

Exit Strategy Planning

Introduction

Most business owners do not dedicate serious effort to preparing their companies for sale. Even companies that plan and budget regularly fail to consider how management's approach to operations and profitability may affect the overall business value and an eventual sale.



On average quality Exit planning begins at least 18 months before a target sale date. In a perfect world, it starts on the first day of a company's operation. Some of the essential considerations related to planning for the sale include, the timing in relation to maximising sale value and the smooth handling of all the different legal, financial and the selling process, the pros and cons of the various exit strategies, and the target sale value and how that will be realised.

Timing

A company's market price - the amount buyers are willing to pay - can fluctuate dramatically throughout its life. Careful planning, late planning, or pure luck - good or bad - can produce different outcomes. Please see below for a few examples.

- a) In a recent sale effort, a company understated the value of its inventory. Correcting the error would have resulted in a significant increase in profitability and sales price, but also could have resulted in a large income tax bill. Fortunately, the tax advisor/accountants discovered that the error occurred in a tax period for which the legislation had run out, and so there was no tax bill.
- b) The owners of a tube and pipe company delayed sale while they obtained the QS9002 designation required by its largest customer. The delay consumed more than a year. During that year the company's fortune changed dramatically. An economic downturn, coupled with the loss of its largest customer, resulted in a 60 percent reduction in revenues. The subsequent sale generated a price that was one-third less than that originally anticipated.
- c) In another transaction, company owners designed an exit plan with a team of financial, legal and sales professionals two years before implementing a well-orchestrated sales effort. The team achieved a price of more than 30% more than its target and double an original offer of it had received.

Exit Strategies

All strategic planning begins with the owner's vision. Determining where you and your team could fit into this vision can be a crucial component of the exit strategy. You might want to retire fully, obtain a limited employment contract, retain a minority share indefinitely, or gain a senior career position as part of a much larger entity.



What is a realistic time frame? This is very difficult to advise upon as every company is different and the personal and financial status of the owner(s) is even more variable. However, there is nothing worse than seeing a once-successful owner who has failed to plan effectively and then is driven into selling only after a significant decline - ultimately earning a small fraction of what the company was once worth.

Company Valuation

This value, or asking price, historically has been determined by a multiple of earnings before interest, taxes, depreciation, and amortisation (EBITDA), adjusted for various financial and subjective considerations. The actual sales value or the amount you actually receive typically equals the price minus interest-bearing debt. It makes little difference how many years it took to build your company or how much you have invested in machinery if you have no profits.



Amaxima believes that the highest price is obtained when there is a competitive situation and more than one party is interested. Why should the sale of your biggest asset not be sold professionally?

Some business commentators remark that leaving the sale of your company solely in the hands of Accountants and Lawyers is a high risk strategy and likely to result in a lower sale price than could be achieved.

If there is a target sales figure in mind that the owner(s) wish to obtain, then they need to plan to achieve the kind of earnings, market share, first mover advantage or strategic customer positioning it takes to get that price. The primary reason companies do not sell is that the future prospects are not supportable or that they have an unrealistic asking price.

Assuming an acceptable price is obtained, how do you want it to be paid? In addition to cash other common ways acquirers pay are through consulting agreements, non-competition covenants, and employment contracts. These may be combined with earn-outs and other contingent payments may be spread over a number of months or years. The earn-out is payment based on a shared percentage of future profitability that can be agreed between the buyer & seller in various ways.

For the buyer, contingent payments transfer a portion of the buying price risk to the seller. For the seller, contingent payments may serve as a method of maximising the ultimate sale price. It is common practise that the Earn-Out mechanism spans the gap between the asking price and offer. They also may have inherent tax advantages.

Finding Potential Purchasers

Once you decide to sell, how do you attract buyers while maintaining the confidentiality 'needed to continue smooth operations? If you wait for the prospective buyers to contact you, you lose control of the timing factor which is crucial to achieving the highest sale value.



In addition the ideal buyer might never appear. You should also decide how to protect competitive information whilst marketing to other competing companies in the same industry. One way around these issues is to involve an intermediary who specialises in corporate sales.

Finding the right buyer is always more than a matter of price. Some owners want their company to survive their departure and they seek stability for their loyal employees and customers. This may eliminate some buyers who would choose to relocate or resell the company in a couple of years.

The ultimate success of any business sale depends on presentation and negotiations. A confidential business review should be prepared that describes in detail the history, current condition, and prospects for the company and contains thorough financial analysis and modelling. This report represents the company as well-run and organised, simplifies the sale process, and tends to result in a higher sales value.

Seeking Advice

Deciding to sell your company can be among the most stressful business decisions you ever face. Your future and the future of your company are too important to leave to chance.

Talking to industry peers, reading up on the subject, discussing the potential sale with your accountant, and hiring an intermediary to represent you are some of the ways you can become more fully prepared for your final business transaction.

