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M&A Advisors
WHITE PAPER

7 Best Practices for Managing for a Rewarding Exit Payday

By David Tobin

Your exit plan will most likely be the most impactful transaction of your career. This is the event that will shape your net worth and either provide you with a sense of inner satisfaction for all the effort invested in your company – or deflate you if the end game is not what you envisioned.

Planning for your exit – whether next quarter or years away – is not simply a process of creating a plan or a strategy; rather, it's the adoption of a mindset, of a focused, outcome-driven way of doing business. Exit planning is not a discrete event; it is a business phase, just like the startup and growth phases of your business journey. And it's arguably the most important phase.

Changing your paradigm for managing the business for the endgame will be rewarding. It will help you command a higher price and position you to sell on your terms when and to whom you desire. It will create options and prepare you to capitalize on opportunities. The mindset will lead you to adopt better business practices that will benefit you along the way.

Adopting the exit planning mindset typically involves the following overarching themes:

- Looking at your business through the eyes of potential buyers
- Designing and proving a business model
- Demonstrating growth and scalability
- Exhibiting sustainability and transferability
- Reducing risk.

Below are 7 best practices for managing your business for your exit payday:

1. Look Through the Lens of the Buyers

Learn what buyers desire and demand, and continuously put yourself in their shoes. Most buyers (strategic and financial) will acquire a business if they believe their cash flow will increase as the result of making the acquisition. Well-managed companies are built with an eye on the attributes buyers look for. Here is a link to a White Paper on the ten questions buyers will ask. Have great answers to these questions.

2. Continuously Enhance Your Unique Value Proposition

Buyers want to be inspired about your vision and unique value proposition. Endlessly work to uncover and enhance your competitive advantages. Seek opportunities to create true differentiators that will be difficult or cost-prohibitive for others to replicate. What is special about your company that cannot easily be built or bought? Where do you maintain superior performance?

3. Get your Financial House in Order

Appreciate how buyers and their advisors will assess your financials. Learn about the recognized add-backs to EBITDA calculations and make EBITDA one of, if not your primary, KPI. Clean up your balance sheet. Have financial statements prepared by your CPA, preferably in compliance with GAAP. If you haven't done so already, change your mindset from managing to reduce taxes to managing to build enterprise value.

4. Know Your Value

Most people overestimate the value of their home, and the same applies to a business. Get a good handle on the estimated value of your business including its strengths and weaknesses. Learn how deals in your industry are structured for different types of buyers and transactions.

At TobinLeff, we have developed a Value Drivers Assessment Tool that analyses 60+ Value Drivers that determine an organization's business value. These fall under categories such as financial performance, unique value proposition, management team, culture, sustainability, dependency, and scalability. Here is a link to our White Paper on Value Drivers that impact valuations.

Measure and manage to key metrics and ratios that buyers feel are important. Track EBITDA, EBITDA as a percentage of adjusted gross income (AGI), annual growth percentage, wages as a percentage of AGI, and working capital (current assets minus current liabilities). Upward trends will give you a distinct advantage over other companies that show flat or diminishing performance.

5. Demonstrate Sustainability

Knowing that most buyers buy future cash flow, you must constantly demonstrate how and why your cash flow will persist and be sustainable. If the business is overly dependent on the selling shareholders or select employees, buyers will be worried that the business will not thrive without them.

The strength of your senior management team is a key Value Driver, so build your team and delegate responsibilities. The more expendable you are to the business, the easier your exit will be. Instituting a “Phantom Stock Plan” or “Stay Bonus Plan” which rewards employees if they stay put with the acquiring company will help instill confidence that the team will remain onboard under new ownership.

Client concentration risk can be a major factor. A client that accounts for a high percentage of billings may sound alarms. The solution, of course, is to increase billings with other clients. That’s easier said than done.

Don’t wait until you are ready to go to market to address contracts and do housekeeping. It will be great if your employment agreements include non-solicitation provisions, and your client contracts are assignable. If you have minority shareholders or partners, hopefully the shareholders’ agreement includes a Drag Along provision that requires them to sell when the majority stakeholder sells. If you have IP, protect it.

Don’t wait to address any potential deal killers. They always arise during due diligence. Start mitigating any potential problems – pending or potential lawsuits, likely loss of a major client or key employee, restrictive leases, etc. – now.

6. Display Growth

Buyers will pay higher multiples if they believe your company will grow and is scalable. Developing, implementing, and monitoring strategic growth plans should become part of your business DNA. Make your own company your most important client. Commit to the process to build and maintain a prospect database. Track and document how you develop new business opportunities. Explore if strategic acquisitions should be part of your growth strategy. Size matters in the M&A world.

7. Develop Relationships

When it’s time to sell, the potential buyer may turn out to be a company or individual with whom you have a relationship, or they may have known about your company. If you are a few years away from your desired sale date, spend time developing a strategic communications plan to identify and shortlist potential buyers. Make them aware of your unique value proposition. When it’s time to go to market, they will already know about your company.

Strengthen relationships with key employees by involving them in your exit plans. Be transparent about managing a company with the end game in sight. Create opportunities for staff to have a stake in the ongoing business success and future exit via equity or phantom type incentive plans.

Take time to select your advisory team – attorney, CPA, M&A advisor, consultants – now so they are already in place for your exit planning journey.

Make it Happen

Managing for your exit payday is not simply about developing a plan. Establish and passionately manage towards the leading indicators for future value. Create and lead a durable high-performance culture–a culture of accountability.

Developing an exit planning mindset takes time. The earlier you start, the more options you will have and the greater the likelihood for a rewarding exit payday.

About TobinLeff, LLC

TobinLeff is an M&A advisory and exit planning consulting firm that helps business owners sell to strategic buyers and private equity groups. With over 13 years of service and more than 155 engagements successfully completed, the TobinLeff team of 10 M&A advisors and exit planning consultants is dedicated to the mission of helping owners maximize and monetize their life's work. Please visit our website at tobinleff.com for additional information and case studies.

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