



# CapitalEyes

A Bank of America Business Capital monthly e-newsletter on middle-market leveraged finance.

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## **Ensuring An Effective Exit Strategy For Private Company Owners**

Far too often, private company owners and entrepreneurs don't think about their exits or transfer process until retirement approaches. In so doing, they lose control over the decision as other exit strategies take shape in reaction to external forces such as an industry downturn, changing competition or unanticipated illness.

Conversely, savvy sellers know that an effective harvest strategy begins long before an actual exit. Such a strategy optimizes value while balancing the often-complex objectives of the owners and prepares the business for sale well before the transaction occurs. The following are tips for implementing an effective harvest strategy.

### **Specify Goals And Objectives**

Achieving optimal value begins by clearly articulating the seller's goals and objectives. These will be both financial (liquidity, sale price, taxation/estate planning) and non-financial (succession, legacy and reputation, employee and stakeholder concerns and other special interests). Divesting owners will need to ask questions such as: To whom do I want to sell/transfer the business (family, financial investors or competitors)? How long do I want to work/be involved? Do I want to maintain some upside/risk? Are there employees or others whom I want to protect/reward?

### **Determine The Right Time To Sell**

Value is optimized when a divestiture is proactive rather than reactive. A two- to five-year timeframe allows the company to demonstrate consistent growth that will optimize its appeal to buyers.

Beyond financials, this timeframe enables the company to demonstrate long-term relationships with customers and vendors. It also provides sufficient time to ensure that an effective management team is in place long before a potential transaction, allaying buyer concerns that the business value might be too dependent on the entrepreneur.

### **Assemble A Team Of Trusted Advisors**

Despite the management team's dedication and diligence, shareholders will require outside functional expertise in areas such as: legal advice; corporate finance/valuation analysis; process management support; broker-dealer services; sell-side financial due diligence and accounting expertise; tax due diligence (corporate, personal and estate); and specialty advisors (environmental/risk, industry specialists).

### **Evaluate Structuring Alternatives**

Deal structuring, tax structuring and financial engineering can significantly impact value. The sooner owners begin to understand the implications of structuring alternatives, the better prepared they will be for successful negotiations.

### **Put The "Financial House" In Order**

Any potential buyer will focus a great deal on the company's financial results over the past few years as a proxy for future performance; they'll likely scrutinize historical performance to get a better understanding of the risks and rewards associated with their potential investment.

To facilitate this analysis and provide a potential buyer with added comfort, owners should: provide audited financial statements for the latest three fiscal years and unaudited results for the most recent interim period; create quarterly and/or monthly management reports to help a buyer understand the key metrics and performance indicators used to manage the business; focus on quality of earnings and performance; and define the message to anticipate questions, issues and challenges.

### **Develop Credible Financial Projections**

A compelling growth strategy is a key determinant of value. To maximize the value of a business in a sale, sellers must provide potential buyers with a compelling story of future growth opportunities and profitability. Sellers should develop a credible set of detailed financial projections (3-5 years) which will, in part, define the buyer's perception of the company's future and management's ability to deliver.

**Understand Subjective Value**

By better understanding a potential buyer's philosophy and attitude about what drives value, a seller can begin to understand how this philosophy might apply to attributes of the business. Is the potential buyer strategic (one who seeks synergies with the seller's business) or financial (more focused on shorter term investment goals)?

Value also tends to be enhanced when the seller understands and is realistic about the strengths and weaknesses of the business. This can be aided by a comprehensive sell-side due diligence review process, done prior to the buyer review to educate the owner and management on potential key financial and operational issues. The more informed owners are about the pluses (and the minuses) of the business, the better prepared they will be for discussions with a potential buyer.

**Move From Plan To Deal**

As potential buyers are identified, sellers need to re-assess the company's original harvest strategy objectives and priorities. Considerations then turn to developing a specific execution plan and actual negotiations.

Owners who have begun to develop their harvest strategy will arrive at the negotiating table in a position of strength. Clear objectives will place the seller in the optimal position to negotiate the best price, or, if necessary, to walk away.

*This article was written by J. Fentress Seagroves Jr., partner, PricewaterhouseCoopers and originally appeared in [Financial Executive Magazine](#).*