## PREPARING FOR EXIT

Preparing to exit your business is much the same as saving for your pension.  You know you need to do it, you know you probably aren't saving enough but there are other priorities.

Indeed, the value of your business is likely to form a major part of your plan as to how to have enough money in your retirement.  This means it will be no surprise to that the advice given about when you should start preparing for your exit is much the same as it is for pensions; it is never too soon to start.

The earlier you start thinking about and preparing for your exit the more likely it is that you will achieve the outcome you want.

With pension planning, there is always the opportunity to catch up later, with a business exit there are aspects that take time that can't be accelerated with extra input.  The key things to consider are:

- What buyers pay for?
- What post-Exit looks like?
- Who the buyers might be?
- The time it takes to shape up the business.

### WHAT BUYERS PAY FOR

No buyer of your business is buying it for what it has delivered in the past; buyers are valuing what the business can give them in the future.

The buyer's plans may not be the same as yours, they may well be looking to use your business as a platform to achieve something you hadn't considered.  What all buyers have in common, however, is that they are looking for a solid, dependable asset that will continue to deliver into the future.

When you buy a car, you select the make and model based on a wide range of criteria and your expectations vary depending upon who you are and what you look to a car to deliver.  No matter which make and model and age of car you select you need to know that it will reliably deliver the mileage you need it to without regularly breaking down or indeed failing completely.  It is no different for the buyer of your business.

### VALUE

All business valuations, no matter the method of valuation used, are an assessment of the present value of the future income streams that will be generated.

How value is estimated varies depending on the type of business being valued.  Professional services businesses are commonly valued based on the annual fee income, many businesses are valued on a measure of profit generated and others are valued based on the market value of their assets but the underlying drivers of value are always:

- Expected future returns;
- Demand – the more people who see the opportunity as attractive the higher the price; and

- Risk – the more risk (real or perceived) associated with the opportunity the less attractive it becomes.

Maximising the value of a business is therefore more complicated than simply maximising the return (profit) it delivers. Increasing the demand for the income stream on offer and minimising the risk associated with it can have as big, if not greater, impact on value than delivering a few extra pounds of profit.

## RISK

There are many types of risk associated with being in business. Regarding value the risk being assessed is that of the how variable the return is; the more variable the return is seen as being the higher will be the associated risk and the lower the business value.

Demonstrating consistent performance is a crucial part of maximising value. This isn’t to advocate constant performance as a growing business is more valuable than one that is remaining static.

Consistent performance is about demonstrating smooth progression. If trend lines on key performance measures show consistent improvement without large peaks and troughs the business will be seen as reliable and such reliability is a measure of reduced risk.

Clearly being in business is about taking risks. Some people are comfortable taking high risks and others not; improving the value of your business is not about eliminating risk, it is about making sure that the risks taken are contained to only those essential to delivering the required results and remembering that a potential buyer will not see the same risks as you do.

Reliability of return and being resilient in the face of change are two sides of the same coin and are important irrespective of whether a business is for sale or not. It is simply that a change of business ownership brings them into sharper focus.

From a purchaser’s perspective, the less effort required to maintain existing business levels the better. Maximising recurring revenues either through contractual relationships or by making it difficult for customers to break the habit of buying regularly from the business can be a key factor in maximising the value achieved.

If a purchaser sees that there are no key dependencies on suppliers, customers or indeed people then they will know that the business has inherent resilience. More resilience means a more valuable business.

## POST-EXIT

If the business owner is integral to the business and is, in fact a key dependency then not only is the value of the business reduced due to the impact this has on risk but also the owner will almost certainly be required to remain involved in the business after it is sold. To coin a phrase, exit will not be exit!

In preparing to sell the business the owner should have a clear view of how they expect their life to be following the sale and make a rational assessment of what will need to be in place for it to come about.

To leave the business at the same time as the sale requires that the business does not need the owner.  Put another way the owner must make themselves surplus to requirements before the sale for this to happen.

Accepting involvement in the business after the sale means accepting either a lower value or that some of the value will only be paid when the owner has become surplus to the requirements of the business.  The buyer will not want to pay for the consequences of the owner leaving.

There are always non-financial factors to be considered such as:

- Leaving the business as a lasting monument to the owner's effort;
- Looking after the existing team; and
- Protecting the interest of valued business partners.

While not purely financial in nature any such priorities and criteria applied to a sale may well have an impact on the value achieved and, perhaps, timing of payments.  For example, a decision to sell to the existing management team might mean that the owner needs to act as financier and issue loan notes to the purchasers if it is the only way they can raise the money required.

The owner should also consider whether the proceeds of the sale will be sufficient to sustain the expected lifestyle.  The capital released from the sale will not yield the same return as has been generated from the business if it is invested in lower risk investments.

## MAP OUT THE FUTURE

As noted earlier, the value of a business is determined by the return it will generate in the future. All buyers, irrespective of how they intend to build on the platform they are buying, will need convincing that future revenues at a level that supports the business value are achievable without substantial change or investment.

It is worth noting that any investment required to deliver the future revenues will be deducted from the value of the future revenues in arriving at the consideration paid for the business.

A business that has a map showing what it can reasonably achieve over the next three to five years is both far more likely to succeed and far more likely to be able to convince a buyer of its value.

A well thought through plan, supported by historic trends and rational changes in path along the way, is essential if the value achieved is to be maximised.  It is a key part of the toolkit required to maximise demand for the business as well as in demonstrating the strength of the business and its future.

Being in the habit of documenting and modelling the next three years of a business is good for any business as it helps inform decisions. As an indicator of a well-managed business the practice is also seen evidence of more control and, hence, lower risk.

From a purely practical perspective, having a three-year plan:

- Demonstrates that, at least, one of the potential futures for the business is achievable
- Makes it easier to handle changes as the consequences are understood
- Shows there is a future with or without a new owner; and
- Means the business is always ready to sell.

## DEMAND

Your business is unique, or at least there aren't many like it. Supply of businesses of any given type is limited and, as with all situations in which supply is restricted, if demand is high the price goes up.

Often little consideration is given to creating demand for a business until it is really for sale. Even then, the distribution of information is tightly controlled to avoid uncertainty in the market that will impact its ability to trade normally.

Appointing a Business Broker often means demand is generated only from those who happen to see the Brokers list or advert. It isn't unusual for a Broker to expect to only sell 20% of the businesses listed for sale in any given year.

Corporate finance advisors take a more active approach and target specific potential buyers. The sale process is likely to be quicker than with a broker and possibly achieve a higher value as there are likely to be competing bids.

The highest prices are achieved when there are unsolicited bids. Not because the unsolicited bid is always high but because the fact that other are looking to buy your business even though it isn't known to be for sale is indicative of a high attractiveness and high demand.

Creating a buzz about the business, whether it is for sale or not, is a good idea. Most businesses spend time and effort attracting customers with products and services and creating a 'brand'. Tailoring this output and making it visible to potential investors or acquirers and even more widely to create general interest in the business and how successful it is will widen the appeal.

It is good to publish your success even if the business is not formally for sale.

## PREPARING TO SELL

Not only does it take time to sell a business, it takes time to prepare the business to be sold. In fact, it takes the entire life of the business!

If the value of the business is to be maximised there will need to be evidence of supporting the long-term resilience of the business and its prospects for future income. This is best achieved by collecting information at regular points along the way. It isn't, for example, easy to demonstrate long-term customer satisfaction if you don't measure it regularly over time.

If there are key dependencies in the business, it takes time to manage them out.

There are always exceptions but the businesses that achieve the highest values are those that spend a little time regularly over the life of the business working on the value of the business as well as on its growth and profitability.

The best prepared businesses are those that integrate being prepared into the business as opposed to seeing preparing as being a one off exercise when the time comes to sell.