Blake Morgan Advises on Sale of Percival Aviation

By Yusuf Khawaja

What is the context?

What are subsidiaries?

In the corporate sphere, a subsidiary is a business entity that is owned in part or whole by a different company. The company who possesses the controlling share is known as the parent company, or also known as the holding company, and they own or control more than half of the subsidiary's stock.

These are separate and distinct legal entities from their parent companies which can be reflected in the independence of their liabilities, taxation as well as governance. However, due to the parent company's controlling interest, this means they also have considerable influence over the subsidiaries.

There are many reasons to create subsidiaries, often for strategic purposes. By creating a subsidiary, this allows entry into new markets and diversify a company's products, without risking the parent company's core brand. This allows the parent company to minimise the risks into the new markets through this strategy unlike if they fully enter a new market and high risks occur which then potentially impact their current reputation.

Who is the party involved?

This concerns the seller, Percival Aviation Group Limited and its owner Neil Percival. Percival Aviation was established in the 1970s by Neil's father and is based in Hampshire. This company specialises in the design, production and maintenance of aircraft interiors and associated equipment, making it become one of the United Kingdom's leading suppliers of aircraft interior components.

Percival Aviation is also going through a major growth plan to expand its overseas presence to support its many airline customers across the globe.

What is the deal?

The law firm Blake Morgan acted for Neil Percival on the sale of its US and UK subsidiaries to a private equity-backed firm in Los Angeles called Vance Street Capital. Percival Aviation was sold to Jet Parts Engineering, which is an aerospace parts and engineering company in Seattle.

The law firm advised on the sale and worked alongside Quercus Corporate Finance, Altitude Accounting and US firm Snell & Wilmer to complete this deal within five weeks. The corporate partner of the law firm Manoj Styche-Patel noted that it was an excellent transaction for the parties and for Percival Aviation to continue their expansion.

The impact on law firms and businesses?

One impact on law firms is an increase in legal complexity and advisory scope as subsidiary structures require law firms to advise on many legal entitles across the globe. This can be demonstrated by Blake Morgan needing to manage UK and US laws as well as regulations, highlighting the depth of legal due diligence, structuring contracts as well as compelling negotiation. In addition, another impact is transactions involving subsidiaries usually demand coordination with overseas advisers and specialists. This is demonstrated by Blake Morgan working alongside other companies in this deal which shows how subsidiary deals drive collaboration between international legal and financial teams which strengthens a law firm's global reputation.

For businesses, as subsidiaries are legal entities, any liabilities that arise in the company do not automatically affect the parent company. Due to this distinct entity, management and any obligations are held with the subsidiary and allow the parent company to keep their own operations separate. This allows Percival Aviation to pursue their expansion while protecting their core UK operations. Another impact is that subsidiaries make businesses more attractive to investors and buyers given specific companies can be sold without the sale of the entire group. This shows strategic flexibility and improved marketability for the subsidiary which emphasise why this is another strength, especially for those seeking to invest in the company. This deal illustrates how subsidiaries enable targeted investment and faster deal execution as well as accelerating support for long-term global expansion.

Commercial word of the article

What is Private Equity?

Private equity (PE) is an investment class where firms generate capital to buy and manage private companies or take public companies private, with the goal of ultimately selling them for a profit. Between buying and selling these companies, the fund manager aims to turn a large profit for investors by increasing the portfolio value. These are known as 'hold periods'. PE firms also operate investment funds on behalf of institutional and accredited investors.

Due to the perceived lack of transparency as corporate governance rules do not apply to private companies and because investments are often highly geared, there is heavy criticism in the press.

A major private equity firm is Kohlberg Kravis Roberts & Co, who are a leading global investment firm. They are known for being one of the first firms to engage in large-scale leveraged buyouts. One of the firm's noteworthy transactions are its 1989 leveraged buyout of RJR Nabisco and its 2007 buyout of TXU, the largest leveraged buyout on record.

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