5 Critical Factors That Affect BUSINESS EXIT STRATEGY TIMELINES

By David Mahmood

A finely-honed business plan should include a detailed exit strategy. This often-overlooked element outlines the owner's plan to get paid for his/her sweat equity at a designated point in time. Operating without an exit strategy can be stressful should the founder become incapacitated, and a well-planned exit can help to avoid losses that can accrue when the sale of a business is delayed. If you do not have an exit strategy, it's time to start the planning process. Keep in mind these critical factors that can affect your timeline.

1. THE IDEAL DATE TO EXIT

How many more years do you plan to work? Even if you find it difficult to predict this key future milestone, select a potential date anyway. You can always refine it as your company evolves. Revisit your exit strategy periodically (at least annually) and adjust accordingly.

2. ADEQUATE TIME TO SELL YOUR BUSINESS

CEOs who plan to retire soon should be aware that it takes 9 to12 months to sell a business. The closer you get to retirement, the more important a definitive date becomes. If you aren't prepared to initiate the exit strategy process in a timely fashion, you could miss out on once-in-a-lifetime opportunities. Be prepared so you can strike while the iron is hot.

3. THE TYPE OF EXIT STRATEGY YOU PREFER

The more elaborate the exit strategy, the longer it will take to finalize the deal. It could take several months or several years. An investment banker experienced in mergers and acquisitions (M&A) can explain the options and time needed to get different types of deals done. Common exit strategies include the following:

Initial Public Offering (IPO): shares of the business sold to the public

Corporate divestiture: sell to a strategic buyer looking for financial or operational synergy or sell to a financial buyer, such as a private equity firm, planning to grow the business and then seek an IPO or other exit strategy at a later date

Passing the business down to family or heirs: may be done in entirety or partially to gain liquidity through selling the other portion to a financial buyer

Management buyout: the management team buys the company

While these are some of the most common exit strategies available to middle-market business owners, you should speak with an experienced M&A firm to weigh your options.

4. THE STAGE OF YOUR INDUSTRY'S BUSINESS CYCLE

While the economy plays a significant role in the viability of a business sale, your particular industry's business cycle is also critical. Your business will be worth more to buyers when your industry is trending up, not down. Since business cycles typically last several years, CEOs who plan to sell a business in less than five years should watch industry indicators closely and be prepared to act.

5. THE MARKET'S APPETITE FOR M&A

Supply and demand plays a critical role. When there are fewer companies available for sale and plenty of buyers in the market (as there are today), sellers are in the driver's seat. Business owners who plan to sell a company in the next few years should take advantage of a low supply-high demand environment available in today's market. For example, when the housing bubble burst and the economy tanked, investors backed off. Today, investor confidence has returned. As the economy continues to recover, private equity and corporate investors, who have been sitting on trillions of dollars, are eager to mobilize and put their investment capital to work.

Whether you've been in business for 5 years or 50, an exit strategy should be included as a key part of your overall business plan. It will provide you and your family a definitive plan that will ensure you stay on track and maximize the value you have accrued in your business. N

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