Five Steps to a Successful Exit

An Exit Planning Whitepaper

Strategic Specialists Group

Planning a successful exit from a business is one of the most important decisions an owner will ever make. It is also one of the most challenging. Selling a business is not a foregone conclusion and the odds are stacked against you:

- Only 20%-30% of businesses manage to sell[1]
- 75% of business owners profoundly regret their sale twelve months later[2]

As businesses vary widely in size, commercial model, capability, and the markets they operate in, there is no single template for a successful exit. However, there are some general elements you need to be aware of when approaching your exit.

A robust exit strategy is a business asset. The activities you undertake to make yourself attractive to potential buyers are the same activities that make your business perform better overall. Integrating these activities into the business as soon as possible and treating them as an essential component of the overarching business strategy has a double benefit.

There's a lot to think about when exiting your business and you will benefit from a helping hand to follow some simple steps. In this whitepaper we'll explore how to prepare yourself and the business for sale and set yourself up for success.

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1. forbes.com/sites/sageworks/2017/02/05/these-8-stats-show-why-many-business-owners-cant-sell-when-they-want-to
2. Exit Planning Institute: State of Owner Readiness report 2019

Five steps to a successful exit

1	KNOW WHAT SUCCESS LOOKS LIKE	Determine the desired exit result and understand the journey to get there
2	MAKE IT PERSONAL (IT'S NOT 'STRICTLY BUSINESS')	Ensure your personal and financial goals are equally considered
3	UNDERSTAND WHERE YOU'RE STARTING	Know your business' value and if it will meet your personal and financial goals
4	MAKE YOURSELF DESIRABLE	Develop the intangible capital that makes your business exitable
5	ASSEMBLE YOUR EXIT TEAM	Involve the advisors that will assist your exit and manage it as a priority

1

Know what success looks like

A successful exit strategy means that you've planned your transition and are ready to take advantage of the opportunities it presents. It's the perfect balance of building a business that is attractive to potential purchases and at the same time identifying and fulfilling your personal and financial goals as you prepare for the next stage in your life.

There are challenges to face before you exit. Identifying these will set you on a path for success. We find owners don't know where to start and are unsure exactly how to build more value into the business and make it attractive to purchasers. They've also not considered how life will look post-exit.

Do the following to get clear on what success looks like:

Be clear on your post-exit future: What do you need financially to have the lifestyle you want for the next phase of life? A quiet departure with all debts paid for retirement, or a modest profit to kickstart your next business opportunity?

Understand it's a long game: Setting up a business that is transferrable, attractive to new owners and will run without your direct input takes time. Start early and give yourself time to build.

Define your legacy: How strongly tied are you to your business and what happens to it after you depart? How willing are you to be a part of it after it's sold (if that becomes a condition of sale) given your influence may become limited? This will affect your buyer pool and who you are willing to sell to.

Leave the emotions at home: We get it, it's your baby and you've put a lot into it so it's hard to be objective. However, most purchasers don't have your emotional tie-in, so put yourself in their shoes and do your best to be objective.

2

Make it personal (it's not 'strictly business')

Successful exit planning focuses on two main objectives:

- Maximizing your company's value prior to your exit
- Ensuring you accomplish your personal objectives

In the exit process effort is often concentrated on the business aspects (the sale itself) and personal objectives come second. However, the damning statistics are that 75% of business owners profoundly regret their exit 12 months later.[3]

Step One: Set Personal Goals

Departing owners should view their exit as the start of their next phase in life. You need to take the time to understand and spell out what you want.

Start by identifying your most important personal objectives and how financial goals and non-financial goals relate.

What do you both want and need for your life post exit?

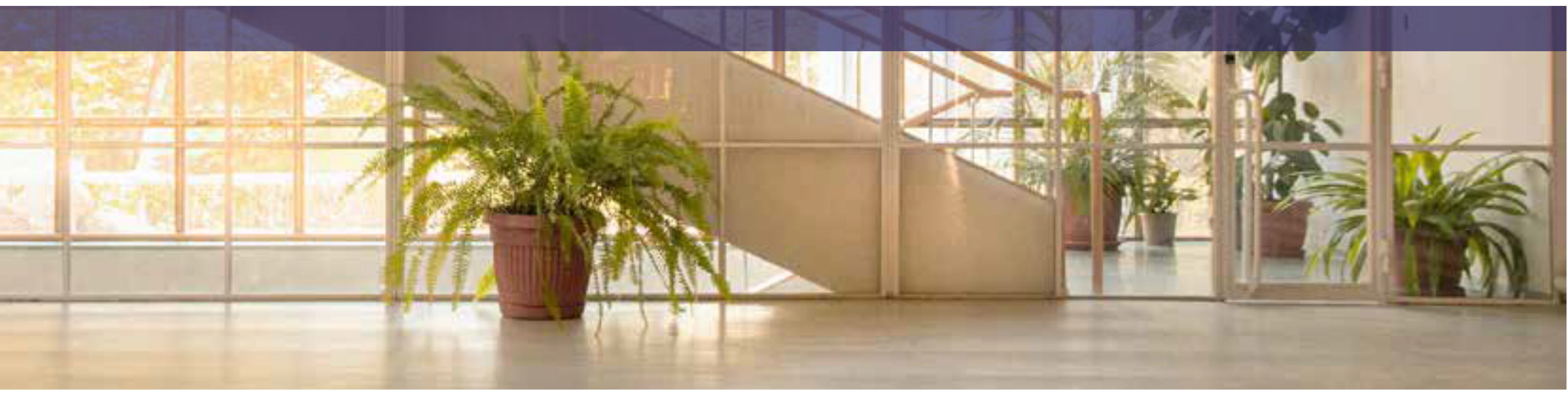
Financial goals require you to consider topics like how much money you need from the exit to ensure your financial security. Non-financial goals include topics like keeping the company in the family or wanting to reward key employees.

Step Two: Make Sure Goals are Consistent and Realistic

You will need to determine if your goals are realistic and consistent. Very often we find that personal and business goals are inconsistent, even contradictory. Seek clarity on this as early as possible through your Financial and Business Advisors.

Determining your personal needs in the exit process is almost as important as the sale itself. It will lessen the chance of you being one of the 75% of owners who profoundly regret their sale afterwards.

3. Exit Planning Institute: State of Owner Readiness report 2019



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Understand where you're starting

What is your business worth?

Valuing your business is one of the most exciting stages in the Exit Planning process, but from our experience it can also be one of the most contentious, and objectivity rarely factors in.

When valuing their business we always ask clients these three questions

1. What do I need it to be worth?
2. What is it worth?
3. What could it be worth?

Ultimately business is worth what someone will pay for it. But that's not very helpful, so let's start with a simple formula to convey business value: *EBITDA x Multiple = Value*

Your profitability (EBITDA) times the multiple that purchasers commonly pay for businesses like yours will give you an estimation of what it is worth. The multiple varies by the size of your business and how well it's run, but for most businesses it is a useful starting point.

This can be taken a step further with a professional valuation that will also consider the following:

- Industry and economic outlook
- Nature of the business and its operating history
- Transaction prices or valuations of other companies engaged in similar activity
- Book value, financial condition of the company and value of intangible assets
- Earnings and dividend-paying capacity

Value vs Saleability

Saleability is determined by how easily someone can pick up and operate your business. Owning a valuable business does not always mean it will sell. Saleability impacts how quickly a business will sell and how much leverage a business owner has when negotiating with a buyer. Saleability is affected by both external market conditions (largely outside of your control) and internal operating conditions (largely within your control).

So control what you can to be saleable. For example, strengthen the management team to reduce the reliance on the owner (buyers want to buy a business, not an owner) and improve cash flow where possible. Undertake steps that will make you more transferable and increase the saleability of your business.

4

Make yourself desirable

The value of your business depends on the value in your business. Approximately 80% of a company's value lies within its intangible capital.[4] Intangible capital is the non-physical assets of your business. These have a degree of subjectivity, for example the strength of your customer relationships. Focusing on intangible capital will increase transferability, meaning your business can run smoothly without needing your direct input.

Customer capital

Small and mid-sized businesses often rely on one or two core customers or commercial channels. In many of the businesses we work with, the owner has developed deep relationships with key customers. To some degree this is inevitable as you've built the business, but there are ways you can make these relationships more transferable.

Customer Relationship Management tools (CRMs) are a useful way to track and improve customer capital, as well as spread customer ownership across the organization. Additionally, documented commercial agreements with customers show potential buyers that they have long-term commitment.

Human capital

The measure of talent within the business is more important than customer capital for many buyers. It's a key element of your business' market worth and a potential buyer will have identified this early in the sales negotiation. The quality of your people is the biggest determinant on how well your organisation operates.

Investing in your team empowers them to do their jobs more efficiently and to the best of their ability in a healthy work environment.
How a business treats its employees is a good gauge of how they treat their customers, driven by a clear purpose, values, and positive culture.

4. Sullivan, P. 2000 Valuing Intangible Capitals. *Journal of Intellectual Capital 1*(4),1.

4

Make yourself desirable (cont.)

Structure capital

Structural capital considers what your business needs for employees to function at a high level. Training, documentation, technology, tools and equipment fall into this category. Poor structural capital will prevent you from getting the best out of your business and makes you less transferable.

Good things happen when you have solid structural capital in place:

- It takes away the reliance on what's *in the heads* of departments or individuals, so success isn't dependent on what they know
- Solid structures enable teams to do their job better and meet customer needs
- It's easier to bring in and train new talent, making it easier for your business to scale and grow

Social capital

Social capital is the relationship that makes businesses work more effectively. How the business communicates with each other, interacts internally and externally, embraces the vision and purpose, and brings its people together can be hard, but focusing on it ensures the whole becomes greater than the sum of the parts.

Positive indicators include:

- Smooth and efficient communication
- Teams are united and on the same page
- Core values run through all levels of the organization
- Employees are motivated by an organization's higher purpose
- High levels of trust

Social capital also brings the customer into the organization. Customers gravitate towards businesses that promote values and respect. It comes through loud and clear in customer service and consumer satisfaction surveys.

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Assemble your Exit team

Exit Planning is not a path that should be walked alone. It is a team exercise requiring different capabilities from a wide range of experts, many of which you probably already have as part of your external advisory set. From our experience, you will need at least some (or all) of the following:

- business growth advisor
- personal wealth advisor
- accountant
- lawyer
- insurance broker
- funder
- broker or merger and acquisition specialist.

Your team needs a captain, and it shouldn't be you. If you think we are wrong, ask yourself these three questions:

1. Do you have the time?

We find owners generally have enough on their plates dealing with the day-to-day without having to coordinate a team of experts and operating the business in a way that makes it exitable.

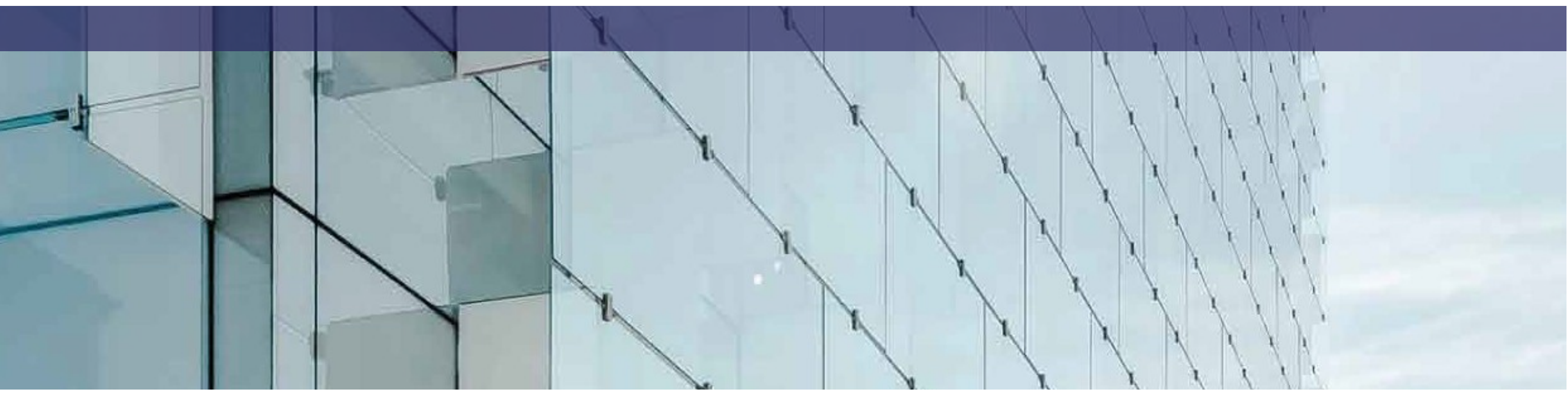
2. Do you have the expertise?

Most business owners who have not gone through an exit before will benefit from having an expert by their side who is familiar with the process and can manage the team.

3. Can you prioritize the important over the urgent?

Exit planning falls into the category of important but is rarely urgent. Despite your best intentions, will the daily pressures of the business mean Exit Planning ends up on the back-burner and time slips by without real progress?

At the start of this guide we said Exit Planning is a business asset because undertaking this process will compel you to take action that will make your business run better and deliver superior results. We strongly encourage you to get your internal and external team aligned to making yourself exitable, improving your business so that you are ready when it is time to sell.

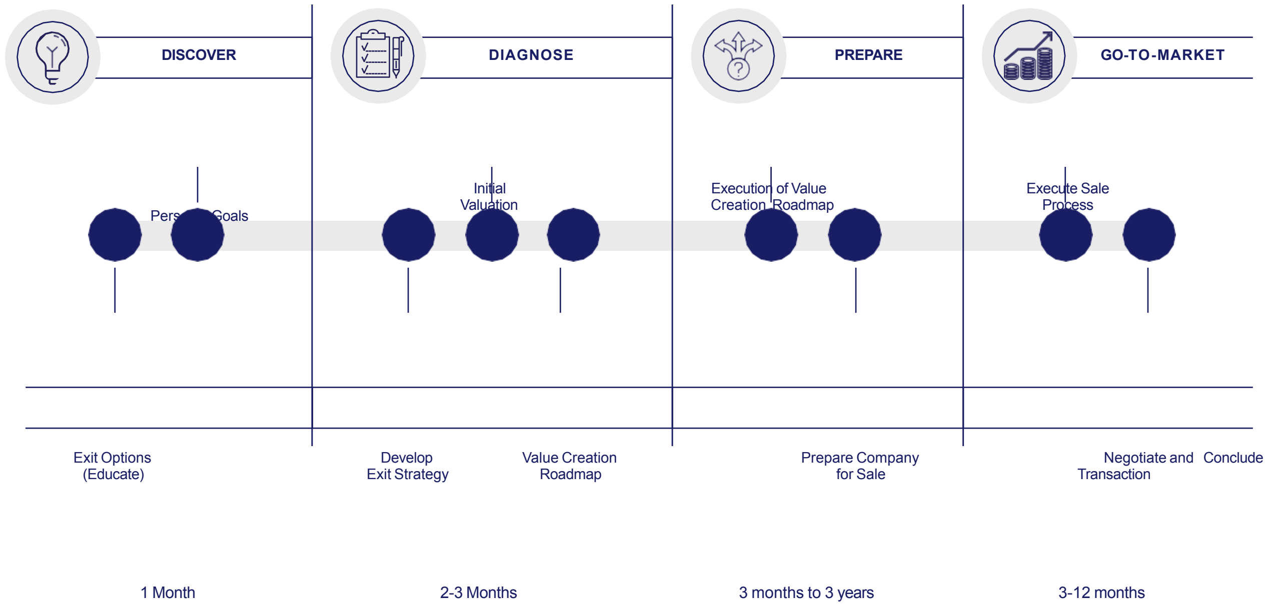


How Strategic Specialists Group helps clients exit

Navigating a successful exit is one of the most important processes an owner will undertake. To make this happen, ensure exit planning is one of your strategic pillars.

Our team will guide you through our framework for a successful exit. We provide the advice, transparency, support, and accountability you need to generate and extract the maximum enterprise value of the business.

Our framework



1. Discover
Determining your exit options and understanding what a successful exit looks like for you.

2. Diagnose
Developing and delivering an exit strategy that understands your exit criteria, what your business is worth and how you can add value to it.

3. Prepare
Enhancing the value of your business through implementing the value creation roadmap, making you more attractive to potential purchasers.

4. Go-to-market
Reaping the rewards of all your efforts, executing the sales process from negotiation through to conclusion.

What you will get: We will deliver a robust and actionable plan for creating value within your business, and prepares you for a potential sale. We know that a plan is only as good as its implementation, so our part-time Specialists will work with you and your team to execute the strategy and deliver results.

EXIT PLANNING

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