TIME TO LOOK FURTHER AHEAD...

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THE LAST UPDATE FLAGGED UP SOME CRITICAL DATES AND ACTIONS BUSINESSES MUST CONSIDER. FINANCIAL PINCH POINTS WILL HAPPEN, AND NEED TO BE PLANNED FOR.

Many of our clients were on a pathway to exit over the next 5 years or so, and were knocked off course by the pandemic. They are keen to revisit that plan and understand what their future might now look like, but are unsure how to approach that.

So here are a few important points to understand about business exits…

1. THERE ARE MANY WAYS TO EXIT.

Selling to an existing management team (MBO), or a new management team coming in (MBI) can work well as they step straight in to owners shoes, but unfortunately they often have less money to spend. A trade sale to a competitor or someone above or below you in the supply chain, can be good as they are buying for strategic reasons which can uplift the price they pay. Venture Capital companies or private investors are willing to buy a slice now and the rest later for example, and just want a good rate of return on their investment. They are many more ways to consider, and all have unique pro's and con's. The key point is that most business owners only see one option of a trade sale of 100% of the business to a larger competitor, when they need to understand all the possible options and work out the optimum choice for them.

2. MONEY IS CHEAP AT THE MOMENT.

Base rates of 0.1% make the costs of financing a purchase lower than they have ever been. Funders or investors still want to ensure their money is safe and know how they can get it back in the future, but finance costs are no longer a restriction to making a deal work.

Low interest rates also mean investors look for better places to invest, and so Venture Capital finance or Business Angels are hungry for good businesses with a bright future, to earn better returns than more passive investments. Where once 20%+ returns were expected, they are now commonly under 10%.

But whilst investment enthusiasm is up and the cost of money down, banking confidence in funding any deal may take some time to return.

3. YOU GET ONE GO AT IT

Most people only ever sell one business. That means they must get the best deal they possibly can, but are unlikely to have the experience to do it well. It is not a DIY project. You need expertise from the right professionals, but many resist this as it often means spending money before anyone is even interested in buying/investing. There may also be a concern that professional costs can become 5% or more of the deal value, but 95% of the price is better than 100% of a deal that doesn't happen, or more likely 100% of a deal that is only 80% as good. (Lots of percentages but simple logic - good professionals add much more than they cost)

So is it still possible to plan for an exit from your business despite the pandemic and recession that will follow? Of course, it is always possible to sell a business. The issue is how quick and for how much. Right now buyers will be looking for bargains, at fire sale prices, trying to exploit those who are struggling. So now may not be the right time to be going to market. But in 6-18 months deals will become more serious decisions about good businesses at the right price.

So what now? We think there are three key stages…

SURVIVAL

The priority is to make sure you manage cash, match revenues and costs carefully as you adapt to your 'new normal', and ensure you don't buy your growth through discounting prices and end up overtrading. Businesses will be vulnerable through the next 6 to 8 months as deferred costs kick in and activity levels are uncertain.

So the focus in the short term is to keep the wheels on. Some sectors may have growth opportunity, whilst others will see a significant down turn. Adapt to the market and never forget that cash is king, and turnover is just vanity.

If you do not survive then obviously you will have nothing to sell. But if you do survive, demonstrating your attention to important business issues in tough times will make you more attractive to buyers than a business that has simply adopted the classic "heads down, fingers crossed" strategy.

EXPLORE ALL OPTIONS, AND PREPARE

Understand all the different ways you can exit from the business. Look at the risks, benefits and costs of each option and think about your circumstances and what might work for you. For many business owners there are likely to be some options they have never considered, but for any option you can work out the likely values, timing and process that would need to be followed.

This may also dictate day to day actions to groom the business for that exit. A buyer wants a business that is not completely reliant on the owner, so replace yourself with others in the team doing what you do. Some may want to buy a customer list and a level of turnover, in which case an aggressive marketing campaign to win new customers may add to the sale price.

For some the right answer may be to 'retain and drain' i.e. make sure you extract maximum value along the way, through salary / dividends or preferably pension contributions, so that you are less reliant on a lump sum on sale. You may just let your team run it for you and share the profits with them, i.e. a self-funded MBO. (Note: there are some very clever ways of extracting income and making substantial pension contributions that are often overlooked).

IMPLEMENT THE PLAN

Whatever your preferred strategy, action will be needed. The problem with strategic issues is that they are often gazumped by operational issues that seem more urgent. Big plans are deferred, delayed and dismissed, in preference to ringing phones or moaning employees.

So if you want to get your exit planning back on track, talk to us about developing your strategy for the next 2 to 5 years.

THINK, PLAN, ACT

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