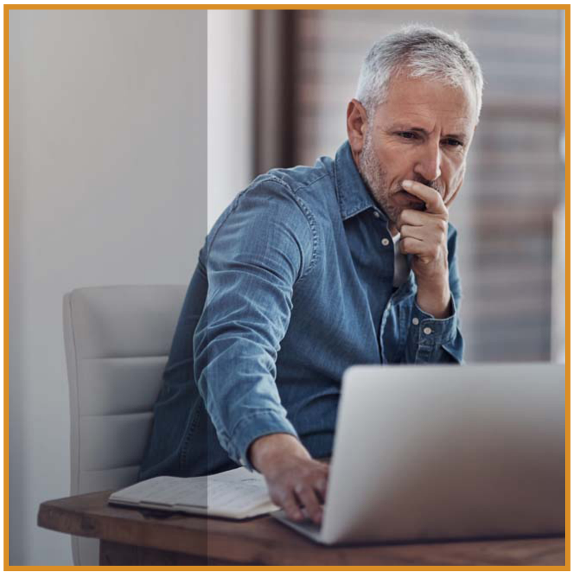
Successfully Executing The Optimal Business Exit Strategy

Extracting Business Wealth



by Peter Heydenrych

According to an article published by Robert Avery of Cornell University in February 2006, the majority of boomer wealth is held in 12 million privately owned businesses, of which more than 70% are expected to see an ownership change in the next 10 to 15 years. Only a portion of these businesses have successfully cashed out, because of a fundamental oversupply of sellers.

Defining The Exit

Exit Planning is a process involving the development and execution of a series of systematic steps taken to allow both the owner and the accumulated wealth to be extracted from the business, via one or more of the numerous available strategies, including:

- Selling the business to Partners, Strategic Buyers, Investors, Competitors, International Buyers or the Public
- Recapitalizing the business for Partial Liquidity
- Merging the business to achieve enhanced valuation and/or marketability
- Transferring the business to Family, Management or Employees
- Gifting the business to meet personal and/or tax-planning goals

Liquidating or Partially Liquidating the business

Setting Goals

For the majority of business owners, the newly liquidated business wealth will constitute a meaningful portion of the total wealth driving the financial, tax and estate plans. The key to beginning the exit planning process is to clarify the endgame, taking into account the likely value of extracted business wealth.

- Legacy Goals – what will have been your contribution?
- Lifestyle and "Life-after-Business" Goals – what do you want from the next phase of your life?
- Estate Planning Goals – how will you ensure that your estate passes to your heirs in the most tax-efficient way?
- Exit Strategy Goals – based on all of the above, what are the priorities to be met by your selected exit strategy as to risk, time, wealth and income?

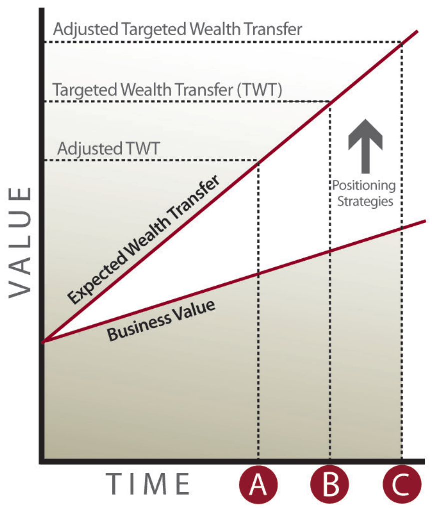
Selecting a Team

The M&A Advisor should assemble and coordinate a Team, including existing advisors where applicable, that will ensure access to all appropriate options and opportunities, being fully informed as to the merits and demerits of proposed strategies and having expert counsel and representation.

The Team must include the necessary knowledge, skills and experience in Mergers & Acquisitions, Corporate Law, Taxation and Financial Planning/Wealth Management. It may also include specialists in ESOPs, insurance, personnel and business consulting disciplines.

Writing a Plan

The M&A Advisor should prepare a written Exit Plan incorporating (1) a valuation of the business, (2) a statement of goals and objectives tied to the Wealth Management Plan, (3) a review of alternative strategies, (4) an analysis of the gap, if any, between the goals and the options, and (5) strategies, when applicable for closing the gap.



Reconciling Goals and Options

A valuation will produce an expected value, while the establishment of goals and the analyses of wealth management professionals will generate a targeted value. Whether or not these values are the same, the owner should review all exit options, and should also evaluate a number of Positioning Strategies for execution prior to implementing an Exit Strategy.

There are two key points of inflection for matching the exit with the personal goals:

1. The ability to vary the value, timing and certainty associated with extracting the business wealth
2. The ability to vary the timing, risk tolerance, estate wealth, living standards and other variables inherent in the personal goals

Positioning Strategies

Corporate Value Enhancement Strategies
The Team should look at the corporate structure and governance mechanisms to consider whether the business is optimally positioned for the intended exit. The makeup of the Board and any Advisory Board may also have an impact on the value perceived by a buyer. The business may benefit from a combination with another business prior to its sale, or from a spin-off of one or more non-synergistic or non-performing divisions.

Business Value Enhancement Strategies
Business Value Enhancement Strategies generally influence valuation because of their perceived impact on risk, growth or profit margins. At the top of the list is the requirement for a strong, experienced and motivated management, often with skin in the game.

Other Business Value Enhancement Strategies include:

- Reviewing and Revising the Revenue and/

or Business Models

- Implementing Product/Market Enhancement Plans
- Expanding and Diversifying the Customer Base
- Securing Title to Patents and Intellectual Property
- Strengthening or Upgrading of Systems and Procedures
- Documenting or Codifying Contractual Relationships (employees, vendors, customers, debt)

Business Marketability Enhancements Strategies

Succession Planning

Experienced buyers know that completing acquisitions is a time-consuming and expensive undertaking. Buyers will perceive greater clarity, transparency and certainty, and therefore be more motivated to engage, when the seller has:

- Audited Financial Statements
- A Business Plan with a clearly defined growth path
- An in-place sector-experienced Management
- Current Market metrics and analysis

Multi-Step Liquidation Strategies

A classic two-stage exit is accomplished by means of a re-capitalization in which an investor/partner/buyer acquires part of the business with an expectation to either buy the rest of the business or to market the business in cooperation with the owner at a later time and at a greater valuation. The owner takes some chips off the table, but retains a stake, and usually continues to participate in management.

Transaction Structuring Strategies

Key structuring considerations include:

- Tax considerations
- What incomes and expenses are included(i.e., are necessary for the business)?
- What assets and liabilities are included or excluded?
- What pre-transaction liquidation, settlement or exclusion opportunities exist?
- What relationships between buyer and seller arise? (employment, advisory, landlord, supplier, partner, etc.)

Benefits of a Planned Exit

The primary purpose of approaching a business exit in a systematic, goal-focused and planned way is to dramatically increase the likelihood that the outcome will be optimal to the desired goals.

The employment of a team of professional and experienced advisors will:

- Mitigate against a failure of the mission
- Dramatically expedite the mission
- Provide critical intermediation of the process
- Increase the negotiated after-tax value of the mission

…and will provide the knowledge and resources to navigate a complex and time consuming labyrinth of decision making and task execution.

About the Author

Peter Heydenrych has more than 30 years of experience in corporate finance and investment banking, including international banking and M&A. He draws on a depth of experience and brings important insights to bear on the issues faced by clients, whether when selling their business or when requiring capital. Peter's entrepreneurial experience, as the owner of both service and manufacturing companies, provides added perspective and an enhanced ability to execute successful transactions, serving clients through a thorough understanding of both the process and the anatomy of M&A transactions. Most importantly, Peter's acknowledged capabilities make him a highly-skilled negotiator who is analytical and tenacious, yet objective and fair. He focuses on providing clients with an optimal business exit strategy, working with a team of experts such as CPAs, attorneys, and wealth managers.

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