

PLANNING THE SALE OR SUCCESSION OF YOUR BUSINESS

A Guide to planning your exit strategy by Noel Guilford, Guilford Consulting

It always surprises us how many times we meet successful business owners who do not have an 'exit' strategy. After all the hard work to build up a successful business, isn't it logical to spend some time planning for how to maximise its value when the time comes to pass it on?

Whatever the reason for seeking an 'exit', the common theme for all business owners is usually the desire to maximise the value of the business. Even if the sale is a strategic disposal – driven by the objective of enabling the company to compete more effectively – the owner will still want to achieve the best possible price.

At Guilford Consulting our Exit Planning process has five key stages:

1. Identifying the owners' objectives;
2. Identifying the obstacles to a successful exit;
3. What are the options;
4. Preparing the business for sale; and
5. Implementing the exit.

The first stage in the exit planning process is to determine the **owners' objectives** as well as their capital and income needs following the sale. Commercial confidentiality can be important to some owners who will accept a lower value rather than have a competitor use the sales process as an information gathering exercise. Other owners, particularly those, who are retiring may want to pass the business to a family member or reward a loyal management team either through terminal bonuses or a management buy-out at a favourable price. Consideration should also be given to whether the owners are 'cashing in' on retirement, will reinvest the proceeds in another business or will stay with the business for a period as employees.

Whatever the objectives of the owners, the reasons for selling should be thoroughly explored: is it the right time? What are the business' immediate future prospects? Will its value increase or decrease over the next few years? Do the vendors need to raise capital to live comfortably in retirement or are they already financially secure? There are many issues to consider and it would be a shame not to maximise the proceeds on the sale of the business because the exit was not as well planned and managed as the business itself.

The next stage is to consider the **obstacles to a successful exit**. These can be many and varied. At Guilford Consulting we use the Investor Ready process – which examines the ten key areas of a business to carry out a detailed review of the business and its prospects by looking at the business from an investor's point of view. This review will often result in actions the owners need to take before the business is ready for sale including such matters as:

- management succession
- personal tax planning for the owners
- removing any assets that are not required for the business
- reviewing pension scheme funding and assets
- identifying all the financial, tax and legal aspects issues that could prevent or hamper the sale.

The third stage is to identify **the options for a successful exit**. Although not an exhaustive list these may include:

- a trade sale;
- a management buy-out;
- going public on AiM or another public market;
- introducing a private equity backer;
- a purchase of own shares (often called a share buyback);
- passing the business to the next family generation

A **trade sale** remains the single most common method. The process involves issuing confidential information, usually through your corporate finance adviser, to a selected group of potential acquirers. Upon receipt of indicative offers negotiations are conducted with the preferred acquirer on the price and terms of the sale.

Management buyouts now account for a significant and increasing number of business acquisitions. Not only can a buy-out solve a succession issue it can also result in the regeneration of a business. This is why institutional investors are actively looking to support experienced managers in buying businesses either alongside existing management or as part of a buy-in team. A variation of the traditional buyout, which has become more common in recent years, is where 'serial entrepreneurs' who have sold their businesses are looking to invest their time and capital in businesses, often alongside management, as an alternative to an institutional investor.

If a buy-out is a viable exit option for your business Guilford Consulting will be able to introduce you to both managers and investors who are looking for businesses to buy.

A third option is **going public** which involves a combination of an issue of new shares by the company and also an offering by the shareholders of some of their existing shares. The difference between the two offers is that an issue of shares by the company means the company receives the proceeds, thereby raising money for its funding and development, whereas the shareholders themselves receive and retain then proceeds of selling their own shares. The advantage to the shareholders of going public over a trade sale or buy-out is that they will normally stay in control of the company but they will be expected to run it after the flotation and will have limitations on further sales of their own shares.

If going public is an option for your business Guilford Consulting can introduce you to nominated advisers and brokers to help you through the process. We also provide non-executive directors to chair Boards and Audit Committees.

Passing the business to the next generation presents many issues with which Guilford Consulting has advised owners over a number of years. We begin the process with a **Family Strategic Planning Workshop** over one or two days to identify and begin to solve these issues.

Whichever route is likely to suit your business you should plan your exit several years before you want to sell or retire. The strategy you should follow if, for example, a buy-out is your preferred exit route will be very different from the strategy you should follow for a trade sale or flotation and may take several years to put in place.

We are always willing to meet for an initial meeting at no cost and without obligation.
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