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Boost Your Business
Practical Business Advice from the Independent Experts Issue 77 December '13

What You Need To Know About Exit Planning

Exit planning is perhaps the most difficult yet most important period in the life cycle of Small & Medium Enterprises (SME's). It is an event that probably only happens once, yet has a profound effect on the future life, particularly in retirement, of the owners. Research clearly shows that many owner-managers fail to achieve a full or fair value for their businesses during the exit process. The key reasons for this failure are:

- Unrealistic value expectations and time scales
- Poor preparation within the business before the sale
- Unwillingness to use professional advisors
- Inadequate resources allied to the exit process

Planning Your Exit

Developing a strategy to maximise the value of your business on sale requires careful advance planning.

You should start considering the issues several years before you plan to sell. The actual exit process will take 6 to 12 months and may require varying degrees of preparation of up to several years.

Exit Routes

There are several different types of exit routes open to owner managers:

Trade Sale - This is selling the business to another company.

Management Buy Out (MBO) - Here, existing management within the business acquires the company. The MBO team often has difficulty in raising the funding required to complete the transaction.

Management Buy In (MBI) - Outside investors acquire the company and place their own management into the business.

Buy In Management Buy Out (BIMBO) - This is where the Management Buy Out team (MBO) is unable to either raise the equity or debt funding package and seeks an outside investor to strengthen the credibility of the debt lending proposition.

Partial MBO/MBI - Here the shareholders agree to sell their shareholding in the company in stages.

Valuation

The valuation of your company is not a science, but is driven by market forces and your ability to present your business as a significant investment opportunity.

There are a number of principles that can be applied to valuing your business:

Earnings Multiples - These are normally based on historic and possibly forward projections for earnings, measured before depreciation, interest and tax, but adjusted for average directors' drawings.

Net Asset Value - The book value of the company as declared in the balance sheet. In many cases owners may expect to achieve a premium when using this approach to valuation.

Cash Flow - This is normally based on historic and possibly forward projections for cash flow. Debt funders will focus on historic performance, whereas investors may include forward projections, discounted to reflect timings and risk.

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Premium valuations are achieved where the business can demonstrate one or more of the following attributes:

Size - Larger businesses attract higher valuations than smaller businesses. Strong historical financial performance and projections always attract higher valuations.

Intellectual property rights and technology that are protected by patents or copyright, etc, will enhance the valuation.

A business operating in a growing market will attract a higher valuation than a similar business in a market that is flat or declining.

Information Memorandum (IM)

The IM is a document that you and your advisors produce, which will set out for interested parties all the salient financial, operational, legal entity and other legal issues that a potential bidder will need, in order to make an indicative offer for your company, subject to due diligence and contract.

Deal team

You will need to appoint a deal team to include:

- Specialist corporate lawyer
- Tax accountant
- Corporate financial advisor

The fees relating to these advisors will normally be paid from the proceeds on completion and cannot be charged to the company.

Don't

- Have an unrealistic view on value and timescales
- Hide skeletons or bad news
- Incur or invest in non-productive costs or assets before the sale process starts
- Over sell your business
- Agree to large earn-outs or deferred consideration

Deal Structure

When you come to negotiate the deal structure, remember the following principles:

- Competitive negotiations - retain a competitive bidding environment. Your business will always be worth more when two or more parties are actively involved in the process.
- Cash is king - maximise the cash on completion as part of the deal structure. Earn-outs or deferred considerations are always a risk.
- Short timescales - keep any period of preferred bidder exclusivity to no more than 2 to 3 months.

Heads of Terms

Confirm the deal structure in a heads of terms, normally prepared by the purchaser. This document is non-binding, but nevertheless should be reviewed by your lawyer. Due Diligence.

Sale and Purchase Agreement (SPA)

The SPA is normally prepared in draft form by the purchaser's lawyers. This is the legal document, which covers all aspects relating to the sale and purchase of your company. The SPA will set out the basis under which the assets of your company are being purchased.

The SPA will also include any management handover, which is normal in this kind of transaction and possible restrictive covenants, preventing you from competing against your company after completion.

Completion

This is the formal signing of the SPA and other legal documents and the point at which the purchaser will transfer the funds agreed on completion to your lawyer's bank account.

Do

- Prepare the business for sale
- Appoint specialist advisors
- Ensure accounting and legal entity records are accurate and current
- Be conservative with financial forecasts
- Protect IPR
- Remember cash is king
- Maintain your competitive bidding position

UK Business Advisors is a group of over 100 independent and experienced, professional business men and women offering practical business advice covering a range of skills covering all industry sectors and pillars of business:

Finance | Sales | Marketing | Operations | Resources | Management | Strategy

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Next month: You Must Be Mad Joining A Networking Group ~ Are You Preparing To Fail By Failing To Prepare?

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