THIS WAY OUT
A ROADMAP TO BUSINESS TRANSITION
SOME FACTS THAT MIGHT SURPRISE YOU

Over the next decade it is predicted that 20 million properties going to come up for sale in the western economies. This is a major economic consequence involving:

30 million owner managers

100 to 200 million employees

25 million or more business locations (leased and owned property)
Trillions of dollars in value – the largest transfer of wealth in history in free market economies and one of the largest industrial changes since the communist revolution.

Revenues of US$100 billion

Privately owned businesses are any level of estimates this

While the totality of the economic consequences of the demographic phenomena known as the aging baby boomers is significant to national economies, individual transition events are extremely significant to each and every business owner who will inevitably undertake this journey.

To the generations of entrepreneurs who have built the privately owned business sector and for whom their business represents a major part of their personal wealth and a dominant part of their lives, we offer our road map to a successful business transition – This Way Out.
Given that the majority of SME (Small to Mid-size Enterprise) business owners are part of this aging baby boomer population, it is estimated that between 50-70% will exit their business within the next 10 years. In fact 40-45% already intend to exit within the next 5 years. About a quarter simply don't know at which point in the future they may look to transfer.

It is expected that during the next decade, over 20 million businesses in the SME and privately owned business sector will be up for sale with change in ownership being related mainly to retirement.

Approximately 60% of owners in the 60-64 year age bracket still have no definite plan to exit or transfer from the business even though they have a vision for life after business. As a good proportion of an owner’s wealth is often tied up in the value of their business, maximizing that value through good planning makes a lot of sense.

THE MOST IMPORTANT DEMOGRAPHIC TREND IN THE NEXT DECADE ACROSS THE DEVELOPED WORLD WILL BE THE AGING POPULATION. THIS WILL IMPACT THE SME SECTOR, DRIVING ECONOMIC GROWTH AND STANDARDS OF LIVING.

WHAT THIS MEANS TO YOU
To achieve optimum sale value in this environment you need a plan. It seems obvious that a formal transition plan should be a priority for every privately owned business, but the vast majority does not have one.

Lack of succession planning is the factor most commonly identified with succession failure. The transfer process must be started well in advance of the event as there is a positive correlation between planning duration and the success of the business transfer. Ideally, planning for ownership transfer should include provision for a phased handover, putting in place strategies and goals to make the business 'exit-ready', more salable and able to sustain and facilitate the restructure of the business if required.

THE PRINCIPAL PROBLEMS WITH BUSINESS TRANSITION ARE THAT SUCCESSION PLANNING DOES NOT TAKE PLACE; IT HAPPENS TOO LATE OR AT CRISIS POINTS; AND OVERWHELMINGLY, IS NOT DISCUSSED WITH A PROFESSIONAL ADVISOR EARLY ENOUGH FOR THEM TO HELP INCREASE BUSINESS EXIT VALUE.
The world is entering a watershed period in business. As the baby boomer generation moves into retirement there will be more sellers than buyers. To add to this, the younger generation often prefers to pursue other careers, and more and more family-owned businesses are being transferred outside the family.

To gain maximum value from a transition, it becomes critical that a buyer can clearly see the business operating successfully and independently of the owner in the future.

CHALLENGES AHEAD
Selling a business is a complex, time-consuming process, fraught with legal, financial and even personality issues. Systematically handled, it can provide the owner and buyer with a fair market value for the business. Poorly handled it can see the business owner miss out on selling opportunities and having to sell below the true realizable value of the business.

To be able to move through the planning of the transition successfully and smoothly requires the guidance and expertise of a professional services advisor who is able to quantify the value of key aspects of the business and report on the business moving forward. Advisors can help business owners address the various issues that should impact their decision and strategy moving forward, such as:

- possible buyers
- company's market, history, and competitive advantage
- management and operational practices and processes
- financial performance
- products and services
- assets and intellectual property
- employees
- business strategy
- customer base and relationships
- supplier networks

Succession planning is a critical management measure to protect the lifetime of a business well beyond its operations and ownership.

BUSINESSES WITH PROPERLY FORMULATED STRATEGIC GOALS TEND TO BE MORE SUCCESSFUL IN SALE THAN THOSE WITHOUT, WHICH MAKES THEM MORE ATTRACTIVE TO POTENTIAL OWNERS.
WHAT IS TRANSITION PLANNING AND WHY IS IT IMPORTANT?
Everyone who owns a business will leave it one day. Hopefully, this will be a joyous and rewarding occasion where the years of hard work pay off and you walk proudly away on terms of your choosing.

This is a major event in your life and in the life of your business and like all major events it requires careful planning if it is to be successful. It is an event that could impact on the rest of your life, on the way the business survives separation from you as the manager, and on the multiple parties that will be involved.

HOW MUCH DO YOU NEED TO LIVE ON?
You cannot start to plan without an end in mind. That's why our starting point with you begins with working on your endgame. We identify how you wish to transition, what you need to leave with, and when you want to go.

To do this we review where you are at now, both personally and with the business. This allows us to commence organizing the legal and tax issues while you have plenty of time.

This information also means we can strategize with you; we can explore the many ways we can make your transition happen, and evaluate these options to find the best way to meet your transition objectives.

As a transition event is the intersection of many aspects of your personal and business affairs, it usually involves expertise pulled in from a number of areas, working in harmony so that all aspects are fully considered.

Over the years, as you managed your business, you may have put certain matters aside and left them in the cupboard. The challenge with transition is that the cupboard needs to be emptied, and if proper
planning has not been undertaken, a 'skeleton' or two might fall out. This is particularly so in the areas of tax and contingent liabilities where the transaction event in itself can trigger an issue.

'SHOW ME THE MONEY'
While it may not just be about money, money is certainly a big consideration. Questions to be resolved include:

- What is your current financial position?
- How much money or income do you need?
- What is the business worth – as opposed to what could it be worth?
- What tax has to be paid?

Our approach builds a comprehensive financial model of all these issues so that you can clearly see and decide on all the possible alternatives. This phase is about strategy and that means working through the various scenarios that are available to you.

Our aim is to provide you with a well-structured plan that covers all aspects of how you can achieve your transition objectives, with a real focus on the action steps.

THE FOUR THINGS YOU MUST DECIDE BEFORE YOU CAN MAKE THE SUCCESSFUL TRANSITION:

- HOW MUCH DO YOU NEED TO LIVE ON?
- WHEN DO YOU WANT TO GET OUT?
- DO YOU WANT ANY ONGOING INVOLVEMENT?
- ARE THERE FAMILY MEMBERS OR OTHER PEOPLE WHO WANT AN ONGOING ROLE?
MANAGING FOR TRANSITION

WOULD YOU EVER THINK OF SELLING YOUR HOUSE WITHOUT GETTING IT READY FOR INSPECTION?

GROOMING YOUR BUSINESS
Years of hard work in developing your business should not be thrown away by poor preparation at the time of sale. The Return on Investment (ROI) you can achieve by making your business as sale-ready and attractive as possible makes this very worthwhile.

The Transition Plan we prepare with you will have set a target value for the business on transition. The job now is to make sure the business achieves at least that value. We do this through a combination of
developing a strategic growth plan for the business, and closely monitoring the key measures that drive business value.

In some cases, such as an internal transition, the objective may be to manage the business value to a certain figure, rather than adopt a continual growth strategy. Our role here is to act as a business coach to see that you and your team stay on plan.

DUE DILIGENCE
At the time of sale, the buyer will probably inspect the business records to satisfy themselves as to the viability of the business, and the validity of the information you have provided about it. In our experience, very few privately held businesses would pass a rigorous due diligence review without some preparation. We start out by doing our own due diligence review of your business to isolate where the problems are likely to be, and then work with you to either fix or mitigate them.

TAKING YOU OUT OF THE BUSINESS
The second key factor in grooming the business for sale is actually taking you out of the business. Particularly if you are the founder of your business, your imprint is probably all over the business and its operations. Post transition, the business is going to have to operate without you, and we need to identify exactly where you are involved and use a combination of systemization, training and recruitment to replace you.

ROCG understands how hard this can be. But the value of the business to a prospective purchaser is much higher if it can operate without you. Letting go is never easy, which means doing this over time not only makes good business sense, but it might actually work well for you personally.

YOUR WELLBEING
And to the final element! Transition Management is all about YOU. While we are conscious of the importance of money, we are equally sure that you need to prepare yourself for a life after business.

Letting go of something that has been the center of your life is not going to be easy and some personal preparation is needed.

You will have a lot of time to fill, mental stimulation to replace, relationships and social interactions that derived from your business will now disappear, and you will be spending a lot more time with your spouse than you have for a long time.

These are significant changes and, like your financial affairs, there needs to be a plan for your happiness and wellbeing.
HOW TO ACHIEVE YOUR DESIRED TRANSACTION VALUE
If you are like many owners, this will be the most important deal of your life, because the sale will monetize much of your personal wealth, and liberate value that has been tied up in the business.

The process adopted at this stage depends very much on your transition objectives. If a third-party sale is part of your plan, there is a series of activities required to market and sell the business. This typically needs the assistance of a business broker, who is someone with the experience and qualifications to help you with this.

THE SALES MEMORANDUM
The Sales Memorandum (Information Memorandum/Prospectus) is used to present the business in the best possible light. It is similar to a business plan but written for buyers, and if it contains errors or is misleading the ramifications can be significant. You need professional help with preparing this document.

Selling a business is an exercise in marketing, negotiating and sometimes poker! Certainly having a contest among buyers helps you get the best deal. A good marketing plan and a ‘switched on’ business broker can facilitate this.

Tax plays a big part in this; you need to look at your after tax position. It may be that the deal is structured in a way which is beneficial to you – but may not be good or attractive for a buyer.

Other aspects of selling to a third party include warranties, earnouts and vendor finance, which along with the tax considerations make for an interesting negotiating mix. It is important to understand what these various bargaining chips are worth to you, and what they may be worth to the buyer. Creating a win-win can occur if you offer something to the other side that they value highly, but which has a low cost to you.

Getting to a binding Memorandum of Understanding or a Letter of Intent is a vital step. In theory, this locks the buyer and seller in, but it is a period of high risk for you as there are usually conditional clauses that still have to be satisfied. If word gets out that you have signed up, then other bidders will quickly drop off and the contest is over.

DUE DILIGENCE
One of the precedent conditions is often due diligence. It is preferable if this takes place with all prospective buyers before an agreement is reached with one party. This can be expensive however, as you may have many parties simultaneously investigating all aspects of your business. One way to deal with this is to set up a data room and give all prospective buyers access. In this case, confidentiality agreements are usually signed, but your business is put on display and this may not suit you.
Given the drawbacks that can attend this process, it is vital that you pass the due diligence process and that the Sales Memorandum discloses all the things that would otherwise allow a buyer to back out.

If the sale is an internal or related party transaction a different course of action is required. For family members coming through the business, management succession is more important than transaction management. Greater flexibility exists in terms of how the deal is structured and the time period involved.

In the case of both third-party and internal transactions, it is likely a 'sale for consideration' will occur. This change of title will need legal guidance. Furthermore, the event will be of great interest to the revenue authorities, so a tax expert should also be involved. Shortcuts here can be very costly as a sale contract imposes obligations on the parties, and the tax authorities can return to a transaction many years later and review it in detail. Our advice is to 'do it right and sleep easy'.

**THE SALE CONTRACT**

A contract may include warranties made by the vendor, restraints on what the vendor can do after the sale and many other terms and conditions. A lot of value can be added or eroded in the contract, and great care and a good commercial lawyer are necessary ingredients.

**MOVING ON**

Once you have settled the sale and have your money in the bank, a new day dawns. You need a good personal financial plan and perhaps also a life plan to ensure your long-term wellbeing. Don't underestimate the emotional transformation you will go through.

There are two social events or activities that we commend to those who transition from their business. The first is a farewell and handover – a passing of the baton if you like. This is an important part of getting closure. You can say goodbye to those who have been involved with you and they can farewell you. Of course, it is a great opportunity for new management to be seen to be in place and in charge.

The second activity is to plan some kind of circuit breaker, ideally a vacation. Take time out and do something you have always wanted to do. Put some distance between yourself and the business – this is an essential part of moving and on and important to your wellbeing.

‘**THE DEVIL IS IN THE DETAILS**

THERE CAN BE NO DEAL UNTIL THE DETAILS ARE ALL AGREED
HOW ROCG CAN HELP | CASE STUDIES

ROCG is a global consultancy with a focus on providing business transition services to privately owned businesses around the world.

This Way Out – a 'business transition roadmap' is a summary of our proprietary methodology that deals with all aspects of business transition. It is underpinned by years of experience, a proven approach, sophisticated software and a culture of results not reports.

The following case studies are indicative of the roles we have played in helping business owners initially establish a plan for transition and then successfully execute this.
OWNER EXITS THROUGH FAMILY & MANAGEMENT BUYOUT
George, 65, owned a metals distribution business with several locations throughout the US. He wanted his two sons and several managers to continue the business through a management buyout. We worked with George to find a lender with experience in this type of structured buyout and who could finance the transaction. We worked with George's law firm to prepare the necessary agreements and documents to complete the transfer. George was able to sell his business in accordance with his wishes.

BUILDING A STRUCTURE TO SUPPORT THE BUSINESS VISION
Gary, an entrepreneur, wanted his software company ready for transition within 2-3 years. He was not intending to sell or transfer, but strategically he wanted to be ready for those possibilities regardless of the transition options. After understanding and clearly defining the company's vision and overall strategies, we concentrated on building the right structure to support the vision. We implemented a solution that improved the dynamics of the management team and the company's ability to attract a large pool of investors.

MANAGING SHAREHOLDER EXIT ISSUES FOR WINE IMPORTER
Mark and Tony operated a successful business importing new world wines to Europe. A major Australian supplier and shareholder decided to end existing arrangements and secure their own distribution channels. We assisted with the valuation of the business for 'compensation' and sale of the strategic shareholding, tax-efficient disposal of shares, and helped secure an alternative supply chain. The sale and purchase were successful and the company continues to flourish with a broadened base and less reliance on a dominant supplier.

SIX-YEAR GROWTH PLAN FOR TRANSITION TO FAMILY MEMBER
Tom started a metal fabrication business in 1979. The business grew from a zero sales base to $8 million per year by 1998. We facilitated a strategic planning review of the business and helped Tom set growth goals for the 6 years to June 2005. Key goals were to increase sales to $16 million, consolidate into new premises, increase reliance on robotic and automated equipment, reduce debt to zero and transition the ownership to his son. We met all goals, exceeding the sales target to reach $22 million per annum.

AFTER UNDERSTANDING AND CLEARLY DEFINING THE COMPANY'S VISION AND OVERALL STRATEGIES, WE CONCENTRATED ON BUILDING THE RIGHT STRUCTURE TO SUPPORT THE VISION. WE IMPLEMENTED A SOLUTION THAT IMPROVED THE DYNAMICS OF THE MANAGEMENT TEAM AND THE COMPANY'S ABILITY TO ATTRACT A LARGE POOL OF INVESTORS.

RESCUE AND EXIT STRATEGIES FOR BUSINESS FACING LIQUIDATION
Bill, 62, an engineer, had operated a pressure vessel manufacturing business for 30 years. Despite a reputation for quality, the business was losing customers, profitability and market share. The bank had issued a demand letter and the business was in danger of liquidation. We provided Bill with some realistic options for exiting or revitalizing the business. We located and negotiated a competitor to purchase the business and provide Bill with an ongoing consulting role. The sale released $2.5 million in value to Bill that had been tied up in the business.

BIG LIFT TO EXIT VALUE FOR FAMILY BUSINESS DECLINED BY CHILDREN
The Arnolds operated a heavy lifting equipment rental business for 30 years, building it to a value of $2 million. It included areas of activity not core to the business. They called on us when their four children could not reach a mutual agreement to take over the business. We worked with the Arnolds over three years to reshape the business into a position where it would attract buyers. As a result we successfully negotiated a $7 million sale to a public company. The $750,000 of stock the Arnolds took in the new company was worth $4 million within two years.

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**IP BUYBACK AND TRANSITION OPTIONS FOR A FRESH START**

Bob, 61, had decided it was time to buy back his patented technology and start anew. We negotiated a favorable repurchase of assets and terminated the technology license pursuant to terms we had negotiated on his behalf. We worked with Bob on his options for further technology development and personal financial objectives.

**OWNER CASHES IN ON OILFIELD SERVICES TECHNOLOGY**

Fred, 60, had received several patents for oilfield service technology and had started a business to exploit them. We valued the technology and business and negotiated a technology license coupled with a merger of operations with another oilfield software development and distribution company. Fred received cash and stock in the acquired company, a consulting contract, and a substantial monthly royalty on gross sales.

**BUSINESS GROWTH AND EXIT STRATEGIES FOR STRUGGLING DIRECTORS**

Three directors were struggling to grow a business from $3 million in revenue to $10 million. The founder was looking at retirement in the medium term, but the other two directors lacked access to sufficient capital to grow the business. With a view to buying a smaller competitor or selling to a larger competitor, we implemented financial and non-financial key performance indicators and a quarterly reporting scorecard to improve profitability and growth. As a result, within two years a successful sale was negotiated with a large international competitor.

**FAMILY SUCCESSION ALLOWS FOUNDERS TO TAKE A BACK SEAT**

Four directors (two couples in their mid fifties) wanted to take a back seat from the day-to-day operations of the business in favor of a second generation who were employed in the business in various roles. We conducted retirement planning sessions with the founders and performance incentives were provided to their successors. As a result of this work, growth and profitability has increased. The founders are no longer actively working in the business but continue to enjoy significant fees and dividends.

**TRANSACTION MANAGEMENT ROLLED OUT FOR TRANSPORT BUSINESS**

Barry and Beryl founded a transport business 37 years ago and were ready to cash out and retire. We prepared a comprehensive Information Memorandum including a detailed valuation of the business and circulated it on a totally private and confidential basis. Due diligence is currently being conducted by one of the three largest companies in the transport industry. The next step is to agree on the final valuation model and specific terms.

**MBO GIVES OWNERS THE CAPITAL TO EXPAND THEIR HORIZONS**

John and his wife started a small engineering business 10 years ago that had grown to $3 million in revenue. He had since expanded operations to another state with more growth opportunities but due to the high cost of establishment at the new premises he wanted to review his circumstances. We established a change management plan that ultimately led to a management buyout (MBO) of the established operations. The full process included a review of business performance especially at the initial site and assistance in developing viable options to further support the capital requirements of the new site.
We valued the business and patents, identified prospective buyers, negotiated a sale to a large public company, and acted as company financial officer and personal coach to Bob through the entire due diligence and closing process. Bob received cash, registered public company stock, and a generous consulting contract with the buying company.

**OWNER REDUCES WORK PRESSURE THROUGH SUCCESSFUL MBO**

Two brothers, one of whom had died, had founded a large road building and excavating company. The surviving brother wanted to pass on ownership of the company to senior employees but remain as a salaried job superintendent, without any administrative responsibilities. He was willing to carry a large part of the financing and be paid on the basis of future cash flow with certain minimum requirements. The existing accountant/advisor felt he was in a conflict of interest and asked that we represent the purchasers in the transaction. The engagement involved a number of complex negotiations, but there was a will to succeed on all sides, and after several months an agreement was concluded.

**HOW TO CONTACT AN ROCG BUSINESS TRANSITION SPECIALIST**

To find out more about how we can assist you with planning and managing your transition through to a successful sale, contact an ROCG office near you.
We can help you find the way to transition out of your business.