Financial Director

In Your Business Series: Exiting The Business

In the last of this series charting a business from start up to exit, Garry Jesson looks at the exit strategy

15 July 2013
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BUILDING A SUCCESSFUL BUSINESS from start-up to sustained profitability is no easy feat, especially in the current economic climate. There are no short-cuts or absolute guarantees. But there are successes, which come from a combination of careful planning, hard work and working with the right team. After investing money and time into the business, it is unwise to jettison the rewards of your hard work by failing to plan a successful exit.

In previous articles in this series, I addressed various challenges and considerations that management teams and senior decision makers may be confronted with during the life cycle of the business and suggested techniques to better manage the situations.

In this last article, I address one of the most important stages that any business will ever have to deal with - the exit stage. Transiting ownership is a delicate business process and any business without an exit strategy may be in a dilemma, as they are unlikely to maximise its true value. Whether you decide to leave the business after fulfilling predetermined goals, serving a set tenure or to mitigate a potential catastrophe, here are the considerations for planning a successful exit strategy:

Value Creation: Early planning will enable you to get into the best possible shape for an exit. An exit can be scheduled around your retirement age, or around activity levels (sales/ performance), however, if you have to deal with an unplanned exit due to weak performance, avoid holding on for too long to the business, otherwise it may stagnate and significantly reduce in value. The best time to sell is when you are not under pressure to do so. It is often said that the value of a business is what the bidder is willing to pay for it, however your actions can help to improve your position:

1. Secure customers and revenue on a long term basis.
2. Lock in key employees post-exit.
3. Have good financial data to demonstrate profitability of customers, products, regions etc and cashflows.
4. Have good systems so you can easily pull together a data bank of documents that a buyer may require.
5. Have a strong future and order book.

Value Reduction: Beware the factors which may reduce value. Consider an exit strategy at the start-up stage as growth plans should be aligned with end-game objectives, but more importantly, will help to mitigate some of the following factors which may negatively impact your business:

1. Redundancy costs: Watch out for high salary earners and contract terms.
2. Capital assets: Watch out for high value items which the buyer may not want e.g. property. Also consider aging assets which may need immediate expensive replacement.
3. Sudden market changes: The trends in your industry may affect your ability and the cost of leaving the business. Understand your environment and start to monitor competition from now.
4. Commitments/ onerous contracts relating to property leases, pensions.
5. Complex business activities (e.g. offshore structures)
6. Underperforming divisions, products, services which cannot easily be left behind.

Evaluate Various Exit Strategies: Depending on the business goals, your personal goals, your industry and stakeholders, there mare many options available to you. Here are the most common:

Trade Sale: The most common exit strategy for any business owner is to sell off the business for cash. Unlike an initial public offering (IPO), this is between two private parties without the accompanying regulatory requirements. Maximise value by finding a buyer who sees your business as a strategic fit. With mergers, the company shareholders often stay involved hence receive shares in the larger business which is presumed to be worth more than the individual shares held in each of the businesses. It is important therefore to remember that cash may not be received for a while.

IPO: In an IPO, a company sells all or typically some shares on one of the various stock markets and this option usually gives the best chance of a significant cash payout. However, it can be expensive to obtain an IPO as well as to pay for professional services to carry out the transaction. In addition to the costs, there is also a degree of unpredictability as market conditions determine when the dates are right, as well as the value achieved and this makes it more complicated in terms of scheduling.

Buyout: A business can also be taken over by the management team, often by raising external finance from a third party equity provider or a bank . This is often termed "leverage buyout" where the acquirer leverages the future cash of the business to pay off their debt to you, the target business. This option is common for privately owned businesses as it allows the owner to exit, safe in the knowledge that the business and jobs are retained for loyal managers and employees.

Liquidation of assets: If you don't have many debts, but have cash tied up, you can shut down the business and sell off any assets to achieve some liquidity.

Planning early will enable you to avoid shock exits and its detrimental effect on your brand, customers, shareholders and staff. It is important that your exit planning team include expertise in strategic/ exit planning, marketing, business development/sales and operations. If you lack some of these skill-sets in-house, then consider contracting an expert as exits take up significant management time which can have a detrimental impact, if improperly managed.

To reiterate, do not jettison the rewards of your hard work by failing to plan a successful exit, and remember, to get the possible results, it's not about doing your best, it's about doing whatever it takes.

Gary Jesson is MD of the e-FM Network. The company is a network of finance directors and specialists providing financial management services