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Your Business Exit Strategy – Will it be enough? Keep an eye on the 'End Game'.

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What do you want out of your business? Most people, at some time during the life of their business, start to think about getting out. Short term or long term - whether retiring, "leaving" the business to children or just selling. At some point business owners need to give some thought to "exit strategy".

Exit Strategy Defined

Exit strategy is defined by most business professionals as the method by which business founders or owners both realise the value of their equity from their business and, in most cases, remove themselves from the day to day running and ownership of the business. The most common form of exit strategy is to sell your business to a third party, but other strategies can include an IPO (Public offering of shares via listing or off-market vehicles), MBO or Management Buy Out or perhaps a merger with another company.

Most business owners are aware of the term "exit strategy" and a lot are working towards theirs, but what does this really mean and is it really going to give you what you want? What do we mean? Well, what do you want to do after you "exit" your business? Some owners haven't given this much thought, if at any. Others think they will be able retire and have the lifestyle they have worked so hard for. But is this reality achievable?

There has been a large amount written about exit strategies but what worries us is where business owners concentrate too much on achieving their exit strategy without actually giving much thought to why they are exiting or what they plan to do after they exit. It is all very well to exit your business and receive a nice sale price for your business but what next? Have you given this any thought? To us "exit strategy" is only part of the process - a means to an end, not the end itself and this should be kept upper most in your mind when planning your business exit. We prefer our clients to think about where they want to finish (whether it's retirement or succession by children), purchase another business or perhaps just get a job.

Start with where you want to finish and work backwards. That is, start with your "end game" then you can plan your "exit strategy" then you can revise your business plan to get there. What's your "end game"?

End Game Defined

The term we prefer to use is "End Game", that is, what is your desired lifestyle after you sell your business? Do you want to use the cash from the sale of your business and buy another business? If so, great, make sure your business plan is aligned with getting you to your exit strategy (here's another [article](#) on our website about making sure your business plan stacks up)



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But what if you want to semi retire and buy the beach house, go surfing or play golf every day, have two nice new cars every three years, two overseas holidays each year (one month to a warm climate, one month to the snow), all with the current lifestyle of food, drink, recreation and entertainment? If this type of semi retirement is the desired "end game" after exiting your business then read on...

We ask our clients to do a budget on what their desired lifestyle will cost them in today's dollars. Then we add inflation (for the years until their exit happens) and then add tax at the average tax rate for that level of income. This gives you an approximate before tax income you must have to be able to fund that semi-retired lifestyle. The above brief example has been estimated to cost approx \$400,000 per year in after tax dollars (depending on your choice of food and wine!) Now assuming you want to semi- retire i.e. not work, then all your income to fund this lifestyle needs to be generated from passive assets and passive investments¹.

Further, unless you've squirreled away millions over the course of growing your business then these passive assets and passive investments are probably going to have to be funded by the money you receive from selling your business i.e. your "exit strategy". But will it be enough? Is your exit strategy going to result in enough cash for you to fund your "end game" lifestyle?

Do the Numbers – Plan for your “End Game”

Let's assume you haven't been putting great lumps of cash away in a Swiss bank account over the life of your business to date. So as an example let's take the \$400,000 annual budget above as your desired lifestyle (or "end game") and use a model of an average of 8% average return for a diversified passive investment portfolio and an average annual inflation rate of 2.5%. Further lets include the desired exit from your business is 5 years from now. The result, to fund the \$400,000 after tax income in today's dollars you will need to sell your business for approx \$10.5 Million dollars in net proceeds when you exit. These proceeds then need to be invested to generate the income.

Is that likely? "You've got to be joking" I hear you say! "There's no way my business is worth that now and I can't see it being worth that in five years". Maybe your "end game" budget isn't \$400,000 but \$200,000, this will obviously change the result. But regardless of your budget, there are ways to optimise the value of small to medium sized businesses. For example the number one rule to achieve your "end game" is ensure you, as the business owner, are not the business. That is, make sure you can sell your business as a going concern without you in it. Prospective buyers place a higher value on businesses that run themselves where they - the purchaser - do not need to bring a special skill set or be the 'sales person' for the business.



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So the next time you hear the term “exit strategy” think about the "end game” because that’s the real goal.

If there is anything in this article you would like further information on or you would like to discuss these or any other business issues further please do not hesitate to contact us. Aveгна assists dynamic, fast growing business with financial and commercial management services. For a no obligation free initial consultation on how we can assist you and your business, please contact us.

1. Different results can be achieved by different investment types. We have compiled the above example under the assumption of a relatively low risk and conservative return investment strategy using a diversified portfolio of various investment types. Higher returns may be achieved but this normally entails a higher risk factor. For further information on specifics of investing please consult a suitably Qualified and Licensed professional.