10 Crucial Exit Strategies Leading to a Successful Sale of Your Business

By John Reddish

Five years after helping a client to sell his business, I received my final check and placed a call to the person who represented the buyer. In discussing the history of the transaction and tying up loose ends, we came to the conclusion that a sale isn't complete until you have survived the negotiations and the closing, cashed the final check, confirmed that the statute of limitations has run out for all contingencies and verified that the new owner(s) are happily making money.

Good deals don't just happen. They take preparation and work. Often a great deal of work and years of preparation are consumed before a sale can even be contemplated. Forging the transaction, itself, may take anywhere from four months to two years, and the payout, unless you sell at a discount, can easily be another five years. Good succession planning, and the development of viable exit strategies, are key to crafting the best deals.

No plan, no profit. What happens when there are no exit strategies?

Bruce Barren, Group Chairman of The EMCO/Hanover Group, international merchant bankers who have concluded more than $3 billion in financial transactions, puts it this way, "If you want to ensure a successful transition, you need to develop a package of exit strategies as part of your overall succession plan. Everyone in business has heard horror stories detailing what happened when there were limited or no exit strategies. The more exit strategy capabilities, the higher the success rate for transactions. Success is, of course, contingent on being realistic, particularly in relation to the reliability of financial projections."

Some horror stories focus on owners selling out for too little because they did not know what their business was worth, had not developed the people and system infrastructures to demonstrate value to buyers, and were forced to sell at a discount or on compromising terms. A few stories tell of how sellers failed to identify, or provide for, all contingent liabilities. They were ruined when the claims later passed through to them. In instances where the founder sells out and remains with the business, poor deals can mean years of what can only be called "indentured servitude."

Still other stories show how the lack of exit strategies either resulted in short-term cash flow problems (tax issues due to stepped up asset values) or lifestyle issues (annuity issues relating to the timing of payments from the business). In several instances, the lifetime legacies the sellers wanted to preserve were lost because they had failed to prepare for the future. Growth strategist and succession planning consultant, Aldonna Ambler, CMC, CSP, has observed, "Some business owners need to be constantly reminded that one of their major goals (if the THE major goal) is to increase the VALUE of the business. Not only will the business owner have the satisfaction of a job well done, he/she ensures financial security when there is a strong business to sell."

How do you prepare succession and exit strategies that make you feel good about the deal and help the buyer feels good about signing your check?

Barren notes, “Preparation is everything.” Succession planning tools gets you in touch with your mortality, both physical and psychic. During the process of evaluating options and exit strategies, valuation tools give you a sense of realism about what your business is really worth. Unfortunately too many business owners have a psychic dollar value for their business that few buyers accept. Counting on receiving those psychic dollars at the time of sale, or as part of the transaction, usually results in frustration and disappointment. This is particularly true when the owner is expecting a certain amount from the annuity payments for the business sale to augment other financial planning elements. It’s a rude awakening when it just isn’t there.

Your business, tax and financial advisors need to work hand-in-hand on the company valuation and your personal estate plan, as well as the estate plans of all other principal owners’ of the company. In one of my cases, we postponed the sale of the company for several years to build up its value simply because one of the owners would not have received sufficient annuity value to meet his financial needs in retirement. Trying to force the transaction cold have derailed a deal (buyers usually uncover potential problems during their due diligence) or prompted acrimonious litigation at a later date.

Evaluating exit strategies also brings you face-to-face with the notion of letting go and thinking about what you can do with your life when you don’t have to go to the office anymore, or it’s no longer your job. With founders, it helps to develop a decision as to whether s/he wants the business sold or “adopted,” that is, found a good home under like minded ownership (usually at a below the best attainable price).

There are many exit strategies that you can consider leading to the eventual sale of your business, whether you plan to stay on with the company, or not. Good strategies provide win-win opportunities for both seller and buyer. Here are a “baker’s dozen” of the best:

1. Refinance the assets, or the cash flow, to bring in additional funds (equity and/or debt) to facilitate growth or provide for a change in equity.

2. Take the company public, either through an initial public offering (IPO), or by acquiring a clean public shell company, or by being acquired by a public company.

3. Establish an employee stock ownership plan (ESOP), whereby the employees buy the business over time. This option has become less attractive, or unavailable in the future as enabling legislation changes.

4. Create a dividend strategy with a publicly company (this strategy requires at least two years of audited financial statements).

5. Use succession planning techniques to install professional management in the company and structure the business to provide an ongoing annuity to the owners.

6. A variation on #5 is, to bring in key managers who can eliminate certain costs or accelerate sales performance.

7. Sell to a strategic buyer in your industry, or one with complimentary products/services that wants to get into your industry. One option most business owners do not consider is exiting through the sale of a larger company to a smaller company with the receivables of the larger entity and the assets of both providing the underlying basis for financing.

8. Sell to an equity buyer, or fund, with a portfolio of companies.

9. If you are a Boomer, recruit a team of Generation X types and allow them to craft a leveraged buyout.

10. Increase the intangible value of the company which in turn increases the overall value of the company, thus causing less dilution.

Bonus strategies:

11. If a family business, begin gifting ownership in the business to family members as early as possible. Make sure some next-generation family members exhibit strong leadership, then structure the transition around them.

12. Orderly liquidation. In some instances the exit strategy can involve shutting down the business and liquidating, or licensing, the assets. This can be effective when there are no clear successors, the business is based on a technology that is dying and/or, current and potential business volume, do not justify continuation on a stand-alone basis.

13. Cut costs to increase cash flow, particularly if you have restrictive loan covenants.

"To determine which exit strategy, or strategies are best for you, consult with multiple sources, in addition to your attorney and CPA, in order to gain a true independence of opinion and a testing of those opinions rendered," Barren notes. A solid team of advisors, working with you and under your direction, is what you need to complete a full succession process. Succession planning has few shortcuts, and it usually takes about 4-6 months to craft the plan. Other forces may require faster action, such as a cash flow crisis, or the need to fund R&D or other needs at a critical point.

Compromises are part of every sale but often multiply when succession planning has not been in place for long. In such instances sellers often bear most compromise costs. One last note on advisors -- choose advisors who are familiar with the market in which you are dealing, both in terms of revenue and industry. The advisor with the international imprimatur may not be your best choice for certain deals.

If you allow yourself to get bored, or weary with the process, it will cost you, perhaps dearly. This happens all too often with women business owners. Ambler notes, "Women owners are 5 times more likely to dissolve their businesses than their male counterparts. It is so sad to witness a hard-working woman business owner close the doors in exhaustion still wondering what she could have done differently."

Solid preparation gives the power of perspective, allowing you to consider your best exit strategies and find your best successors. It’s that simple and exit strategies are that important.

John Reddish works with and speaks to entrepreneurs and top executives who want to master growth, transition and succession, helping them to get results faster, less painfully and in ways that work for them. Author, speaker, consultant and mentor, John is a member of the National Speakers Assn. For booking and product information: http://www.getresults.com. Or call 800.726.7985 in the US, 01.610.388.9335 internationally, or at johnr@getresults.com.

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