, but calculated every year, it is therefore an ongoing equation. In effect, every year, the more profit the SME contributes, the more shares they obtain, so those that perform very well end up with the biggest slice of the pie."

He adds that sometimes SMEs have weak years, perhaps for no fault of their own. "If you have a bad year, or you plateau, there is no penalty for that, but obviously you wouldn't earn additional shares that year because all companies that we work with are debt-free and profitable, a portion of that cash gets redistributed as dividends, the more profits you contribute, the more shares you earn and the more dividends you get," he clarifies.

REACHING OUT TO INVESTORS

The other side of the MBH equation is the funding through investors who buy the company's listed shares. "We issue shares for businesses at a discount to the price we are trading for, so we are immediately EPS accretive," Laing explains. "We work with two types of investors. Some buy on the market, or we might conduct some off-market block sales of new shares in relation to acquisitions. Others support another pipeline of deals where for whatever reason we need to clean up the SME balance sheet before they come in and for that end, we occasionally work with a small group of investors that will finance the cleaning up of those balances sheets, perhaps help them cut their debt, or buy out minority shareholder before they join MBH."

And that brings Laing specifically to the wealth management market itself and how HNWs, ultra-HNWIs and family offices fit into the overall MBH strategy. "What we have found at the moment is that, especially amongst small family offices and smaller institutions, they are very keen on the small business space," he reports. "SMEs can rapidly double or triple profits, but it is tough to capture that growth and potential; hence we offer access with the liquidity of the PLC. We offer diversification and scalability."

Laing points to a statement on the MBH website from Eva Law, Chairman, Family Offices Association of Asia. She said: "Can an investment be both fast growth and high dividend-yielding? Conventional wisdom says no, profits are consumed by growth and therefore cannot be returned to shareholders, but what if stock and not cash were used for growth?"

And he also refers at a comment from Matthew Gamser, CEO, SME Finance Forum who stated: "Many talk about the problem of over-dependence of SMEs on bank financing. Many also note that the 'holy grail' for SMEs would be to be able to access capital markets, like larger firms."

STAMPS OF APPROVAL

While MBH is listed in Germany, it is incorporated and regulated in the UK, which Laing says offers a de facto stamp of approval. "Because of the credibility of the UK's Financial Services Authority, which approved our prospectus, we had a passport to list on any European market, so we chose Frankfurt, which offers us one of the most flexible and liquid markets in the world."

Laing clarifies that despite the FSA approval of its prospectus, the UK as a listing venue does not work for MBH, as for example the London Stock Exchange requires centralised

management and MBH's is the ultimate decentralised management structure. "Moreover," he notes, "if listed on the London market and you issue more than 20% of your market capitalisation in new stock, you need to delist and reissue your prospectus whereas in our model, we could be issuing 20% new stock on a monthly or quarterly basis at least."

A WORLD OF OPPORTUNITY

He closes the discussion by reiterating MBH's goals and appeals to investors. "Although we have only just completed our first year as a PLC we have demonstrated we are very fast growth and the intention is always to be dividend-yielding, which is fairly unique these days." MBH will be announcing its first year's results on April 30th, and this may be when they announce their first dividend, according to the firm. "The three drivers of growth are EPS accretive acquisitions, organic growth and the synergies within the group. And from an investor perspective, we strive to be very transparent as a company, so we put a lot of effort into our investor relations. As a result, we are growing rapidly, and we are already consistently one of the most liquid small caps in Europe. The wealth management community is now learning more and more about us, and we are eager to reach out to them." ■



Hobson's Choice? Far from the Truth

Far from having 'Hobson's Choice', which is an old English phrase for no choice at all, MBH is highly selective in building its portfolio of SME, curating its corporate collection from numerous opportunities worldwide. "We get about 1000 applications a year from companies that want to work with us," Laing explains, "and we filter that down to less than 20 that we actually accept. We are highly selective in our targets."

A typical deal was the most recent transaction, the acquisition of care home business Samuel Hobson House (Samuel Hobson) in the UK, which was announced on January 10 this year.

Samuel Hobson is a care home, based in Newcastle-under-Lyme in the UK, and which was built in 2009. The home specialises in dementia care for those aged over 65 years with a current occupancy rate of 100%.

"MBH believes the aged care sector will continue to grow as the world population ages and due to the shortage of care providers for the ageing population," Laing reports. "According to current research from Grant Thornton, the population in the United Kingdom of those aged greater than 85 years old is projected to increase from 1.6 million in 2016 to 2.8 million by 2031, an increase of circa 75%. This ageing population will require access to care services, including residential care."

The acquisition of Samuel Hobson includes the property valued at GBP1.8 million. The care home is expected to generate an annual EBIT of approximately GBP145,000. The total consideration for the acquisition is GBP1.95 million, which was paid for via a loan note of GBP1.8 million (non-interest bearing and not payable for three years), and GBP150,000 to be 100% settled by way of issuance of MBH shares at a pre-agreed price of EUR1.47 per share.

"This deal effectively opens our fourth industry vertical, namely health," Laing comments. "Not only does this acquisition showcase the diversity of the business sectors that our agglomeration model appeals to, but we believe it will be the first of many health-related businesses joining us over the next few years."

Vicky Smith, Principal Care Manager of Samuel Hobson commented: "Samuel Hobson House is really pleased to be a part of MBH. As a business, we believe this is a fantastic move for us and being part of the agglomeration model will bring benefits to our organisation and the group."

The Hobson deal comes after the purchase of a number of other businesses around the world. On its corporate website, the firm highlights a few comments from several of the founders of those businesses.

Victoria Sylvester, Managing Director, Acacia Training Ltd, United Kingdom, states: "Our experience since joining MBH has been nothing but positive. The model completely fits where we are as an organisation and where we want to be in the future. MBH is supporting us to grow and develop the business to the next level whilst being part of a broader and more diverse team who all bring skills, knowledge, resource and expertise to facilitate this development. The vision, culture and ethos of MBH is a really important part of the agglomeration model, and our experience is that they are delivering on their promises and value our contribution, and opinions, with regards to the strategic direction of MBH and how as a team we are working together."

Nathan Daley, COO, Asia Pacific Energy Ventures, Singapore comments: "MBH has brought together a team of entrepreneurs with a proven track record, diverse skill sets and a clear vision for the future of their respective enterprises. It's been a pleasure getting to know some of the people behind these businesses and an inspiration to join their ranks."

And Gauri Lamb, Director, du Boulay Contracts Ltd in the UK says: "Collaboration is the DNA of the group, and it was again very strongly demonstrated by all the principals how aligned they are on this front, both within their organisations as well as within MBH."