

# EXIT succession CHANGE



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## Exit Strategies Made Simple

A short session  
introducing key points  
on how to plan to exit  
your business with  
grace, dignity and  
hopefully a cash  
reward for all your  
efforts!

# The Succession Circle



The value of a business is in the:

- › Structure
- › Strategies
- › Processes
- › Attitudes

But the value is influenced by:

- › Preparation
- › Grooming
- › Method of Sale
- › Legal Setup

A key to achieving value is clear future strategic direction

With no strategy, the focus is on assets, IP and technology

# Basic Principles

- **Most people don't have an exit plan** – but **all exit** sooner or later – whether upright or horizontally.
- **Many businesses sell for less than the owner would like** – often because the sale is rushed or ill prepared.
- **Grooming pays** – like selling a house or a car, you prepare it for sale and make it look the best it can.
- **Accurate information** – do not give anything to a potential buyer unless you are certain that it is 100% accurate as it could come back and bite you on the bum.
- **Start early** – the day you start your business is a good time to start planning your exit.

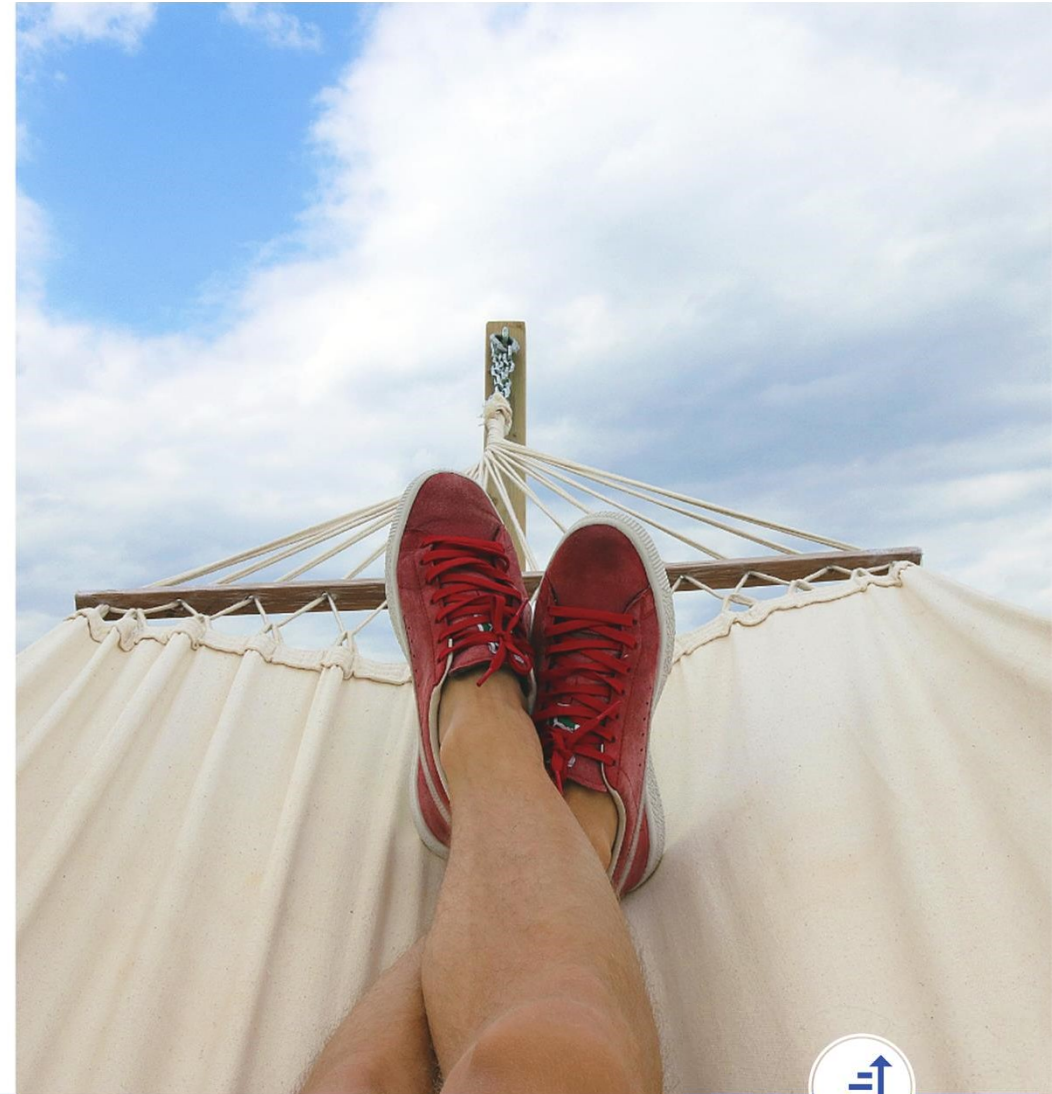


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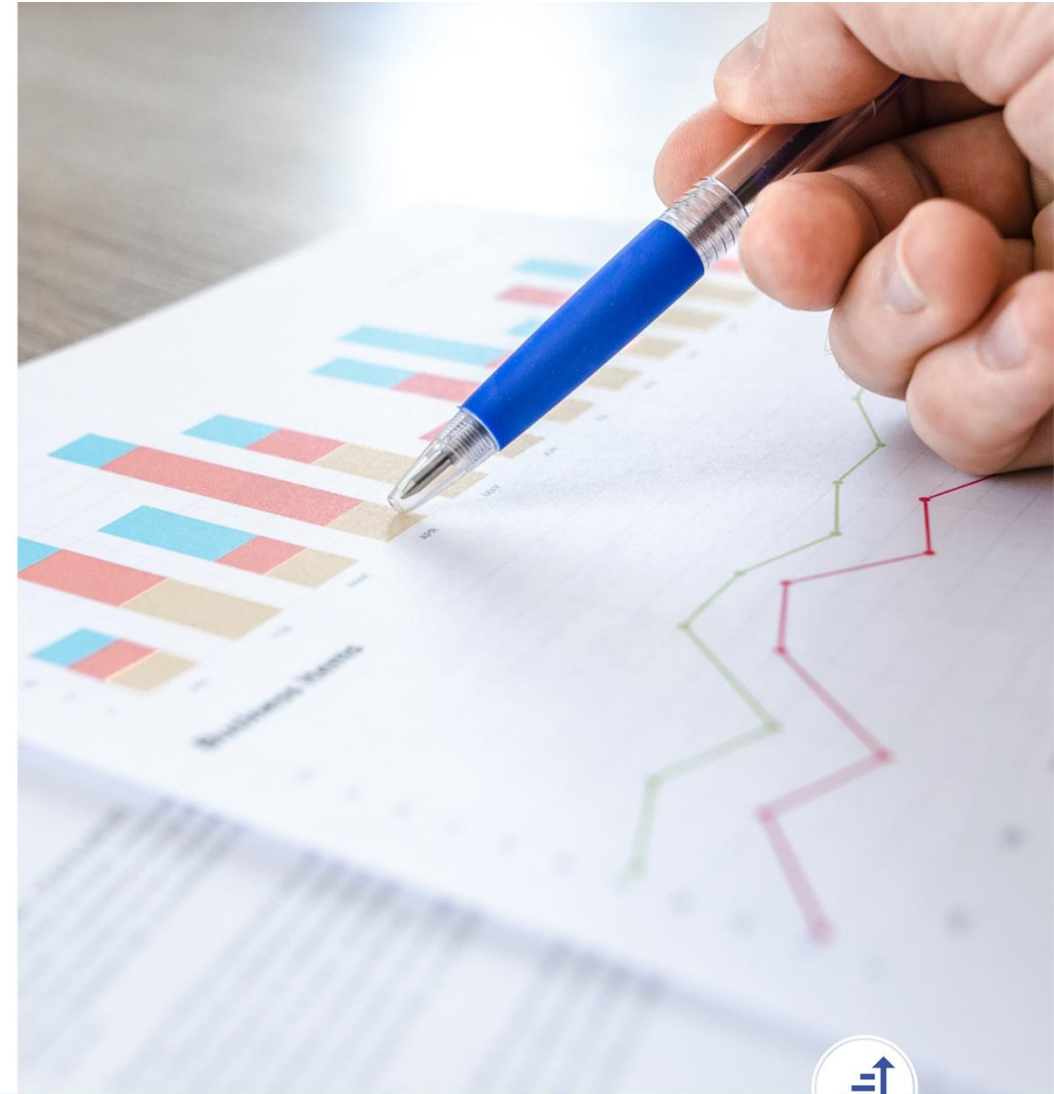
# The Exit Issues

- **Growing numbers of Baby Boomers** are either looking or needing to exit their business to hopefully enjoy their wealth and a new and more relaxing lifestyle.
- **Many have growth opportunities** in their business but do not have an exit strategy that recognises these opportunities and simply look for a sale based on how the business is currently performing.
- **The market is flooded** with businesses for sale to a decreasing number of potential buyers.
- **Many are not properly prepared** and simply close their doors and sell the assets, often at fire sale prices, without making a return on their efforts for the business that they have built.



# The Statistics

- 41% of business owners expect ownership changes to their business's in the next 5 years.
- 40% say that succession planning is an issue for their business.
- Only 10% of owners who are expecting to leave their business's have a succession or exit plan.
- 49% of owners have trouble finding a suitable successor.



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# Charting Your Future

## Review why you are in business

- **Hobby Business** – it's not your main income, and you don't rely on it for your future! No exit plan needed.
- **Lifestyle Business** – either the business is your lifestyle, or it gives you plenty of cash and time off to enjoy your own lifestyle! Most likely to be sold to a person with similar goals, producing limited capital gain.
- **It's a Job** – you've really built a job for yourself, and the motivation is mainly security and long-term income. Staff or family buy-in or buy-out is the most likely exit, may be instalment based.
- **Growth business** – build it and decide – sell up or stay in. An exit plan is essential here, from the day you start. Sale to a third party, competitor or supplier is usual. Capital gain likely if well managed!



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# Pot-Holes & Pitfalls

## Common errors that can limit your options:

- Your business has **YOUR** name on the door – it's hard to sell your identity and personality with the business unless it is a **family** member. This is no longer an issue in today's market.
- You have employee shareholders in the business which can make it hard to sell, especially if your shareholder agreements are restrictive or out of date.
- You haven't groomed your key staff to run the business in your absence – no reliable '2<sup>nd</sup> tier' in the place.
- You do not have accurate up to date business accounts. Only give up to date accounts which are 100% accurate to a potential buyer as any inaccuracy such as not having your Holiday Pay Provision up to date, may later impact on the Net Tangible Value of the assets and reduce the amount that you are paid for the business.



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# Pot-Holes & Pitfalls

Common errors that can limit your options:

- The business systems are all in your head, impossible to extract for the new owner.
- Customers deal with you, not your business, and may leave when you do.

**“GROOM YOUR BUSINESS  
FOR SUCCESSION!”**



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# Succession Strategies

There are many ways to exit your business:

- Sell to a competitor, supplier or customer
- Sell to an unrelated third party
- Sell to your management team
- Let your family buy-in, buy-out or inherit
- Partial or complete buy out by key staff
- Form a franchise or licensee structure
- Split it up and sell the parts
- Close it down

THE KEY IS  
TO HAVE A  
PLAN!



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# TOP 3

## Most Likely Scenarios



### FAMILY SUCCESSION

- › Are they willing?
- › Are they competent?
- › Are they committed?
- › Are they managers?
- › Are you willing to let go?
- › Are you going to retain some control?



### INTERNAL SALE

Buy-In or Buy-Out

- › Are they competent?
- › Can they afford it?
- › Will the staff allow it?



### EXTERNAL SALE

- › Are they serious?
- › Are they honest?
- › Can they afford it?
- › Will they protect staff?
- › Can you protect yourself – is the price fair?
- › Employee comeback?

# Family Succession

## Are they willing?

Confidential, one on one interviews by a third party really help here – family relationships often get in the way of straight talking unless an independent facilitator helps out.

DON'T LEAVE IT  
TILL THE LAST  
MINUTE!

## Are they competent?

Make up a checklist of the management and operational tasks that are:

- A. Vital – mission critical
- B. Important
- C. “Nice to have”

Ask the family members to self-evaluate against the checklists – and use the results as a basis for discussion and further training. Have competencies objectively tested if necessary!

Don't Prevaricate!



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# Family Succession

## Are they committed?

We've seen a lot of family succession plans fail because the next generation just don't have the passion that you do for the business.

Sometimes working outside the business, even overseas, will rekindle the passion and commitment.

DON'T LEAVE  
COMMITMENT TO  
CHANCE!

## Are they managers?

There are some really big issues with "2nd generation" takeovers. Attitudes and expectations can get in the way of effective staff management, and any change of "guard" always creates tensions.

Use tools such as psychometric profiling (Extended D.I.S.C) very early in the process to map out behaviours and relationships for individuals and the team.

Sort out the issues before they even start!



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# Family Succession

## Are you willing to let go?

Confidential, one on one interviews by a third party are beneficial to this process – family relationships can prove to be difficult where both the current owner and family member have differing views on the business's future direction and how it is going to be managed.

DON'T  
UNDERESTIMATE  
THE EMOTIONAL  
EFFECTS OF  
CHANGE!

## Are you going to retain some control of the business?

Attitudes, expectations and emotions can get in the way of effective management and result in unwanted tensions.

Use tools such as psychometric profiling (Extended D.I.S.C) very early in the process to identify potential differences and conflict before they arise and develop a plan to counter these differences.

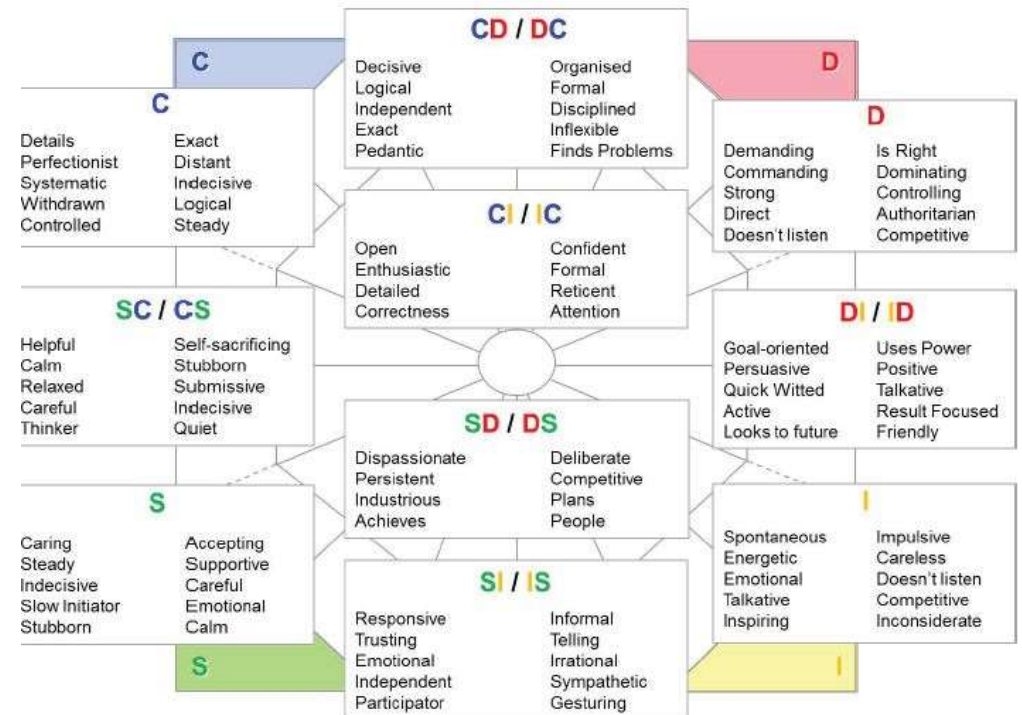
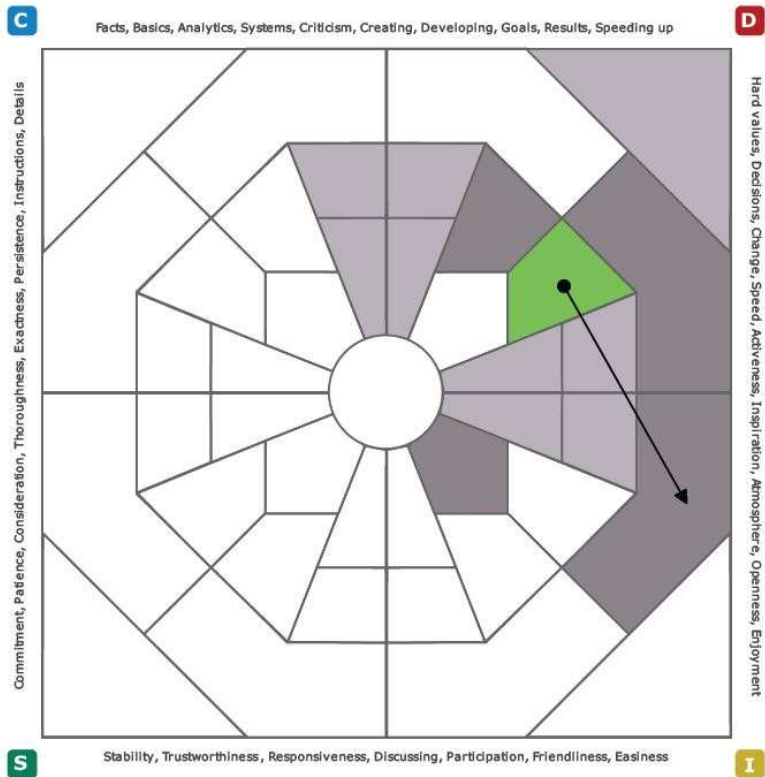
Sort out the issues before they start!



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# D.I.S.C – Individual



# D.I.S.C – Team

## Administration Duties:

### Avoiding mistakes in details

Sally Carter:	-5	-4	-3	-2	-1	0	1	2	3	4	5
Martin Christian:	-5	-4	-3	-2	-1	0	1	2	3	4	5
Daisy Donald:	-5	-4	-3	-2	-1	0	1	2	3	4	5
Joy Jones:	-5	-4	-3	-2	-1	0	1	2	3	4	5
Lisa Lowe:	-5	-4	-3	-2	-1	0	1	2	3	4	5
Betty Ross:	-5	-4	-3	-2	-1	0	1	2	3	4	5

### Communicating own special knowledge to others

Sally Carter:	-5	-4	-3	-2	-1	0	1	2	3	4	5
Martin Christian:	-5	-4	-3	-2	-1	0	1	2	3	4	5
Daisy Donald:	-5	-4	-3	-2	-1	0	1	2	3	4	5
Joy Jones:	-5	-4	-3	-2	-1	0	1	2	3	4	5
Lisa Lowe:	-5	-4	-3	-2	-1	0	1	2	3	4	5
Betty Ross:	-5	-4	-3	-2	-1	0	1	2	3	4	5

### Developing administrative routines for oneself and others

Sally Carter:	-5	-4	-3	-2	-1	0	1	2	3	4	5
Martin Christian:	-5	-4	-3	-2	-1	0	1	2	3	4	5
Daisy Donald:	-5	-4	-3	-2	-1	0	1	2	3	4	5
Joy Jones:	-5	-4	-3	-2	-1	0	1	2	3	4	5
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Betty Ross:	-5	-4	-3	-2	-1	0	1	2	3	4	5

### Diverse, task-focused interactions with others

Sally Carter:	-5	-4	-3	-2	-1	0	1	2	3	4	5
Martin Christian:	-5	-4	-3	-2	-1	0	1	2	3	4	5
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## Percentage Table

Person	Profile I				Date Analysed	Profile II			
	D	I	S	C		D	I	S	C
Sally Carter	0%	0%	20%	80%	01.05.2014	0%	25%	40%	35%
Martin Christian	100%	0%	0%	0%	01.05.2014	50%	50%	0%	0%
Daisy Donald	0%	10%	65%	25%	19.07.2012	0%	25%	35%	40%
Joy Jones	0%	0%	65%	35%	23.07.2012	0%	25%	35%	40%
Lisa Lowe	0%	100%	0%	0%	22.07.2012	15%	80%	5%	0%
Betty Ross	0%	85%	15%	0%	01.05.2014	0%	60%	40%	0%





# Internal Buy-Out or Buy-In

## Are they competent?

A different process to family. Develop clear job descriptions, ideal person specs and performance appraisals for all key roles.

Groom key staff to “excellence” in their roles. Clarify their ambitions – independent interviews can help here.

Don't offer the business until you KNOW they can manage it.

GROW YOUR  
REPLACEMENTS  
EARLY!

## Can they afford it?

This is a thorny question. How can a foreman on \$70k pa in a rented house with 7 kids be part of a management buy-out?

Be realistic, and be very careful if the deal will only work with massive support from you.

Don't be shy of discussing money matters – on quite an intimate level. It's YOUR business!



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# Internal Buy-Out or Buy-In

## Will the staff allow it?

Sounds strange, but other staff can make or break a management buyout or buy in.

Carefully map the relationships in the business, and see who the key opinion setters are. Work closely with them during the transition to ensure good buy-in.

Put all management involved in the buy-in, and those closest to them, through a behavioural mapping process like Extended DISC or similar tool.

Spot potential issues early and defuse them through education.

If you are leaving money in – you must protect yourself!



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# External Buyer

## Are they serious?

There are a lot of tyre kickers out there who really aren't that serious about buying your business, they are just nosy.

Flush them out by careful research, and a well staged disclosure process – don't reveal all at once!

Produce a good quality, future focused information memorandum on the business as a first stage. Ensure all historical numbers are 100% accurate even if your accounts are not. This will give you a solid base for discussion with a potential buyer.

Do not provide your current accounts, **especially the balance sheet**, unless they are 100% accurate. Small business management accounts are usually incomplete until your Tax Accountant has made the final adjustments.

**It's your business, you set the pace.**



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# External Buyer

## Are they honest?

This is a huge issue nowadays.

Protect yourself with a staged disclosure.

First stage: As above – information memorandum with only the overview and potential of the business, and generic financials.

Second Stage: They are keen – so they sign a binding non-disclosure agreement with “cease and desist” as well as penalty clauses for breach of confidentiality or use of information.

Third Stage: They are still keen, asking the right questions, but really want to do due diligence on your business – full disclosure. At this point consider asking them to put a fully refundable deposit into your lawyers’ trust account. If they won’t – you’ve got your answer.

**It’s your money – protect yourself!**



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# External Buyer

## Can they afford it?

Hard to evaluate this, as many businesses run on smoke and mirrors, and good research including credit agencies is the only way to protect yourself.

Asking for a good deposit at due diligence also helps flush out the non-financial bidders! Don't fall for bluff, be a little cynical!

## Will they protect staff?

Under current legislation you do need to look closely at this, as even after you have sold a business action may still be taken if staff are not able to continue in employment when you've led them to expect continuation.

Get good legal advice here from an employment law specialist – probably not your own lawyer! Look after your 'peoples' interests.



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# External Buyer

## Is the price fair?

Obtain an independent valuation (preferably two) of your business.

This can be used as a bench mark to ensure that you receive a fair price for your business. There are two usual methods for calculating a valuation which are:

- Historical information plus forecasts if available.
- Current information plus three plus year forecast.

It is often worthwhile having a valuation completed on both methods.

## Employee comeback?

Ensure that the sale and purchase agreement covers off all staff and who will be liable for any employee actions post sale.

Get good legal advice here from a mergers and acquisitions law specialist – probably not your own lawyer!

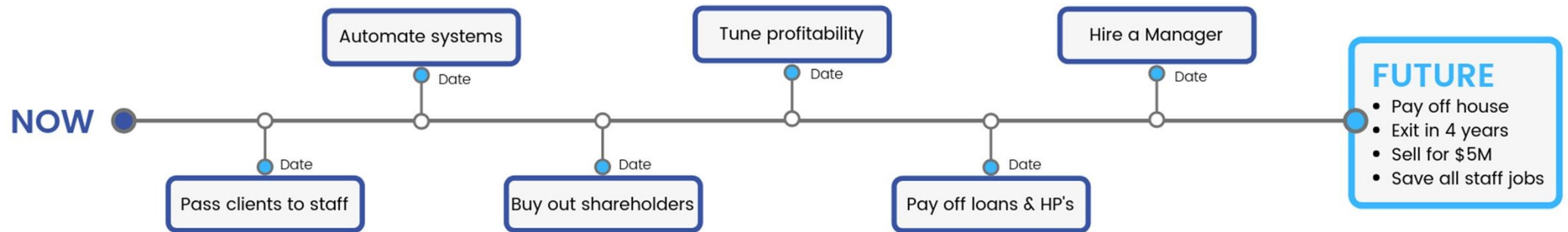


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# Planning the route

Use a simple chart to work out how to make your business exit ready



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# Simple Steps Work Best

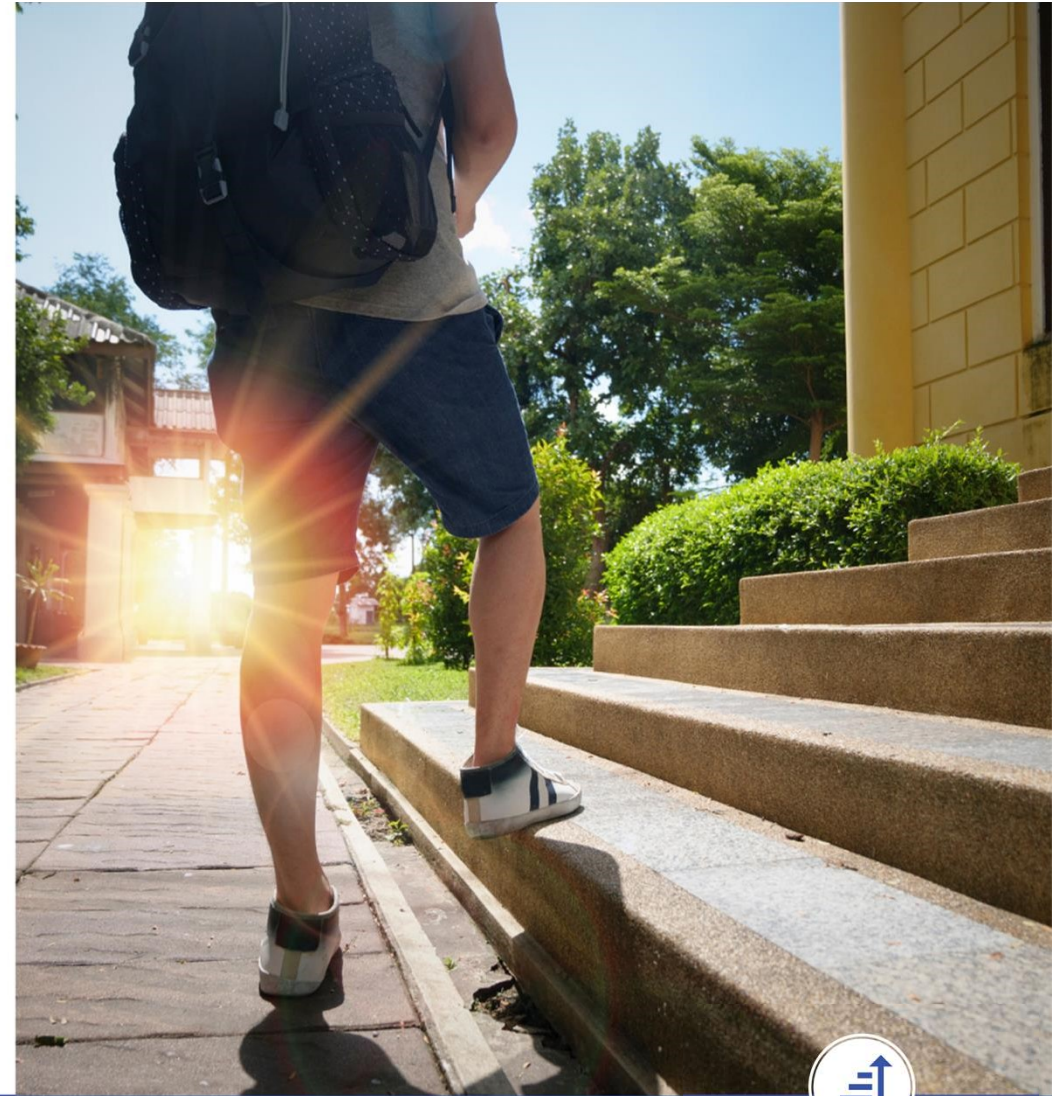
Don't try to do it all at once, plan each step in achievable bites over a reasonable timeline.

Relaunch and rebrand as a **positive marketing step** – don't talk about exit.

Groom key staff, **delegate effectively**, and train them up in marketing, finance and sales management.

Give customer decision making to **key staff**.

Give key staff supplier and stock responsibilities, groom buying and stock **management skills**.



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# Shareholders Risks

Bringing in staff / management as minority shareholders can have some major issues:

- They may not have the **money to complete** the purchase
- They may **'slack off'** once they have a stake
- It can make it harder to sell the business
- Consider using a "halfway house" structure such as **virtual or phantom** shareholding where:
  - Key staff **prove themselves** as potential owners
  - They can build **capital value** in the business before purchase
  - **No restrictions** on your ability to sell to others

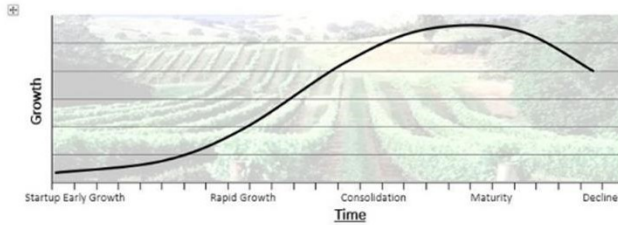
Don't limit your options too early!



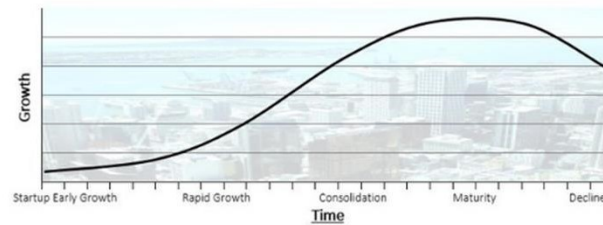
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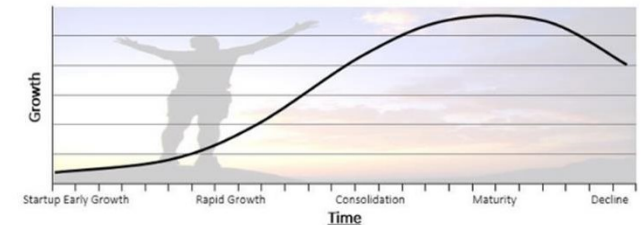
# The changing world and how it affects you.



All things have a natural life cycle – the growth curve – where is your industry on the curve?



Where do you place your business on the curve?



And how about YOU as the owner? Any energy left?



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Looking forward to taking the next step with you

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