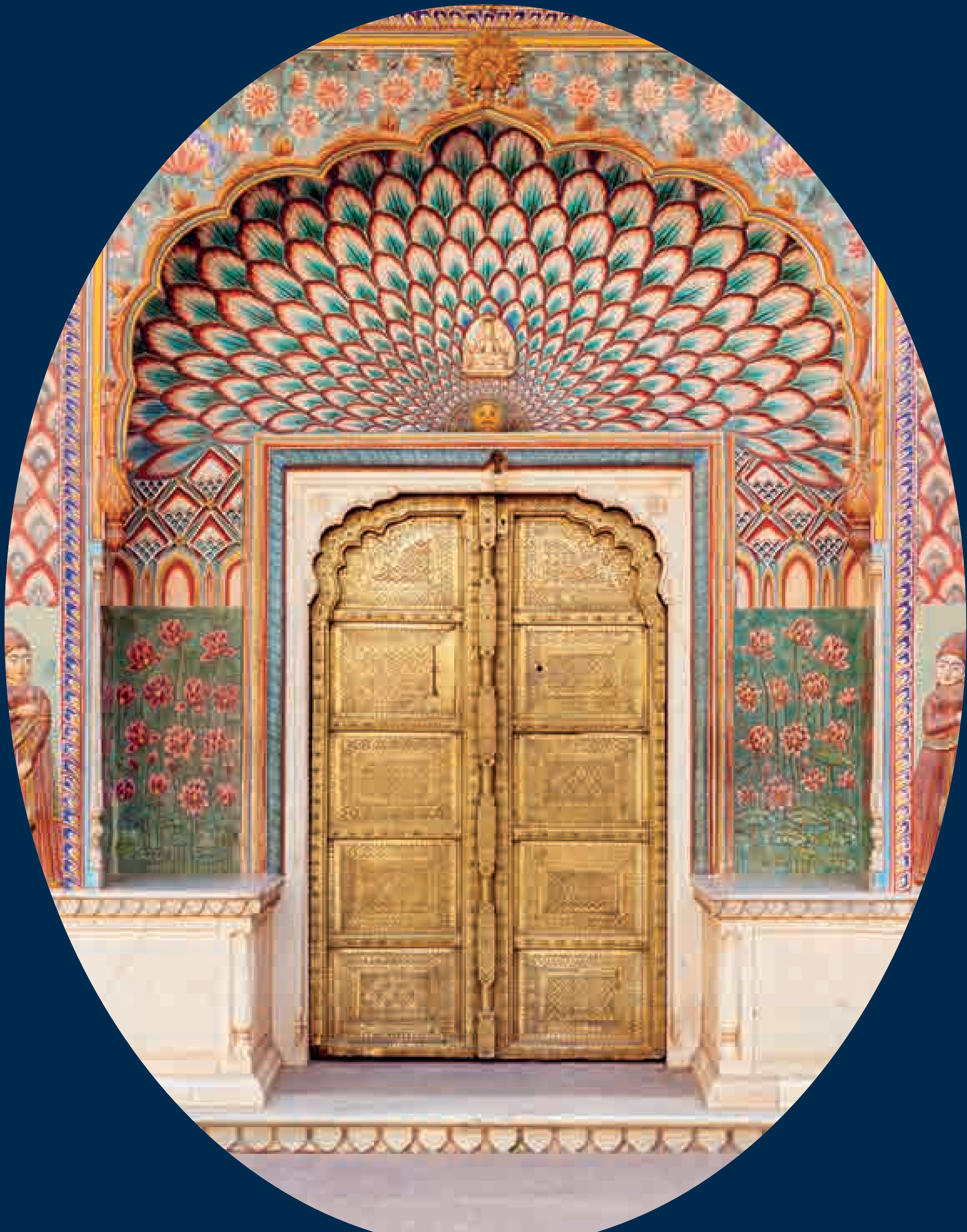
THE ART OF THE BUSINESS EXIT

WHAT EVERY ENTREPRENEUR NEEDS TO KNOW BEFORE THEY SELL THEIR BUSINESS



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STYLE

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INTRODUCTION

A business exit is a defining achievement for any entrepreneur. It provides a unique moment in time when you can tally precisely how much value you have built in a business over the years. The resulting money provides a platform for a new career and gives the freedom to explore new ideas.

Although many entrepreneurs have the ambition to get to this point, achieving a business sale remains hard, as evidenced by the relatively low number of companies put up for sale which ultimately attract a buyer.

In our previous research into this1area – The Long Goodbye – Myths, Realities and Insights into the Business Exit Process – we found that although much can be done to maximise the chances of a successful business exit, few entrepreneurs took time to understand what precisely they need to do.

In this report we have revisited the area of business exit planning to establish the extent to which the current generation of entrepreneurs understands how they should approach the task of selling their business.

What we have found is that there is still a gulf between the perceptions and reality of what it takes to succeed.

The purpose of this report is to close that gap. By providing insight and knowledge from some of the UK's leading entrepreneurs who have been through the sale process one or more times. We have brought together the key actions entrepreneurs should take ahead of a sale to ensure they maximise the value of their business and prepare for the arduous process of doing the deal.

Each part of this report includes first-hand experiences and advice from entrepreneurs and their advisers representing businesses across a range of sectors and ages.

Taken as a whole, it provides comprehensive insight into what it takes to build and sell a business.

We hope that you will enjoy reading the report and it will contribute positively to your entrepreneurial journey and even ultimately your own business sale.

THINKING AHEAD

THE EXIT MINDSET

The path to a business sale is very rarely as smooth as it looks from the outside, requiring tenacity, judgement and luck.

Nearly every business will need to understand how they can maximise their value, what buyers want and what they need to do to adapt.

For every entrepreneur that succeeds in selling their business, the business exit is as momentous as the original decision they made to start their business. From the satisfaction that all the hard work and tough decisions have finally paid off, there is usually the significant – and often life-changing - financial reward.

From the outside it appears there are more businesses than ever that follow a similar arc of success from start-up, to well-publicised sale. It is therefore tempting to think that this neat trajectory is one that all entrepreneurs can follow, achieving similar results.

Certainly, as starting and running a business for financial gain has become a mainstream alternative to joining one of the professions or corporate life, it is a path that more and more are seeking to emulate.

Yet, as we can see from the entrepreneurs we spoke to for this research into the exit process, the path to a business sale is very rarely as smooth as it looks from the outside, requiring tenacity, judgement and yes, in many instances, a measure of luck.

The good news, according to those same people, is that with the right exit mindset there is much that every entrepreneur can do to maximise their chances of success.

What our research shows, however, is even the most talented entrepreneurs need to do more to understand the common misconceptions and mistakes as they grow their business. Gathering this knowledge and getting the right mindset should start a long time before any decision to sell.

SUCCESSFUL BUSINESS EXITS ARE RARER THAN YOU THINK

The first issue for any entrepreneur with a business sale in mind, is to understand that not only is it a minority of businesses who are ever approached by a purchaser – 70% of the entrepreneurs we surveyed have never had an offer for their business – but an even smaller number end up attracting a buyer: our last round of research put the figure at 7%.

Chris Gately runs Wreahurst, a company that specialises in preparing companies for sale and previously built and sold the automotive business, Multiport. He says this is largely down to a lack of understanding of how the world of business acquisitions works:

"The number of people who actually sell their business is very small. There are a significant number of people who own businesses – whether these are ones handed down through a family or ones they set up themselves – which they don't know what to do with. They will have no exit vision or true perception of the value it could be. Worst of all they may have come to a false perception of that value.

These people end up either with the wrong idea of what the business is worth or, despite their great expertise in selling IT or logistics or whatever it might be, no idea about what it takes to make their business a saleable proposition."

It is not uncommon for entrepreneurs to realise the sale they once hoped for is not a realistic option for them anymore.

YOU CAN NEVER GET ADVICE SOON ENOUGH

One finding which runs through our research is that the ability to achieve a business sale and the extent of its value is largely decided a long time before any decision is made to sell.

This means that getting advice and building knowledge about what you need to change in your business as it grows is critical to maximising your chances of success.

This is something which is consistently underappreciated by entrepreneurs. Although the majority of those who have sold a business (64%) say they left it until they sold up before getting advice, around half of that number (33%) said they underestimated how much preparation they needed before they could sell.

"Nearly every business will need to understand how they can maximise their value, what buyers want and what they need to do to adapt," adds Gatley. "That's not something you think about months before a deal but years."

As the insight from Gaby Lixton, co-founder of Turtle Tots shows (see Entrepreneur Insight page 10), even for experienced entrepreneurs in successful businesses, finding the right advice takes time and effort so it pays to make it your job to seek it out as the business grows.

A BUSINESS EXIT IS NOT A BUSINESS STRATEGY

Although a business sale might be the ultimate objective for an entrepreneur from start-up and through the growth of their business, being overly focused on a business exit is a mistake. While four in ten (43%) entrepreneurs believe they need to plan for an exit at every stage of business growth, according to the overwhelming majority of those who have sold a business (81%) the prime focus should always be to build a successful business

Frank Rodriguez, a former Ernst and Young Entrepreneur of the Year who has built, sold and invested in a number of businesses, says exit plans have their place but can be counterproductive.

"We built our business Covion with an exit in mind and we wrote a plan at the start which we more or less stuck to. What's important though is that we put that plan in a drawer and our real focus was to create a sustainable business. If you don't have that, you don't have a business to sell."

Paul Lindley, the founder of baby food business Ella's Kitchen, echoes this.

"I never thought about selling the business when I started. It was just I had an idea and I wanted to prove it to myself. I also wanted to change the way babies ate food and I thought business was the best way to do it. It was only at a point during that journey when we were growing hugely that I thought 'there's money in here'. But even that didn't prompt me to sell."

As we will explore in more depth later in this report, in phases of growth and preparation for sale, an understanding of, and focus on, creating value by building something unique is critical to ending up with a business that someone wants to buy.

"One of the hardest things to witness is people holding on to what they see as their baby for too long."

YOU WON'T NECESSARILY CONTROL THE TIMING OF YOUR SALE

In a business climate where people commonly talk of their one, three and five year plans which govern every aspiration they have for their business and even their life, it is easy to assume that you the entrepreneur will be able to pick the moment when you sell your business.

This might be the experience for some, but another of the recurring themes from our research among entrepreneurs who have sold a business is the extent that luck – good and bad – plays in the business sale process.

For Dr Paul Atherton, who has started up, invested in and then sold a range of technology businesses, it was only changes in external markets and the arrival of new technology which have allowed him to sell his businesses in the past.

"I have experienced business exits several times and I find it is very rare that the business people sell is the same one that started up. I look back at businesses I have sold and I can see that certain things changed which were totally out of our control."

There are also unexpected events in your personal life to consider. A change in health, family or financial circumstances can often trigger a sale sooner than you might want.

This was the case for restaurant and retail entrepreneur Nighat Awan, whose business sale to Interflora came too soon.

"I didn't want to sell but ended up doing so because of the health issues I had at the time. I wasn't ready to sell but we had been courted by Interflora and it just got to the point where I invited them in to start talking.

That was awful for me because I had done so much to build everything in the business. Looking back I wasn't as prepared as I might have been.

I didn't understand how they were valuing the business and separately what value they were getting by including me in the deal. I learnt a lot from that, most importantly, never to repeat it."

Nearly every entrepreneur we spoke to for this research could tell a story of a failed deal, a change in the markets or a rejected buyer which had a material effect on the nature and timing of their exit.

So whether or not you choose to call it luck, it is critical to acknowledge you won't always be in control of your own destiny when it comes to selling your business.

IT'S ALL TOO EASY TO KILL YOUR BUSINESS WITH LOVE

A final area for which entrepreneurs must prepare is the idea that there will come a time when their business is better off without them – whether they like it or not.

The ability to detach yourself from the emotional investment you have made in your business is critical to a successful deal, says Peter Gray a partner at Cavendish Corporate Finance, a firm which is one of the leading UK advisers to entrepreneurs who want to sell their business.

"One of the hardest things to witness is people holding on to what they see as their baby for too long.

They might try to take their business to the next phase of growth when someone else would be much better suited to do so.

This failure to appreciate when it is time to move on can come at the cost of a significant loss of value in their business."

This can be hard, says Michael Sharples the co-founder of student accommodation group Crosslane who has started and grown a number of businesses, given how much of an entrepreneur's identity and self worth can be tied in to a business, but unless you can detach yourself, you ultimately put a final deal at risk.

ENTREPRENEUR INSIGHT

YOU CANNOT UNDERESTIMATE HOW MUCH YOU NEED TO LEARN BEFORE A DEAL

Gaby Lixton is the co-founder of Turtle Tots, which provides swimming classes for babies, toddlers and aqua-natal sessions for pregnant mums.

The business has expanded rapidly since its launch in 2011, licensing its swimming programmes to franchisees in the UK. Lixton says that although she and her co-founder have no imminent plans to sell up, it is something they know they need to plan for as they move forward.

"Having had the experience of running and then selling a franchise business before, I understand how the process isn't necessarily straightforward and that it can take longer than you expect if you aren't prepared beforehand.

Although we're not proactively marketing our business now, a focus of our growth plans is to create a business which has value for a potential buyer and which ultimately can run itself and generate good profits without either of us at the helm.

This is what motivated us to bring in a new MD to run the business and for us to invest more in the kind of infrastructure which can support us now and in the future.

I realise that getting advice early on about the sale is important because the decisions we make about how we grow and the way we fund that growth will have an impact on how much we are worth and the kind of buyer we can attract.

The truth is I have found it quite difficult to find the right adviser for us who doesn't simply want to start charging large fees from the moment you speak to them.

Even among the entrepreneurs I have met, none have been through a sales process. It's clear that this is an area where we need to invest time and effort so we can meet the right people as we grow and build the business for a potential sale. The earlier you can start, the better for you and your business.

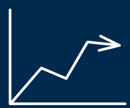
While ultimately we're working towards a certain value for the business when we sell, if there was someone who offered the opportunity to meet my ambition to grow the business more quickly globally, it would be hard not to really stretch myself and do that.

Whether we end up working with a venture capital funder or selling up entirely, the future of the business will always matter to me because I can never lose sight of the fact that what we do is all about babies and their mums."

THE RESEARCH AT A GLANCE:

WHEN AND HOW SHOULD YOU PLAN FOR AN EXIT?

81%



Building your business is more important than focusing on a sale
Only a third (33%) of these say you should run a business thinking about the potential exit options compared to 43% of entrepreneurs who have yet to sell.

64%

Entrepreneurs underestimate the amount of preparation needing for a sale
although the majority of entrepreneurs who have sold a business got advice when they came to sell up (64%) half that number (33%) wished they had got advice later on.

70%

You'll have to work hard to attract a buyer
70% of entrepreneurs told us they have never received an approach for their business

11%

The timing of the sale may be out of your control
while only one in ten entrepreneurs (11%) think 'luck' will be a factor before the sale, a fifth (21%) of those who have sold a business say it had an impact on their sale

PREPARING FOR A DEAL

HOW TO POSITION YOUR BUSINESS FOR A SALE

Your first job is to put yourself in your buyer's shoes and ask: who would buy my business and why would they want to do so?

Well before the time comes to sell up, there are a number of actions which every entrepreneur can take which not only increase the potential value in a deal but shorten the horizon for a sale and make the process run more smoothly when it finally arrives. Unfortunately, our research shows, not enough entrepreneurs understand the actions they need to take or follow the steps to implement them. So here, based on our insight gathered from our panel of post-sale entrepreneurs, are the priority areas for every entrepreneur to address ahead of any sale.

1.

WORK OUT WHO WOULD WANT TO BUY YOUR BUSINESS

One of the first actions an entrepreneur should take in preparation for an exit is to understand who realistically would be interested in taking their business on.

While most entrepreneurs understand that trade buyers dominate acquisition activity (see box out – The Reality of Selling a Business, page 19), venture capital, private equity buyers or even the existing management may provide the best value or the only exit route.

"Your first job when you are thinking of selling is to put yourself in your buyer's shoes and ask yourself who would buy my business and why they would want to buy you," says Peter Laithwaite, who sold his medical business, R&R Medical Group, in 2013. "Each category of buyer will be looking for a different thing and understanding that gives you a good starting point for you to think about what you need to change and how to make yourself attractive to them.

Equally, if you know that your business will never reach a certain size or rate of growth for, say a venture capital buyer, then you can rule that option out and make different plans."

Dan Wright is founder and chairman of textiles and furnishing company Vision Support Service Group and a partner in venture capital firm North Edge Capital. He says understanding your likely exit route is also key to increasing its potential value to a buyer.

"We are getting a business ready for sale right now and because we understand what the buyer is looking for from a deal, I know if we organise it in a way so that they know how to take it on, it will be worth much more to them.

Putting in the structure which will allow them to take the business forward makes it more valuable and ultimately should reduce the risk of the price getting chipped away when it comes to doing a deal.

The job for an entrepreneur is to understand the value a buyer will look for and go about building it into their business."

2.

HIRE PEOPLE WHO CAN BUILD AND LEAD THE BUSINESS FOR YOU

For most buyers the prerequisite for doing any deal is seeing a credible and talented management team who can take the business forward.

This, says Peter Gray of Cavendish Corporate Finance, is something that entrepreneurs in even the most successful businesses fail to appreciate soon enough.

"The ability to let go of the reins is something people find very tough but if you want a clean exit or one which brings you the best value, you need to prepare a business that can run without you."

Mark Jones says that it was only when the company was pursuing multiple acquisitions in the UK and US that the Board realised that this was not something which had a quick fix.

"From my experience, bringing through talent – particularly in a services business is the biggest single challenge you face as you grow and move towards a sale.

At the time we decided to look for the next stage of investment, we employed some 1,200 people in Europe and the US. However, we were struggling to develop the managers sufficiently to keep up with the pace of change and growth in the business. We decided to recruit managers with specialist skills to broaden the business capability. This proved to be more successful.

Most other aspects of the growth had gone really well but we had not devoted enough time to the succession and development of the team.

The lesson I learnt was to develop as early as you can from within and grow within. It not only takes away the risk as you grow but it drives up the value for your existing and future shareholders."

3.

FOCUS RELENTLESSLY ON BUILDING VALUE

Value doesn't just come through having the right management team. And although revenue and profitability are important in sustaining every business, most buyers define value in a very different way when they are looking at an acquisition.

"It is important to distinguish between revenue, profit and value," says Michael Sharples. "Value comes from being a unique business in your market, something that offers great opportunity to a potential buyer that they can't easily build themselves. Focusing on value is a very different way of thinking about your business."

For Peter Veash, founder of digital transformation consultancy, The Bio Agency, who sold his business in 2016 to the Indian technology services provider Tech Mahindra, building value meant investing heavily in his company's reputation as it grew from 2006.

For Iain Fairbairn, founder of Roseland Parc Elderly Care Village which he sold in 2006, the simple act of building a business which did things radically differently in a sector lacking in new ideas was enough to build value in his business.

"We never had a view to selling up when we started out. What we did was to try and build the best care home business that we could. It was a real passion and we wanted it to be the best it could be.

That made it highly desirable to our buyers and the people who bought it - one of three who were chasing us - admitted afterwards that on the day of completion, having spent six figures in fees - they weren't sure we were going to sign with them. That's a very valuable lesson when it comes to selling up."

4.

IDENTIFY AND ELIMINATE POTENTIAL DEAL KILLERS

The other practical step to maximise value in a business is to minimise the risk of a buyer finding skeletons in the closet when it comes to a deal.

According to Chris Gatley, even when sales grow and the management team and perceived value of a business are in the right place, there are still minutiae in the business that need addressing.

"The danger for a first time seller is they think they are in great shape for a sale when in reality they are not.

Typically, you'll find there are lots of simple changes which entrepreneurs need to make in order to increase the chances of success.

In smaller companies these will often be things like VAT liabilities, having clean tax records or sorting out the way dividends are paid. Then there are the processes: the frequency that your accounts are prepared, your forecasting and the systems you use.

It may also be that you need to take time and invest in some of these areas in order to get the value you want in a business. A buyer has to be able to see that what they are buying can credibly function and grow. It is a question of removing all doubt from a buyers mind."

According to Nick Baker, who bought Sharp's Brewery in Cornwall before selling up to Molson Coors for £20m, a well-run business will not only be ready for sale at any time but can also allow you to quickly adapt your processes to the ones a buyer will value.

"When I sold one of my businesses to Mars we knew that while we ran on monthly reporting, theirs was four weekly. Because we were a well-run business we could do that very easily and adapt our business to theirs. The ability to make changes like that can make a big difference in how smoothly the deal runs and the confidence of your buyer."

5.

START MEETING AND BUILDING YOUR TEAM OF ADVISERS

The time before a deal is when entrepreneurs should start to understand the different advisers they need in the run up to and during the sale.

While our research showed that entrepreneurs understand the need for advice, they don't necessarily understand who will ultimately add the most value when it comes to selling up, with a tendency to underestimate the value professionals bring at deal time.

This is something which can make a material difference to how much money you ultimately make from a business sale, says Michael Sharples:

"As a younger entrepreneur, I didn't understand the importance of the right adviser for the right deal. As a result I look back now and know I left a lot of value on the table.

Simplistically, that wasn't because I chose bad advisers, I just chose advisers who I thought I liked. The adviser can make a huge difference and as an entrepreneur you have to look around at who is active in your market and work out who are the people who can help you add the most value."

According to Dan Wright of North Edge Partners, the right adviser won't just add value in the deal itself, but also as you ready your business for sale.

"You need to introduce your advisers early on and allow time for you to get to know them and them you. A lot of entrepreneurs will say we'll get someone in for three months. That is way too late, it's years, not months.

That's particularly the case for accountants who need to be in early. They are the people who will be able to see the link between the profit you are making now and the value of the business in five years' time.

A good accountant will be able to say 'you are making £5m today but this business could be making £20m by 2025'.

They can help you shape the business and communicate the story to buyers: that is the value they add. "

And although reputation and experience will be prerequisites for any advisers, our panel of entrepreneurs say that in the high- stakes intensity of a deal, it is chemistry and trust that matter just as much and should figure highly when appraising the people you want to work with you.

6.

ADJUST YOUR EXIT TIMESCALES... AND BE PATIENT

If the list of areas to address in preparation for a business sale appears daunting, it reflects the reality that preparing a business for sale typically takes a year or more.

"We started grooming our business for sale about two years before the deal," says Gary Mawer who sold his utility business UPL to Smart Metering Systems for £14m in 2014 with an additional £2m depending on certain deal conditions being met. "We had already found our advisers but putting in place what the buyers needed to see took time – things like a smooth growth curve in revenues listing by earnings and length of time contracted of our top ten clients and clarity over where future growth would come from."

According to James Codling, co-founder of Venture Founders which invests in younger businesses, it is important to temper ambition to sell with patience: not only to realise the best value from a deal but to be a credible seller.

"I deal with many entrepreneurs between the ages 30 and 40 who are all relatively young and ambitious. Money is a big component of their success and I sometimes think that they have too much of a short-term view of an exit.

It seems like everyone is now starting up their business thinking 'I'm going to be out in three years' but the reality is that a large number of them fail, and the successful ones - some will exit quickly – will be in there on average for about ten years some even into 15-20 year bracket.

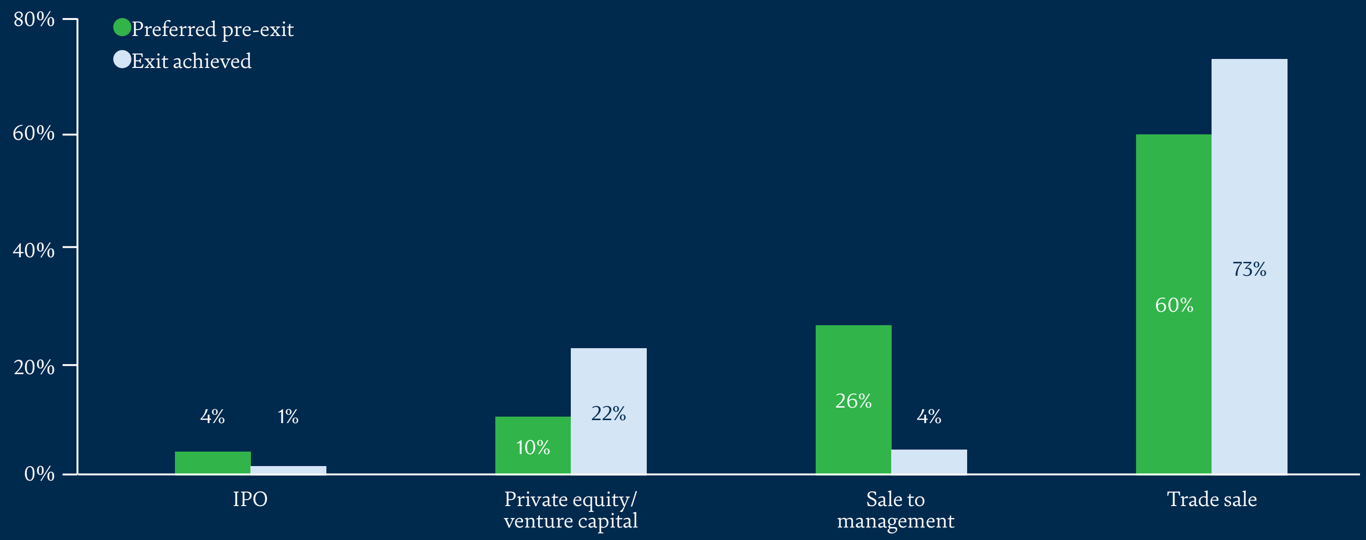
Younger entrepreneurs in particular tend to think 'now, now, now' and don't plan or think about the longer-term strategy.

They have great ambitions of selling but I think the most sensible CEOs I work with have a five and a ten year view, they don't have a two or three year view. I am sure I am not alone among investors, but anyone with a short view; they tend to just disregard."

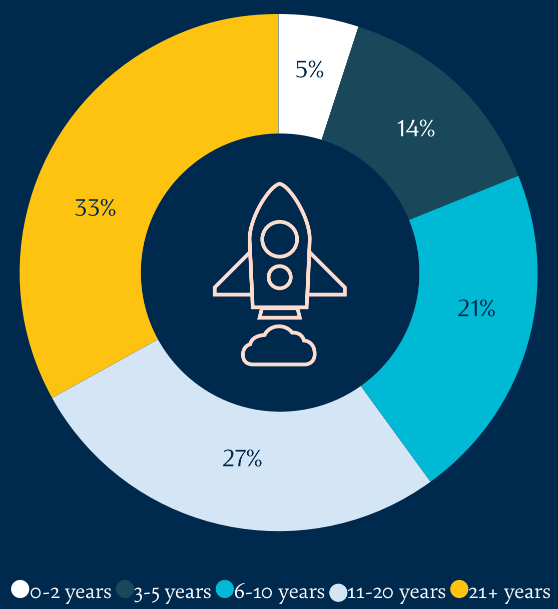
THE RESEARCH AT A GLANCE:

THE REALITY OF SELLING A BUSINESS

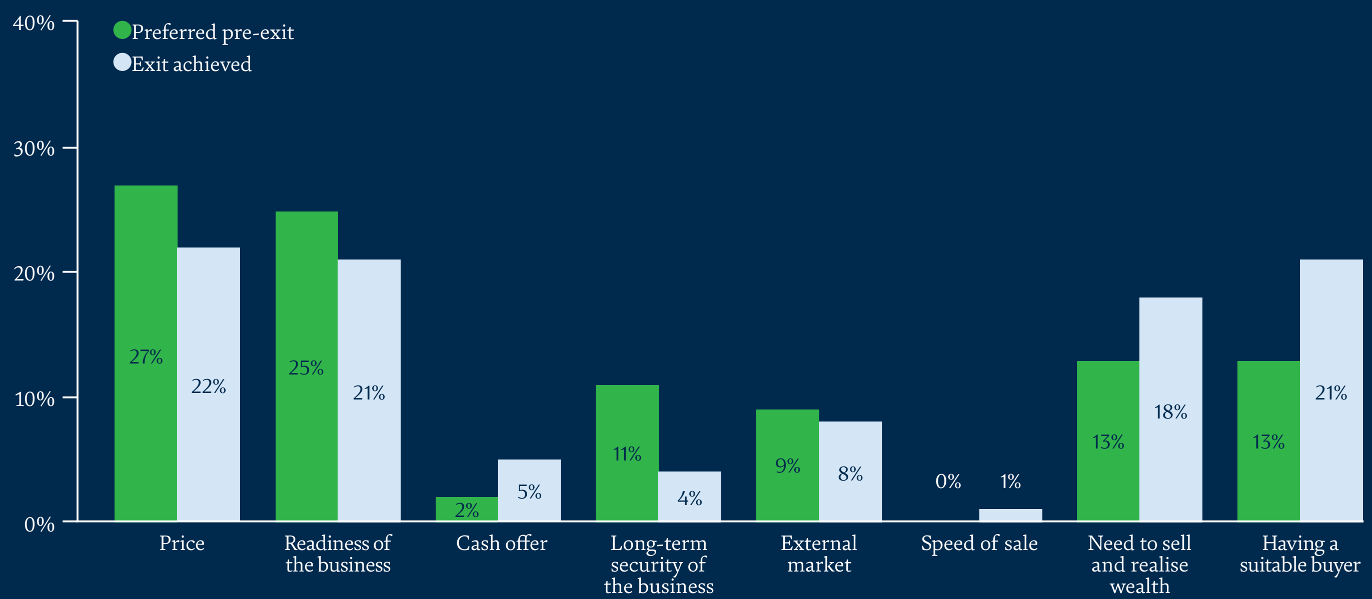
What was your preferred exit route compared to the exit route achieved?



How old was your business when you exited?



What's the most important factor influencing the timing of a business sale?



ENTREPRENEUR INSIGHT

YOUR MANAGEMENT TEAM HOLDS THE KEY TO YOUR BUSINESS EXIT

In each of our conversations with our panel of post-exit entrepreneurs, a recurring theme was the importance of building a management team from the outset.

"A GOOD MANAGEMENT TEAM WILL LET YOU WALK AWAY EVEN IF YOU DON'T WANT TO SELL UP STRAIGHTAWAY"

For **Rob Hamilton**, the founder of serviced office business, Instant Offices which he sold in 2012, the decision from launch to ensure his business could run without him took away the pressure to sell.

"When I started my business, I didn't know who my buyer was going to be. I didn't even know that private equity were buying businesses of this size at that time – or at least not in the same way they are now. My mission for a very long time was to constantly delegate whatever I was doing so there was nothing left for me to do

So, as I grew the business, the focus for me was making myself redundant as early as possible so that I had the choice of what I wanted to do. By doing that, if I didn't want to run the business, I could at least keep it, generating cash. Whereas if it came to selling, I knew it would be more saleable."

"GET THE RIGHT MANAGEMENT TEAM IN PLACE AND EVERYTHING ELSE FLOWS"

The co-founder of strategic advisers Cormorant Partners and tech entrepreneur, **Nick Morant** says passion and leadership skills are key to a management team who can drive a business towards a sale.

"If you are going to sell a business you need to get a leader or set of managers in the business who have the passion and vision for what you are selling: those are the qualities that make all the difference. Once you have the right leaders then everything else flows.

If you have the wrong person in a leadership role, particularly in a smaller company, the culture and energy just changes and when you get to the point where you are sitting in front a buyer, they will find you out."

"BRING IN MANAGERS TO SUPPORT GROWTH, BUT YOU MAY NEED TO RENEW YOUR TEAM BEFORE YOU SELL"

Nick Baker, who has built and sold a number of food and beverage businesses, says knowing when to let management teams go is as important as bringing them in at the right time.

"A lot of businesses bring the management team in once they've hit crisis and they end up doing crisis management. The more sensible approach is to bring in a team to grow the business.

Equally, there will be people who can only get you to a certain level and not beyond, because their skill set isn't there, or they hit a satisfaction level or some other reason. You have to be prepared to sit them down, explain what your goals are and come to some agreement as to whether they want to be part of that or to move on."

ENTREPRENEUR INSIGHT

HOW MUCH SHOULD YOU SHARE WITH YOUR PEOPLE?

One of the thorniest questions facing any entrepreneur is the extent to which they share their plans for sale of all or even part of the company with their employees.

For **Frank Rodriguez**, co- founder of Covion, shares are an important tool for driving growth.

"We always used them as a way to motivate people to grow the business and take pride in what they are doing. We found they give people ownership and a sense that they will get rewarded for working hard."

But **Professor William Scott- Jackson** cautions that there are some people for whom giving away shares or share options in the business might not work.

"They can be really powerful in tying people into the business and getting them to own the performance and growth. But I have learnt they are not for every person, every time.

There is a danger that people become obsessed with shares for the wrong reasons – either who has got what or how much they are worth day-to-day – and not in doing the things which will ensure they increase in value."

It's often worth giving a choice of an equity option or relatively modest monetary reward, as some will certainly prefer money.

Alex Cheatle's perspective is that you must think broadly about what motivates your team – and for many that may not be talking about a business sale.

"I have had two very different businesses but the one thing they have in common is the way I run them and motivate people through my vision for the business.

If my vision was simply to make myself as rich as possible, that's not very motivating for everybody else. You have to realise that people go to work for hugely different reasons – certainly different from you as an entrepreneur – and you have to be sensitive to that, particularly when it comes to your short or long-term ambition to sell the business."

ENTREPRENEUR INSIGHT

HOW DO YOU KNOW WHEN IT IS THE RIGHT TIME TO SELL?

For any entrepreneur, working out when the time is right to move on is a tough decision. As our research shows (see page 19 – The Reality of Selling a Business), for those who have sold up a range of factors – the price, the readiness and even the financial need to sell up – drive the final sale. This was reflected in the experiences of our panel of post-exit entrepreneurs.

"I JUST NEEDED TO FOCUS ON THE BUSINESS WHICH HAD THE MOST POTENTIAL."

In 2011, **Alex Cheatle**, founder of Ten, a lifestyle concierge service, and The Key, a company operating in the education sector, took the decision to sell one of the two businesses so he could focus on the one with the most potential.

"Part of the decision came down to the fact that I was sick of the risk in my life, and didn't think it was fair on my family and others to keep on running two businesses with everything that involved.

So I asked myself which one of them is the most sellable, and which one was I most excited about for the future.

Fortunately the one I was most excited about – the lifestyle management business – wasn't the most saleable and my other education business was, so that's how I moved forward."

"YOU HAVE TO BE HONEST ABOUT WHAT YOU WANT TO DO"

For **Paul Lindley**, founder of baby food business, Ella's Kitchen, the right time to leave a business is when you know you don't want to be there anymore.

"An important angle which has an impact on the timing of any sale is self-awareness of what you want. You have to ask yourself: do you really want to get out of bed every morning and drive this business forward?

It's important to answer that question for the health of the business and to establish if you are the right person to take the business forward. That may not necessarily lead you to a sale; it could lead to a CEO stepping back and letting somebody else take that next level.

But if you don't have the raw energy or motivation that you had before, you aren't going to do as well, whatever the markets are doing. You have to be honest with yourself about what you want to do"

IN SUMMARY

SIX EXIT-PLANNING ACTIONS FOR EVERY ENTREPRENEUR

IDENTIFY WHO WOULD BUY YOUR BUSINESS

that way you can build a business which is easier to sell

LET GO

make sure that your business doesn't rely on you to run it

UNDERSTAND HOW TO BUILD VALUE

not just profit and turnover but a reputation, way of working or intellectual property which is unique

LOOK AFTER THE DETAILS

professionalise the systems and structure inside the business

HUNT DOWN THE RIGHT ADVISERS

it will take time to find people and build a relationship with the people who can help you sell

BE PATIENT

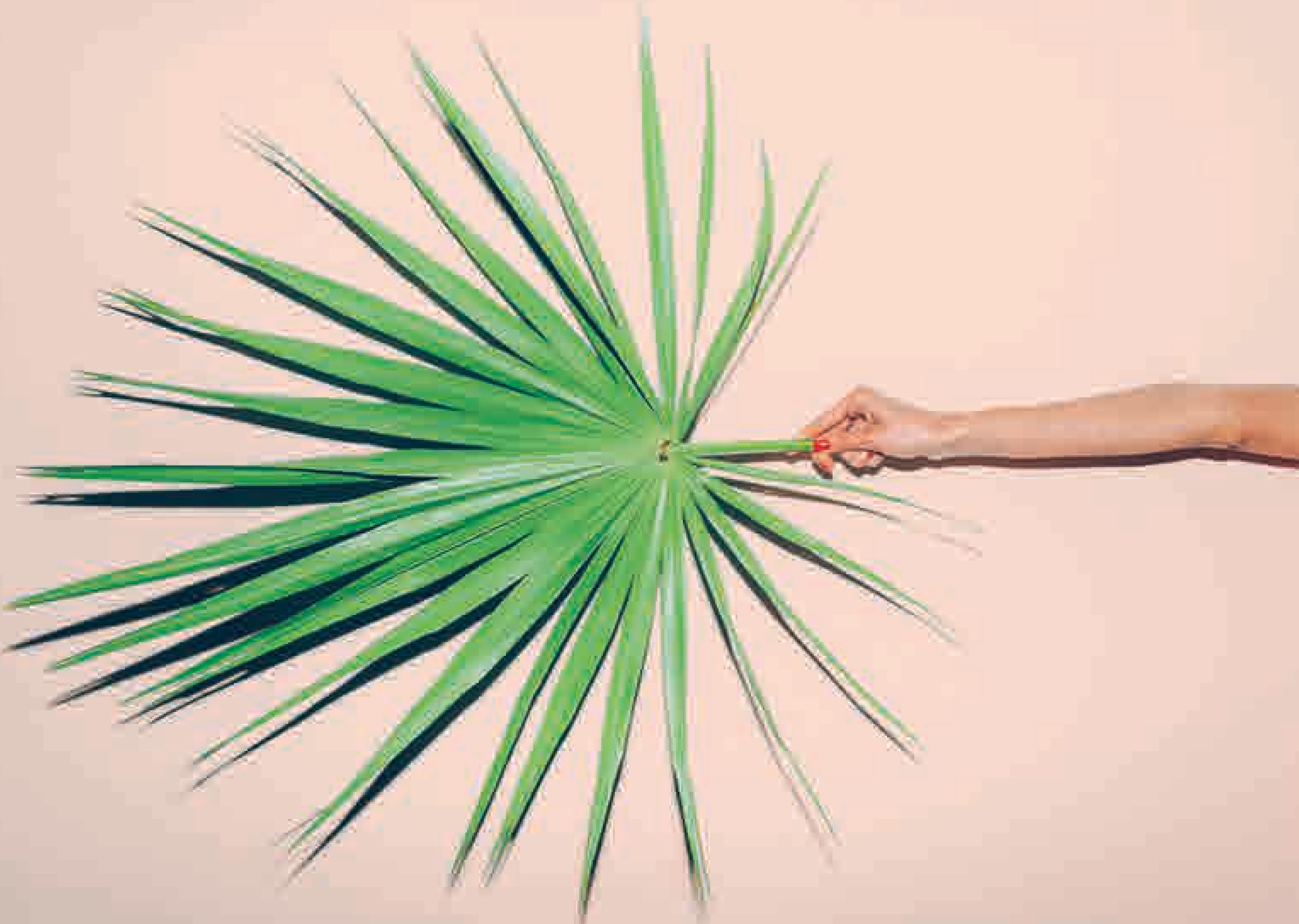
don't rush into the sale process until the business is ready

SELLING UP

HOW TO RUN YOUR DEAL

Almost every deal will go sour in some way: you have to go into your business sale prepared for that to happen

When it comes to selling up for the first time, even the most experienced entrepreneur finds a sale process, in which they have little experience and even less control, an unnerving proposition.



Preparation

Our research found that there is much every entrepreneur can do to prepare for the unexpected and minimise the risk of their transaction failing to deliver what they want.

1.

DON'T BE AFRAID TO TALK DIRECTLY TO POTENTIAL BUYERS YOURSELF

While corporate finance houses have a distinct role to play in helping to prepare a business for sale and in sourcing buyers – particularly international trade buyers who won't even be on your radar – that doesn't mean an entrepreneur should be shy of identifying potential buyers themselves and then talking to them.

"Most entrepreneurs will know their own industries as well as anyone else and if you have been doing the right things to prepare your business for sale, you should have an idea of who will be up for buying you," says Nick Baker.

"When I sold Sharp's Brewery, I phoned up the boss of Molson Coors in the UK and said 'you should think about buying us'. He said we've been following your business for a while, why don't you come up and see me?'. In the end, they were the ones who bought us."

According to Peter Laithwaite, it was the initial conversations about a deal for his medical services business with his prospective buyers which gave him insight into how he could get the best value for his business.

"Understanding what our buyers really wanted transformed the deal that we did. Although we were selling three companies, it was the technology and the opportunity to lock me in to their business that they really wanted.

By finding out where the fit was in our business we ended up going to market with a very different deal in shape and size to what we initially had in mind."

2.

ALWAYS BE READY TO WALK AWAY

Once you embark on a negotiation, it is all too easy to focus on the freedom and potential cash reward which will come at the end of the deal. However, according to our panel of entrepreneurs, for the health of the business and in the interests of doing the best deal, it is critical that you are prepared to walk away.

"It may not be what you wanted to do but doing no deal is better than doing a bad deal," says Iain Fairbairn. "You must keep a little bit of your mind free for the thought that you might not do the deal and you might not sell. That way you can be strong enough to be able to stick to the deal you want and walk away if things start to change and the buyer starts to try to reduce the price – something which will always happen."

According to John McGregor, the founder of optical technology business Contomac who recently sold his business to a Chinese trade buyer, having alternative plans for the business was key to getting the best deal.

"When we sold up last year we hadn't been looking to sell; we were planning to grow with our own acquisition and had been talking to our own ultimate buyers. I would have been happy to pass the business on to my family without a sale and we'd prepared for that – in fact without the sale we'd have been hard-pressed to find a buyer – but when the buyers agreed to sell on our terms, we did the deal."

3. DOING A DEAL WILL TAKE LONGER THAN YOU THINK

A common misconception among entrepreneurs before they sell up is that having found a buyer, the deal will close soon after.

The reality is that barely half of deals (56%) are completed within 12 months – this compares to the prevailing view among 83% of pre-deal entrepreneurs that it will be done and dusted within a year.

The ability to be patient and let the deal run its course is critical to its success, says Professor William Scott-Jackson, because buyers know exactly which levers to pull at different points of a transaction in order to apply pressure and delay at different points.

"Selling a business is like selling a house in that everyone ends up suspecting someone but the money on the table brings a different level of suspicion. You have to anticipate silences, push-backs and pauses. That is very difficult if you aren't used to it."

This, says Alex Cheatle, is where the time spent understanding how a deal will work comes to pay dividends.

"As you go through the process people will appear to behave in very irrational ways, but if you have spoken to people who have been through a similar process you will find they are highly predictable.

By talking to people who have sold, advisers or anyone who has been there before that, you can see the patterns and be reassured that they are things that just happen in a deal."

4. TAKE OUT THE EMOTION AND BE PREPARED FOR A ROCKY RIDE

While some entrepreneurs say that building a relationship with their ultimate buyer can get them the deal they want (see Entrepreneur Insight – When a Deal is About More Than Just The Numbers, opposite), the majority of those who participated in our research said it was critical to see the deal as nothing more than a transaction.

According to Nick Baker a veteran of a number of business sales, it is rare that a deal doesn't end up being anything other than fractious at some point.

"My experience is that almost every time a deal will go sour in some way and you have to at least go into the deal prepared for that to happen.

You might start out thinking you're going to hand your business over to some nice people who are going to grow it and love it and love your people but when a warranty claim comes, it is the fact that you have gone into the deal with your eyes open and the work that the professionals will have done that will protect you from losing out."

Iain Fairbairn, who sold his care home business to a larger corporate, says this is particularly the case when dealing with a business of that size.

"I think it's a mistake to focus on finding someone you can deal with who can see the value of your business and not just the numbers. That's because with big organisations, once you have negotiated the deal with one group, a different team will come in to deal with the administration and implementation. They will be a complete bunch of strangers and may not be people you can get on with."

5.

UNDERSTAND THE VALUE, NOT JUST THE COST OF YOUR ADVISERS...

One clear theme emerging from our panel of entrepreneurs was the love/hate relationship they have with professional advisers.

But whatever the extent of this ambivalence to corporate financiers, accountants or lawyers, when it comes to a deal it is critical to understand their value not just their cost.

"Entrepreneurs may as a breed instinctively want to look after every penny but if you are selling your business for tens or hundreds of millions of pounds you've got to get the best advice," says Chris Gately.

You have to ask yourself: what value is there in saving £50,000 on corporate finance fees when your price is getting chipped by three four or five million pounds?

What's more, a good commercial lawyer will protect you when it comes to the nuances around the basis for your earn-out, the warranties you have to sign and any restrictive covenants. When it comes to getting the right specialist experience, it rarely pays to cut corners."

That doesn't necessarily mean you have to work with one of the big name firms. Like many entrepreneurs we spoke to, Gary Mawer chose to use a smaller firm who he had already worked with in the run up to the deal to do the final transaction.

"Big names can give a buyer confidence but it was always my perception working with a bigger firm that they were looking for the next transaction.

Using a mid-sized accountancy firm and legal practice, I always felt in control of the deal and they were people I could trust. That's what we had with the firm we worked with on our sale.

We came up against some big firms in the sale process but my advisers were great – to the extent that I was able to take myself away from the sale process at certain points and let them get on without me. We had agreed what we wanted up front – our red lines – and because we all knew what we were aiming for I trusted them."

6.

...BUT THE ENTREPRENEUR, NOT THE ADVISERS MUST DRIVE THE DEAL

Advisers will have a place in every deal, but, according to Professor William Scott-Jackson, it is down to the individual entrepreneur to be in charge of the process and the outcome.

"It's not for someone else to tell you what you should get from the deal. You must have a clear idea of the value you want, how you want to be paid, whether you are prepared to stay in the business and the amount that is governed by an earn-out – everything that will go into the heads of agreement you will both sign before the sale.

Of course, you might want your advisers to help you with some of the detail but their primary role should be to implement what you want in a deal."

According to Nick Baker, having clarity about what matters in a deal will then help you further down the line when you may have to compromise.

"Write down the three things that matter to you most before you get into the deal. Then if you get into the horse-trading, you are in a better position to compromise and make the decisions you need to make to get the deal over the line."

7.

DON'T UNDERESTIMATE THE DISRUPTION TO YOUR BUSINESS

The last – and for many – the worst aspect of any deal according to our panel of entrepreneurs is the level of disruption it brings to the business: from assessing potential buyers to initial negotiation, due diligence and the close of the deal.

Peter Gray of Cavendish Corporate finance says few, if any, entrepreneurs are prepared for how difficult the exit process is first time around.

"Your buyers will be scrutinising every aspect of your business – it will be their full time job – and you will need to answer those questions while you are running your business.

It's a difficult juggling act and if you aren't careful, it is very easy for you or your finance director who will be deeply involved in any deal, to take your eyes off the ball."

While advisers can help you anticipate the kind of information they will need and prepare a data room where they can pick through every detail of your business – contracts, accounts and other documents – it is inevitable that you will get sucked in to some extent says Gary Mawer.

"The worst thing about a sale is the questions and the due diligence. It was distracting, they want access to your FD and they want answers to questions by the following day. You can use a firm of accountants but no one knows your business like your FD. And even if you have a team in, they will still take his or her attention away."

According to William Scott-Jackson, it is at this time, more than any other you'll need to rely on your management team to focus on the day-to-day business.

"You have to keep as many of them insulated from the process as possible. Yes, one or two of you will be involved on the deal but its vital that the rest of the people go on as if nothing was happening, building value and focusing on your customers.

That way you can be sure you will be in good shape if the deal falls through or in a stronger position when the transaction is finalised because hopefully you will have increased the value yet again."

ENTREPRENEUR INSIGHT

YOU CANNOT UNDERESTIMATE HOW MUCH YOU NEED TO LEARN BEFORE A DEAL

By the time it comes to selling up, most entrepreneurs are happy to focus on the value of the final deal. But for Ella's Kitchen founder **Paul Lindley**, finding a buyer with similar business values was more important.

"When I sold up it was to a public company in the US, which was owned by someone who was effectively the founder, CEO and chairman – something that wouldn't happen here. From the start I knew I had to deal with him, and he wanted to deal with me.

I've never sold a business before but he had already bought a large number of businesses, so although the advisers were effectively on the sidelines and not leading the deal, I kept them close while I was dealing with him directly.

This worked for me because I wanted to be involved in the business afterwards so I thought that the relationship with my buyer was very important and I wanted to trust him.

As I went through the deal I was very focused on value on three levels. What their values were, how they ran their business and the added value that they would bring to my business – what they would bring that nobody else would be able to bring. That was how I judged the deal.

Ultimately the deal wasn't just about the money, it was value that mattered to me. I was lucky enough to earn more money than I can spend in my lifetime or that my children can spend so holding out for another buyer in order to get an extra five or ten million really didn't seem right for me. I was more interested in what would happen to the business I had built which used my daughter's name and image and having the freedom to use my time to do other things."

THE RESEARCH AT A GLANCE:

THE REALITY OF SELLING A BUSINESS

Who provides the best advice when you are selling a business?

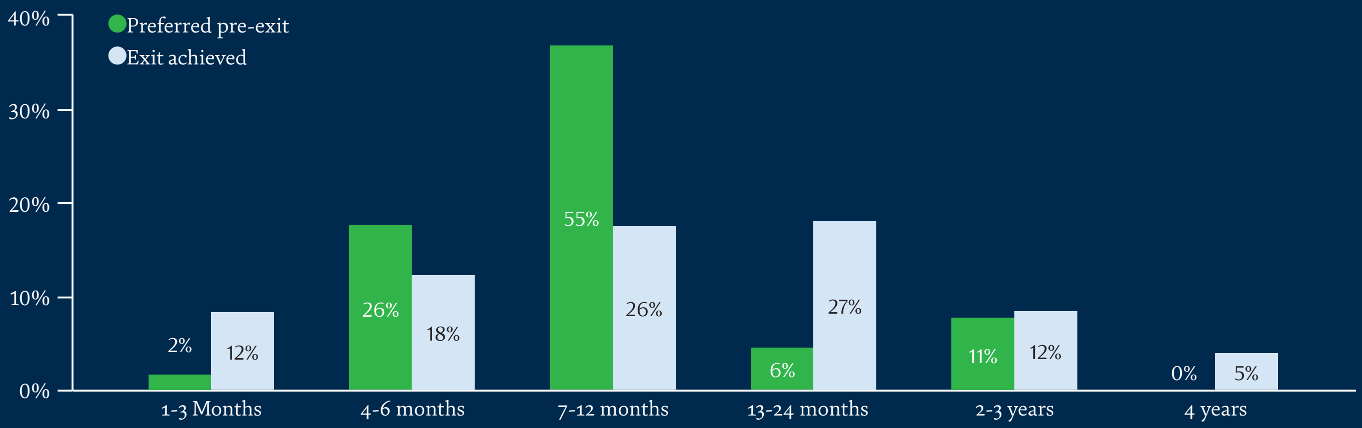
When it comes to doing a deal, specialist advisers prove their value – although our panel of post-exit entrepreneurs said those who have done a deal before have an important role to play, sharing knowledge and experience.

TOP 7

PRE-EXIT	POST-EXIT
1. Other entrepreneurs who have sold up	1. Corporate finance adviser
2. Corporate finance advisor	2. Accountant
3. Accountant	3. Lawyer
4. Financial/wealth adviser	4. Other entrepreneurs who have sold up
5. Lawyer	5. Management team
6. Management team	6. Family
7. Investors	7. "Ourselves" ie owners/ founders

How long does it take to sell a business?

ENTREPRENEURS TEND TO UNDERESTIMATE HOW LONG IT TAKES TO GET A BUSINESS READY FOR A SALE



ENTREPRENEUR INSIGHT

UNDERSTANDING WHAT DRIVES VALUE WILL DELIVER A BETTER DEAL

For many buyers who are lucky enough to receive an offer for their business, a sale soon follows. But for **Professor William Scott-Jackson**, an initial offer for his business made him realise he could do a much better deal.

"In the first business I sold, it was an approach from our first potential buyer that made us think about how much more value we could create ourselves if we focused on growing it ourselves.

It was a small management consultancy and we were doing very well, making lots of money and spending the profits. But after getting the initial offer we went away and wrote a long-term plan to get the business in shape for a sale and do things differently.

One of the things we did differently was to give shares to virtually everybody so if we got bought everyone would be part of the deal. We also made sure that no single person (especially me!) was seen as being the key driver of sales or reputation.

Six months into our growth plan we got another approach, this time from a major recruitment company. We were ready to be bought this time and had everything in place to do a good deal and that's what we got.

What I learnt through that deal and other successful deals – particularly smaller ones of around £5m or £10m – by focusing on the buyer's underlying motivations, you can do a far better deal when you sell.

That's because it has been about something other than the revenue whether that is reputation or adding a different kind of business to their existing proposition. When you understand the value they want from you, that allows you to get beyond arbitrary multiples of profit or earnings. It is easy when you are talking to buyers and advisers to get sucked into a trap of talking about your business in those terms. Where it is just about the money, we won't do a deal because it moves away from a discussion of value."

IN SUMMARY

INSIDE THE DEAL - SEVEN THINGS YOU NEED TO KNOW

1. GET CLOSE TO POTENTIAL BUYERS

You may attract an offer and at the very least you will learn what they find valuable, or not, about your business

2. DON'T MAKE THE SALE YOUR ONLY OPTION

Ensure you have an alternative route to take the business forward

3. ONCE YOU DECIDE TO SELL, THE DEAL WILL TAKE MUCH LONGER THAN YOU IMAGINE

Be prepared for the ups and downs of the sale process

4. FOCUS ON THE DEAL AS A TRANSACTION

However nice the buyer might be or how much they say they admire your business

5. GET THE BEST ADVISERS YOU CAN AFFORD

They are the ones who are best placed to protect you and the money you gain from the sale

6. DECIDE ON WHAT MATTERS MOST IN YOUR EXIT BEFORE THE DEAL

Then be prepared to compromise in order to get it

7. DON'T TAKE YOUR EYE OFF THE BALL

Stay focussed on the health and growth of your business throughout the transaction

AFTER THE DEAL

WILL YOU STAY OR CAN YOU GO?

Even after I had done the deal,
I couldn't walk away for a long time …

Once you have sold up, your business may have a new owner but that doesn't necessarily mean that you'll be cashing the cheque and focusing on a new life on the day after the deal.

NO SENSE OF AN ENDING

A major reason for this is that part of any deal will involve clauses designed to protect the buyer for a period of time after the deal is done. For some entrepreneurs this represents an unsatisfactory end to what may have been a professional and emotional rollercoaster.

Dan Gill, who sold his double glazing business in 2015, says the lack of a clear ending left him with a sense of anti-climax.

"At the start of the process you have a kind of a vision of a day when you get a cheque and crack open the champagne. But it doesn't work like that because its so clouded as to when the deal ends.

Even after I had done the deal, I couldn't walk away for a long time and once I got the money, as I was liable for warranties relating to the sale really, I couldn't even think about the money as mine. There is never that day when you pop the champagne cork."

TIED IN TO CORPORATE LIFE

Other entrepreneurs find that after selling up, they end up having to adapt to working for their buyer. Whether this is because of an earn-out agreement where certain targets must be met to trigger elements of the sale price, managing the transition to a new owner or keeping their expertise in the business, this can be an uncomfortable experience.

Peter Laithwaite was tied in for two years selling his business with his cash and shares payout contingent on the delivery of a warranted business plan. He says he was counting down the days until he could leave.

"When I sold my company I had never had a boss in my life. But within a week of the sale I was being told where I had to be on different days of the week, how I was travelling there and where I could stay. All I could think is 'how am I going to put up with two years of this?'. Everything was a shock to me, from the number of people in meetings to the way decisions were made. The day after the restrictive covenants expired, I was out."

For Nighat Awan, CEO of the Shere Khan Restaurant Group, working in a corporate environment was equally alien.

"It's very hard to adapt because these companies do business in a completely different way. In one company I worked for, we had a three day board meeting and the last agenda item was the accounts. It turned out that after planning everything for the next two years we didn't have any money. I couldn't believe it! You can't run a business without money so why that wasn't the first thing on the agenda on the first day was beyond me!"

EXIT DOESN'T MEAN EXIT

While some entrepreneurs will always struggle with constraints of corporate life and the lack of autonomy that goes with that, others are happy to take a different view.

In these instances the sale may realise some of the wealth they have created in the business but it also marks a new chapter of growth for their business, allowing it to fulfil its true potential.

For Peter Veash, founder of The BIO Agency, this has so far been a happy experience with the new owners leaving him to deliver growth.

"I'm only one year into our deal with two more years to go and I've been completely left alone. I still feel like it's my own business and can make decisions I need to make, operating how we did before. That's important because we're culture rich and we do lots of things to make our staff happy so we can keep them with us.

I honestly feel more energised now than in the last few years and that is down to the fact that I have signed up to doing bigger and better things in terms of growing the business. It's me driving the investment plans and building a global organisation and that is something I enjoy."

Equally for Ella's Kitchen founder Paul Lindley, who stayed on after he sold up, turning his back on the business was never on the cards.

"Some people can just walk away, take the money and leave the buyer to do what they want with the business but that's not me. The fact my daughter's name is part of the company's brand gives me an emotional connection so I care what happens to my company. I may have sold up four years ago but I'll always care."

So although, as our research found, the future sustainability of the business may not be the prime motivation for selling up, many entrepreneurs will find that after the deal they will be very much tied into its performance whether they like it or not.

ENTREPRENEUR INSIGHT

UNDERSTANDING WHAT DRIVES VALUE WILL DELIVER A BETTER DEAL

In 2015, 24 years after co-founding healthcare advertising agency Langland with his wife Joanna, **Philip Chin** sold their business to Publicis Groupe. Rather than leaving, he is happy to realise the global potential for the business.

"At every stage of growing the business, I was always focused on taking it to the next level. It's that approach that led us to do the deal we did. We sold so we could grow the business further and because I was in it for the long term I was super-selective about our buyer.

Joining the Publicis Groupe with 85,000 people in 120 countries has given us the access to the global infrastructure we need to achieve that. Publicis Groupe are not just the buyer of the business, they are the partner which has enabled us to grow.

The deal for me has been brilliant because I've not only continued to enjoy the autonomy of running Langland, the business I co-founded but I've been given other Publicis Groupe businesses to run. Since doing the deal we have already diversified the services we offer to clients and opened up new offices in New York. I am very happy where we ended up and where I am now. Of course I will go on and do something else at some stage but building the business further globally is very much part of my legacy."

IN SUMMARY

AFTER THE DEAL - WHAT YOU NEED TO KNOW

PREPARE FOR AN ANTI-CLIMAX

The structure of the most deals with earn-outs, warranties, profit guarantees and lock-ins means that it can take a long time after you sell to get the money

BEWARE THE SHIFT FROM ENTREPRENEUR TO CORPORATE LIFE

Many entrepreneurs struggle with the constraints of corporate life when they have to work for the acquirer after the deal; it can be hard to adapt to their way of doing business

A NEW LEASE OF LIFE

Choosing the right trade buyer or private equity buyer can allow to take the business to a new level, realising cash and having the opportunity to further increase your wealth

CONCLUSION

Looking through the insight shared by the entrepreneurs in this report, the one outstanding and recurring theme is how much entrepreneurs can do to increase the chances of a successful business sale and how few take time to understand what those actions should be.

The clear priority for any entrepreneur as their business grows should be to close that gap.

Developing the habit of seeking out the advice and experience of those who have been through the business sale process themselves will not only help you increase the value in your business but will also ultimately reduce the risk of a deal going wrong.

Doing this as the business grows will allow you to accumulate the knowledge you need while putting in place the relationships with your management team and advisers on whom you will ultimately rely when the sale process comes.

METHODOLOGY

The contents of this research report
are based on research conducted on behalf
of Coutts by Native Consultancy.

THE RESEARCH CONSISTED OF THREE PHASES OF WORK:

1. QUALITATIVE RESEARCH FROM SIX FOCUS GROUP DISCUSSIONS AMONG ENTREPRENEURS WITH EXPERIENCE OF SUCCESSFULLY SELLING A BUSINESS AND THOSE WHO HAVE YET TO SELL.

2. QUANTITATIVE RESEARCH CONDUCTED AMONG 121 ENTREPRENEURS ABOUT THEIR ATTITUDES AND EXPERIENCE OF BUSINESS SALES.

3. IN-DEPTH INTERVIEWS WITH 24 ENTREPRENEURS WITH DIRECT EXPERIENCE OF SELLING A BUSINESS.

The research was completed in January 2018.

We'd be delighted to hear more about your plans. If you'd like to find out more about Coutts and how we may be able to help you, please speak to your Private Banker.

CALL COUTTS 24 ON
020 7753 1000

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