the GRANITE 1 MINUTE GRAB

GRANITE Financial Services

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Exiting your business

Situation

Private and family owned businesses have been valued at approximately $4.5 trillion, employ over half of all Australians and are innovative and entrepreneurial. In addition, 25% of owners are over the age of 65[1].

Opportunity/Problem

In the next ten years it has been estimated that 80% of business owners will retire. Many will transfer their business to the next generation but many more will look to sell their business to a third party to realise their life's work and fund a well-deserved retirement. However, there is a real possibility that the supply of businesses for sale will outstrip demand, putting business owners exit plans in jeopardy.

Checkpoint

Family Trusts

If your family trust has **unpaid distributions** did you know that, generally, they:

- are a **debt due** to the beneficiaries
- **repayable upon demand** by the beneficiary

Consider:

- Whether your trust could fund a repayment if a demand was made
- What impact this might have on your estate planning

Implications

The potential implications for sellers and buyers of businesses include:

- For the exiting business owner the risks include:
  - Sale price is less than expected
  - Terms of the sale are less advantageous (e.g. earn-outs, reps and warranties etc.)
  - Sale may take much longer than anticipated or not be completed at all
  - Valuable staff and customers become unsettled or even leave
- For the purchaser:
  - May be able to acquire a business on attractive price and terms
  - May pick up new customers or staff from businesses that are impacted by an extended or unsuccessful sales process

Solution

A well-planned exit strategy will address the following:

- If the objective is to maximise after tax sales proceeds then timing of the exit must be ***market dependent not seller dependent*****.** This means being ready to sell at any time.
- Being ready to sell at any time means grooming the business for sale now.

- Grooming the business for sale includes maximising value through:
  - Identifying what buyers value and/or devalue
  - Executing growth strategies – organic and/or acquisition
  - Maximising cash flow management and key financial metrics
  - Maximising valuation multiple through managing risk concentrations, documentation of processes, locking in management team members and corporatising key relationships
  - Developing an exit tax strategy
- Develop a post business owning plan incorporating your personal ambitions, family objectives and financial strategy
- Execute a professionally run sales process creating price tension and negotiating strength through:
  - Preparing a professional looking marketing document (information memorandum)
  - Identifying potential purchasers and strategise the approach
  - Pre-vetting purchasers' financial capacity to complete the transaction
  - "filling the auction room", identifying the preferred purchaser and negotiating/documenting the sale

Purchasers of businesses should look for the absence of a well-planned exit strategy and an anxious or forced seller who does not have the luxury of time. Together with current low interest rates, the planets may be aligned in your favour.

Result

For sellers, a considered and well planned exit strategy will give you the best possible chance of maximising the after-tax sales price, reducing transactional risk and increasing the prospect of a achieving your desired post-business owning life-style.

For purchasers, being aware of the possibilities may result in a value adding acquisition opportunity not previously anticipated.

Contact us at any time to discuss your particular circumstances. We will explain how we and select market professionals can assist you execute on such a strategy.

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