The 8 Ways That Founders & Owners Exit Their Businesses. Always.

And Everything You Need To Know To Choose The Exit That's Right For You.

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Introduction

For owners of private businesses, there is only one absolute certainty in their journey. Every single one will exit their business at some point.

The question is how?

And who will decide the terms & timing?

In this report, we have listed all eight routes to exit. Some of these lead to a prosperous, well funded & well earned next step in a manner of the owner's choosing, be that retirement or a new venture. Others can be much more difficult for the shareholders and/or their families. Over our many years working with entrepreneurs, the Symmetry team have seen them all.

The good news is that with some strategic forethought, planning and implementation, every business owner can put themselves on course towards their exit of choice.

So what are the possibilities?

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1. Voluntary Liquidation

For one reason or another, the owners decide to cease trading, withdraw any cash and sell any assets. Any potential upside from ongoing client relationships or trading opportunities is forfeit and assets may or may not achieve their balance sheet value in the market. Any creditors will be entitled to be paid back ahead of shareholders extracting any value.

This could be the right Exit for you if:

a) **Time is of the essence. Exiting as soon as possible is your absolute priority, even if it means missing out on potentially significant value from a sale.**

b) **You do not have the inclination to run any sort of marketing & sale process. Maybe due to a combination of health & commercial pressures.**

c) **Your business is set up and run in such a way that there is little or no chance of achieving a sale. (However, whilst this may be the case currently, it is entirely possible to change this and make a future high value sale possible!)**

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2. Involuntary Liquidation

Commercial pressures lead to creditors imposing the winding up of the business via court proceedings. After any fees, fines and creditor repayments there is very unlikely to be any kind of residual value for shareholders. Directors will be investigated, as a statutory duty of the appointed receiver.

If you are concerned that your business may be in or approaching this situation, it may not be too late to turn matters around or sell to an acquirer who specialises in this type of sale.

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3. Owner Demise

Having passed away, the business owner's shareholding will be passed to inheritors.

This may be a committed & capable manager of the business who has been engaged in a succession planning process, such as the next generation of a family business. However, it may be that the inheritor is not well positioned or inclined to take on the full responsibilities of running the business.

Either way, the departed owners capital is left in the business for others to manage.

To ensure that your assets and shareholdings are distributed to the beneficiaries of your choosing in the most tax efficient manner, you should consult your Lawyer and a Tax Advisor.

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4. Management Buy-Out

This may be initiated by either the management team (sometimes an individual, but usually a team pooling their resources) or the owner(s) themselves. In rare cases the management team may have the means to fund the purchase from their own wealth. But this is rare, so normally some form of financing is put in place, which may be external bank, Private Equity or other institutional funding or, in a growing trend, a form of vendor loan notes.

The benefits of this route include continuity for the leadership of the business with an incentivised and committed ongoing management team with employees, customers & suppliers taking comfort from that.

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Management Buy-Out (continued)

A management buy-out will typically have a much lighter touch due diligence process than you would experience during a sale to a Trade Acquirer, unless Private Equity are involved (note, any bank funders involved will still have some due diligence requirements).

For sellers, a smart deal structure can achieve value extraction often competitive to or exceeding that available in the trade market, whilst managing out risk via sensible agreed controls. A well selected Corporate Finance Advisor will be able to bring this about.

A Management Buy-Out could be the right route to Exit for you if:

a) Succession is important to you and you have a strong management team, possibly including family.

b) You have reason to believe that the wider trade market will not pay an acceptable price on agreeable terms and/or provide a suitable "home" for your team and customers. Maybe you have learned this directly from running a marketing process. Or you know your market really well and are clear on your priorities.

c) Even though you can see the potential upsides of a selling to Trade or other Third Party, you do not have the inclination to go through the time and energy intensive marketing process.

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5. Sale To A Trade Acquirer

This is the route to selling a business which usually delivers the most compelling valuations and clearly defined timeframes of actual exit for the seller.

A properly run process will also deliver a choice of competing acquirers bringing strategic, synergistic opportunities to the table, from entering new markets to cross-selling to cost savings. If the research and market approach has been sufficiently comprehensive, a seller can have confidence that the ultimate offer accepted represents full & fair market value.

However, this will require a significant commitment of time & resource from a seller; the preparation and execution of the marketing & sale process will take many hundreds of man-hours. An experienced advisor can carry the significant majority of this burden, whilst steering away from risks and pitfalls.

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Sale To A Trade Acquirer (continued)

Occasionally, sellers may receive an unsolicited approach from a well funded acquirer and choose to forego the upsides of a competitive bid process, prioritising speed and discretion. Still, a transaction phase is time-intensive and complex. So it is always recommended to appoint an experienced advisor who can act as:

a) *Guide through the complexities of the process (not least the specialist legal & financial points)*

b) *Negotiator to procure & uphold further value in the deal, from a combination of negotiating key technical points plus the leverage of always being able to take the business to the wider market if the seller is unsatisfied (subject to being free of any exclusivity commitments). Also this creates a useful buffer between buyer & seller, allowing the principals to maintain a positive relationship throughout.*

c) *Manager, coordinating parties, advisors, timetables, etc, to keep the transaction moving forward, so an owner/manager can focus on other commercial matters.*

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Sale To A Trade Acquirer (continued)

A well negotiated deal will result in tax efficient & effective value extraction. In most cases, a sale of shares will be preferable to a sale of the trade & assets of the business, the former having the potential to qualify for Entrepreneurs Tax Relief.

A sale to a trade acquirer could be the right Exit for you if:

a) You want to be confident that you are getting the best possible value for your business in the market.

b) You want to retire or pursue other interests whilst ensuring what you have built continues it's journey in the hands of capable, well resourced management.

c) Your business has reached a plateau in it's lifecycle and you do not want to either allow your company to stand still in the face of competition, nor personally invest further capital, time & energy in taking the business to it's next phase. The right trade acquirer will take this on. And pay you for the privilege.

d) You want to explore what different possible acquirers could offer in terms of enhancing the overall commercial success of the business (e.g. access to new markets & technologies).

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6. Sale To A Private Equity Fund

An investment from a Private Equity (PE) fund can lead to an exit for the business owner at the point of investment, but only if deal terms are agreed which achieve exactly that. PE investors back businesses with clear growth trajectories, a committed, cohesive & capable management team and a route to realising their investment returns via a secondary sale. If a business owner has made themselves dispensable (no mean feat!) and developed that management team to take the business forward without them, then an exit via sale to Private Equity might be achieved.

In some cases, owners can structure a deal with a PE firm to sell some capital, taking money off the table at that point, and then commit to working in the company for a further 3 to 5 years to deliver the growth plan. They can then take out their remaining, hopefully much increased, value as they exit the business when the PE firm sell it on, either to a Trade Acquirer or, sometimes, another PE firm.

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Sale To Private Equity (continued)

Private Equity buyers are entirely focussed on achieving at least a 2-3x return on their investment in the shortest possible timeframe. They are very exacting in their due diligence and investment approval processes. Their valuations can be competitive to Trade Acquirers and they often use some very smart financial engineering to maximise their return on capital invested. However, they will rarely bring strategic synergies and cross selling opportunities to the table (unless they have complementary businesses on their existing portfolios) which, along with being explicitly driven towards a target ROI, can put a limit on their competitiveness against Trade Acquirer bids.

Selling to Private Equity can tick all the boxes of a business owner's exit strategy, but the complexities and challenges shouldn't be underestimated. Again, the right Corporate Finance/M&A Advisor will support a seller with the work involved and navigation though the process to ensure a full & fair outturn. Each PE firm is different, so multiple exploratory conversations should be had and a competitive bid environment generated to ensure the right deal is reached.

Next: Is A Private Equity Investment Right For You?

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Sale To Private Equity (continued)

A Sale of your shareholding to Private Equity could be the right Exit for you if:

a) You, and possibly other shareholders, want to exit and other managers wish to drive business growth. PE may buy out some shareholders now and invest in the rest.

b) You want to either take some capital out of the business and/or attract outside investment to fuel growth, with a view to participating in the proceeds from a later, larger sale.

c) You want to sell to a management team who don't currently own shares or have sufficient independent funds. A PE firm could fund the Management Buy-Out if all other conditions are right.

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7. Gift The Business To Others

The business is handed on for no (or nominal) value, typically as part of a succession plan, to family or a management team. Commercial continuity should be achieved and the owner will be relieved of responsibilities and liabilities as far as possible but any asset or goodwill value is handed on. It may be possible to extract surplus cash or other assets (e.g. property) in the process in a tax efficient way.

A reputable corporate lawyer, corporate financier and tax advisor should always be consulted.

<u>This could be the right Exit for you if:</u>

a) You are financially independent and do not need further proceeds from the sale of the business or future earnings.
b) Your inheritor is an experienced, capable manager of the business and/or a committed and capable management team stand ready to fully support the new shareholder(s) over the long term.

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8. Flotation

The business is "taken public", either on the Official List on the London Stock Exchange or the Alternative Investment Market (AIM) in an Initial Public Offering (IPO). The owner's shares are now publicly tradable and can be liquidated (sold for cash) either as part of the IPO process or at a later time.

The business will now be subject to the legal and regulatory strictures that come with being a Public Limited Company (PLC). The value of the shares will be determined as much by the daily ebbs and flows of the market as by the financial performance of the business, so shareholders need to pick their sale point wisely to ensure they get the best possible value and terms.

Next: Is an IPO Exit Right For You?

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Flotation (continued)

The IPO process is complicated and costly and professional advice should be sought from a reputable Investment Bank, Corporate Finance Advisor and, in the case of the AIM market, a NOMAD (Nominated Advisor). As a means to exit, IPOs are generally best suited to a profile of business of a scale and anticipated growth trajectory to attract the sort of public interest that will drive share valuations to levels in excess of those possible through another route.

A Flotation could be the right Exit for you if:

a) The business has grown to the point that there is no further dependency on you as a business owner for it's ongoing financial performance
b) There is significant public interest in the business to ensure the market value of the shares is upheld or enhanced over time
c) There are sufficient funds in the business to bear the cost of the flotation process
d) The business and management infrastructure are well placed to operate in the new compliance regime

So That's All Eight!

If you are a business owner, you will definitely exit your business in one of these ways.

At Symmetry, we are not above saying that we take great pride in helping business owners select the one which is right for them. And then we make it happen. The key is, of course, sound Exit Planning to prepare your business for sale and then delivering on that tailored plan to achieve those objectives through the route of your choice.

But be under no illusions. Not choosing (or choosing but not acting) is a choice in itself and you may find yourself exiting in a way that isn't best for you and your family.

If you would like to discuss how Symmetry help business owners take control of their exit terms, timing and corporate valuations, please do contact us on 03330 164130.

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