

“PLANNING YOUR EXIT FOR BEST VALUE”

By Graham Hudson, Exceptional Business Results Ltd

As a business owner, you know you will have to think about leaving your business at some point. You do have alternatives:

- To hand it over to the next generation of your family
- To sell it to the management team
- To sell it to a third party
- To close it down

and there are others. However, since everyone knows they need to think and plan ahead, why is it that less than 10% do? Perhaps it has never been seen as a major priority, perhaps too much time is spent on the here and now, and not enough on tomorrow.

First of all, why do business owners exit from their businesses? The normal reason is retirement, either early or in due time. But there are others –

1. An opportunity to sell arises, or you are approached – and you now have an opportunity to realise your investment
2. You want to take up a new business opportunity
3. You are disillusioned with your current situation
4. Circumstances force the issue – bad health, disagreement between shareholders, perhaps a divorce means a need for cash – or in the extreme case, sale is needed following the death of a key shareholder.

Whether your reason is positive, neutral, or negative, there must be a plan in place, so you gain best value – and the big winner is not Gordon Brown!

What options do you have?

The family succession is a frequently used route – but there are some pitfalls. Does the next generation have the interest to take over? Is there the capability? If they are able, and/ or they can be developed properly, then we have a smooth process. If not, then existing employees may be demoralised by the change, the better ones leave, and the business declines (which may leave you in trouble if future income is needed from the business).

The management team may be able to buy the business from you – an MBO (management buy out). Alternatively, they support an outside candidate who brings external finance into the venture – an MBI (management buy in). Because the MBO team will know the business thoroughly, legal processes are unlikely to throw up major problems – but the internal team often pays less than a third party.

Some businesses operate a formula, which can be replicated – so for them, the exit may be in two stages – create a franchise business, then sell that.

Some businesses negotiate strategic alliances, which can ultimately lead to sale situations, since the two parties begin to know one another well after a while.

Sale to a third party is the most normal method of exit for small and medium businesses. This involves putting together relevant information for interested parties (which must be released in confidence only, so your competitors do not find out your success secrets); marketing the company; negotiating the outline of a transaction; and then going through that most entertaining process – Due Diligence – where you prove that what you said about the company is factually correct, and that it owns the assets listed – and where the buyer tries to find reasons to reduce the price; if you survive that, then a proper sale and purchase agreement follow – and when it is signed, the champagne flows – and the really good news is that by tradition the lawyer pays!

Sounds easy, and straightforward. However, most companies have barriers to a smooth exit

- You, the owner, are so important that the business does not really exist without you – this is a real showstopper, and needs careful thought and action to resolve
- Your view of the value of the business is much higher than the price someone else is prepared to pay
- You may have a very large dependence on a small number of customers – or suppliers – making you vulnerable in either case
- Your management team may not have the necessary skills to support a new owner
- As you grow, your premises, operational processes, management information systems, and people may be incapable of providing the necessary standards needed

Also, you do need to make sure that your shareholder agreement allows for a smooth sale, when you wish, at the terms you agree – without dissident shareholders being able to stop you; and if a shareholder leaves, you need to make sure that share transfer is covered by your agreement (both how it happens, and at what price).

At this point, you could be excused for slight feelings of nausea – but a good plan will deal with these issues. Oh yes, and if you are feeling more comfortable now, get your tax advice early – so you are the real winner!

If you do not plan

- You will not get best value on exit
- Other shareholders may block your exit programme
- Management will be unprepared for the transition
- Skeletons will be uncovered during Due Diligence
- Tax issues could make a real dent in the proceeds
- Untimely death could lead to chaos

If you do plan

- Co-owners are with you
- You select the optimum exit route
- You can groom the business
- Your taxation and investment positions are clear
- And you exit at best value

The last decisions you take as a business owner are the most important, since they establish your exit activity and returns. Do not leave it to chance – go on, PLAN AHEAD.

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