

Ten Commandments of Successful Business Exits

For many retiring business owners, the sale of their company is the largest and most emotion-filled business deal of their lives. And most owners have little or no training or experience in selling a business. This paper briefly discusses ten practical directives to help you make better exit planning decisions and achieve a successful sale.

1. I shall plan ahead

Why sell? This business is your life's work. If you sell, what will you do next? Is your family on board? What type of lifestyle do you want and what will that cost? What is the market value of your business and what are your sale proceeds after taxes likely to be? Is it enough to fund your next chapter? How will you reinvest the proceeds? Develop your personal goals and plans before you make a final decision to sell.

2. I shall not depend on miracles

In the business transfer marketplace, sellers want full value and buyers require a reasonable return on investment. So, it's win/win or no deal. According to the Pepperdine Private Capital Markets Survey¹, the #1 reason business deals don't close is a gap in valuation. Over-valuing your business leads to poor decisions. At the same time, you don't want to leave money on the table. Usually there is a market-based price range for similar businesses with comparable financial performance, growth and risk characteristics. A skilled M&A broker can often move price up in the range but requiring much more usually leads to no deal. Before you go to market, spend some time and money to have a qualified unbiased business valuation expert assess the market value of your business, and hire an M&A broker that you can trust to deliver on their promises.

3. I shall prepare my business

Also have that expert objectively evaluate your business from marketability and goodwill transferability perspectives and address any weaknesses. Every business is unique, but here are a few common preparation steps: Have financials reviewed to reduce a buyer's perception of risk. Embark on a program to increase customer diversification (if concentrated). Delegate more to make yourself less critical to the operation. Put

incentives in place to retain key employees who can facilitate a smooth transition. Protect your intellectual property. Capture growth opportunities in a business plan with well supported financial projections. Buyers will have their own plans, but this helps them perceive greater value. Exit strategy is also business strategy.

4. I shall not wait for perfect timing

It makes perfect sense that the best time to maximize selling price is when business, industry, economic and capital market conditions are strong. Yet, letting go is hard to do. Don't make the mistake of waiting too long to make your move. In our experience, owners tend to hold on longer than they should; earnings slide and enterprise value declines. Deciding when to go to market requires objectivity, faith and courage. Also, keep in mind that a sale process takes 9 months on average, plus time at the front to prepare and on the back end for transition.

5. I shall help buyers buy

To receive full value, businesses need to be convincingly presented, with supportable facts. The most successful M&A brokers produce a professional Confidential Information Memorandum (CIM) package ("deal book") that presents a business to prospective buyers who have signed a non-disclosure agreement. A fact-based CIM communicates the essential information buyers need to firmly grasp a business, appreciate its value, and make a solid offer to purchase. A CIM presents information in the language of sophisticated buyers and their financial advisors. A 1-page "teaser" is used to entice target buyers.

In many years of looking, we have yet to see a perfect business. A significant weakness or risk revealed early in the discovery phase is usually a manageable hurdle or a point to negotiate around. That same information revealed during negotiations or due diligence becomes a catalyst for buyers to reexamine every piece of data, lower projections or increase their risk rate, or walk



¹ Pepperdine University Graziadio School of Business and Management

away. In our experience, appropriately exposing warts early in the process builds trust and credibility with buyers, which becomes an advantage in negotiations, and helps ensure that our seller clients keep their proceeds after the sale.

6. I shall have buyers competing to buy

It can be difficult to achieve full value with just one buyer at the negotiating table. When a buyer inquires about acquiring a business that is not for sale, that inquiry limits the negotiation to one party. When an owner decides to exit, it is not uncommon for them to confide in their CPA, attorney or financial advisor. That advisor may mention, “I know a potential buyer, why don’t I introduce you?” This also leads to a negotiation of one. Most of these buyers don’t buy, and when one does buy, the purchase price is often lower than what a structured sale process would bring. Buyers love exclusivity, but it is not in your best interest if your objective is to maximize your proceeds. Value is generally maximized in a controlled auction.

7. I shall keep my eye on the ball and my lips sealed

Some owners make the mistake of becoming distracted with selling instead of running their business, resulting in significant value erosion. When sales or earnings slide – so does selling price. There simply isn’t enough time in the day to run a business at peak performance and perform the job of selling it. Do what you do best and hire a competent M&A broker to run a confidential structured sale process.

Also, it is nearly impossible to maintain confidentiality when an owner attempts to sell on his own. Colleagues gossip. Word spreads fast. Key employees may leave and customers may go elsewhere. Bankers and suppliers get nervous. Competitors take advantage. Then the business suffers and goodwill value declines. A competent M&A broker has systems and procedures to maintain confidentiality and release sensitive information at appropriate times.

8. I shall not go it alone

You will only sell your business once, so do it right the first time. For many reasons, you improve your odds of maximizing value and holding on to your sale proceeds when you engage an M&A brokerage professional. Here, we can take a lesson from public companies and private equity groups, who wouldn’t consider a sale or divestiture without engaging an investment bank. Why? Better results. Engage a professional M&A

broker to tip the experience scale in your favor, improve your negotiating position, and manage the entire process for you.

9. I shall use experienced professionals

Your transaction team must understand the complex business, financial, legal and tax issues of business transactions, and match up against the experience level of a buyer’s advisors. Deal structures that favor you from tax and liability perspectives are often unfavorable to the buyer and vice versa. Price is important, but your real goal is to maximize your proceeds after taxes. Are you confident in your tax advisor to help you plan for Uncle Sam, the unwanted stakeholder in a sale? Does your attorney have enough M&A experience to negotiate representations and post-transaction risk in a commercially reasonable manner? You receive more in the end, when you use qualified and experienced professionals from the very beginning.

10. I shall not let time kill my deal

Time is one of the major deal killers, often when due diligence bogs down. Buyer and seller principals are busy running their businesses; attorneys, CPAs and other deal participants may also become distracted. One of the primary roles of an M&A broker is to keep both transaction teams on track and maintain deal momentum; and not let deal fatigue set in.

During the sale process, never lose sight of “why” you are selling — whether it’s to go fly fishing, travel the world, provide financial security for family members, support your favorite charitable organization, or some other larger purpose. It’s important to keep the big picture in focus as you encounter the challenges and emotional roller coaster of selling a business. We’re with you all the way through.



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