Alignment

A business owner's personal and financial goals. In determining the success or failure of an owner's exit success is always measured differently by the next business owner. The first step of any exit or succession plan should always be a clear outline and alignment of an owner's objectives.

This process determines the necessary bedrock of the plan and equips the owner and their advisors with a compass to proficiently navigate a successful sale.

To begin, an owner needs to answer the following goal questions:

1. What do you want your business to accomplish prior to your exit?
2. When do you want to exit? How do you want to exit – over time or in one event?
3. Who do you want to hand the business to and over what time to?
4. What do you want to accomplish as part of your eventual exit?
5. What are your long-term personal financial needs and what is the amount you need from your business to accomplish?

The next step is to ensure that all the goals are in alignment. This is necessary because typically the timing and or the financial aspects of each of the individual goals will not always match with one another (i.e., if an owner's business goal prior to exiting is reaching £25m in sales which will take another five years but one of the owner's personal goals is to exit the company within the next two years).

The key to reconciling all the goals into alignment is to priorities and adjust the goals that are flexible, either from a timing or financial standpoint. Long-term personal financial needs have limited flexibility, and this usually drives adjustment to the other objectives. This is often an iterative process and requires sound financial judgment and data including the amount required to meet your personal long-term financial needs and the amount your ownership is worth under your goal scenario.

When completing this process, owners need to be aware there are outside market influences they have no control over and the timing aspect of certain goals should be set with some flexibility.

Options

An owner will need to have in-depth knowledge of all their succession or exit options. To satisfy an owner's enterprise, personal and financial goals, a sound exit plan evaluates all the options and alternatives and vets each to determine the optimal solution for the owner. As presented below, there are typically six major exit channels available to middle market business owners with the timing on how an owner exits (in one event or over time) available for each option with planning. Determining the availability of the different exit channels for an owner is dependent upon the motivations and goals of the owner and on the underlying company's profile (size, profitability, maturity, outlook, etc.).

Value

Maximising the fundamental or underlying value of the business. Buyers look at numerous aspects of a company to determine value. To maximise value, owners must be able to view their company from a buyer's perspective…what would you expect or look for if you were doing an acquisition? Often, discovering the value differences occurs too late, reducing the company's sellable value with a lack of ample time to change.

Thus, a sound exit plan should evaluate the company from a buyer's perspective and identify opportunities to increase the underlying company's value and implement action plans to capture the full value prior to going to market. Assessing the opportunities is often hard to do from an insider's perspective and especially so if an owner doesn't have experience with buying or selling companies. Owners should seek outside perspectives and engage professionals who have merger and acquisition experience.

Owners can also supplement this with a workbook we have created titled "50 Considerations Buyers want to Know when Buying your company" with a scoring model that assists owners efficiently determine, priorities, and plan value building adjustments to their company prior to a successful sale.

In maximising the value of a business, a greater opportunity to increase the value by identifying strategic value drivers. Strategic value drivers are areas that both reduce downside-risk and improve up-side returns for buyers. As part of a sound exit plan the value drivers that buyers are seek are as follows:

- Specific market position
- Customer base/Client list
- Geographic location(s)
- Technology or licenses
- Trademarks or patents
- Niche products or services
- Advantageous systems or processes
- Sales distribution network
- Vendor channels and relationships
- Strategic relationships
- Reputation or brands
- Scalability of your products or services
- Management team or skilled workforce

Business owners should begin on the value enhancing processes two to five years in advance as implementation of these enhancements take time, however, the worst-case outcome being that an owner has now created a stronger and smoother running company and would like to stay engaged with the business longer.

Eliminating & Minimising Taxes

The actual value realised by an owner is always less than the company's selling price. And the amount of the tax component required to pay continues to shock owners. Without advanced planning prior to exiting, owners will always give away significant wealth.

There are multiple tax saving opportunities a good exit plan address:

- Company entity level
- Personal level
- Estate level
- Transaction level

Maximise

What a buyer is willing to pay for the business. The last consideration of a good exit plan is for owners to have elected a sales advisory company (which is typically 80% to 90% of all owners) and it consists of three key suggestions.

Sell Side Due Diligence

The process of conducting the same intensive review as a buyer would and compiling and organising the associated documentation so it is ready for the buyer (typically in an online data room) is all too often overlooked in the sale process. Sell side due diligence provides owners a couple of benefits. First it expedites the actual due diligence a buyer will conduct which helps prevent confidentiality issues, minimises operating distractions and assures the deal will close.

Secondly, it prevents the deal from going sideways or getting cancelled all together. Too often the overlooked issues are identified during due diligence process stage and if the seller isn't aware or hasn't made the buyer aware of these areas then it positions the buyer with instant negotiating leverage. By conducting due diligence prior to going to market, issues that would otherwise slow or kill the sale are identified upfront so that corrective measures can be implemented.

Market timing

The opportunities for a successful sale open and close based on economic conditions and the specific sector cycles of industries and market segments. the goal of an effective exit plan is to complete all the value enhancements, tax planning, and personal or family wealth planning. This allows the owner to be in a state of readiness and equipped to take advantage of the market cycles as they present themselves.

Competing buyers

As experienced merger and acquisition and corporate sales professionals always say, one buyer is no buyer. Owners should always work to create an ideal buyer profile and proceed with compiling a list of suitable and potential buyers that closely match that profile. The shortlist should contain both financial and strategic buyers with candidates typically pre-identified as part of the strategic value drivers process explained earlier.

The chosen sale/marketing approach can also create a competitive market for a company. There are two basic approaches available to middle market companies; a negotiated sale and a controlled auction.

- The negotiated sale is where the seller performs limited marketing of the company and directly solicits interest from a few known potential buyers. The seller speaks with each interested buyer on a first come, first served basis and attempts to negotiate the best deal.

- The controlled auction approach looks much wider and its marketing process is a more formal and structured process. This process begins with providing a teaser to a list of potential acquirers followed by an 'Information Memorandum' outlining the company for those that have shown interest with a deadline to submit bids. Based on these bids, the seller invites a small selection of buyers for face-to-face meetings providing an opportunity to vet each other. After the visit, buyers have a deadline to submit final offers to purchase and the seller chooses the best purchase offer. The controlled auction is the preferred method to create the competing buyer's environment, but it is an intensive and costly process and isn't appropriate for all companies. It works best for companies with at least £1m+ in EBITDA or certain sought out intellectual property or other synergistic characteristics.