The exit strategies for CCEs

Nicolae Bibu, West University of Timisoara

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What is a business exit?

- An exit occurs when an owner decides to end his involvement with a business **he created and developed**.
- Most often such an exit is **accompanied by a sale of the owner's stake** in a company, but this is not a necessary condition.
- For example, an entrepreneur may hire a management team to run the business but still retain his equity.
- Depending on the circumstances under which the exit occurs, the shareholder **can either make a profit or a loss.**

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You need an exit plan and strategy

- It is useful to **start planning for an exit** in the early stages of the company's life.
- **influence many aspects** of your business such as
  - its legal structure,
  - the types of revenue models you should adopt,
  - the tradeoffs between investing for long vs short-term growth,
  - the types of investors you should seek, etc.
- The aim is for **entrepreneurs to maximise their take home return on their investment** and sweat equity.

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Reason for exit

- Achievement of desired level of outcomes
- Burnout
- Business failure
- Boredom with your company
- Willingness to pursue another opportunity or business idea

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What is an exit strategy?

- is a **contingency plan** that
- is **executed by** an investor, trader, venture capitalist, or business owner
- to **liquidate a position** in a financial asset or dispose of tangible business assets
- **When predetermined criteria for either has been met or exceeded.**

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Exit strategies

- sell to a third party,
- sell to other owners or partners,
- sell or transfer ownership to a family member,
- have key employees or management buy the business,
- refinance or recapitalize,
- Go public, IPO Initial Public Offering
- liquidate the business

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Sell to a third party

- Selling the ownership rights to another person, company which is not a shareholder or owner of a part of the company
- **is ideal** if the owner's main objective behind the exit strategy is obtaining the highest amount of capital.
- means selling the business to a larger public company. The company owner gets the highest purchase price possible, more cash at closing and no risky additional investment
- This option allows the business owner to show his company's worth to the potential third party buyer and **negotiate.**
- The good news for the business owner is he or she will be able to **completely walk away from the business.**
- **disadvantages**
  - puts the career of the employees at risk and
  - mission and culture of the company vanishes over time.

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Sell to other owners or partners

- is governed by an **ownership agreement**
- An ownership agreement contains **certain restrictions**, such as how and when the ownership will change, who will take over the business and the selling price. Co-owners have a right of first refusal to purchase the entire business before it sold to an outside third party.
- **Advantage:** co-owner is a known entity and already involved in the ownership of the business. The business owner knows the buyers skill set, knowledge and commitment to the business.
- **Is a flexible process** and owners can set up a gradual sale process or quick handover of the ownership.

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Selling the business to one or more trusted employee

- allows the owner **to reward the trusted employee** for his or her contribution to the company's success or provide him or her successful business opportunity just like the business owner had.
- If the **business market value is low and an outside third party is hard to find**, selling the company to a trusted employee is a good substitute.
- **problems**
  - the employee may not have the capital to finance the sell or
  - don't want the responsibility of owning the business.

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Sell or transfer the business to a family member

- For many business owners, is an **ideal exit strategy**.
- allows them the **ability to keep the business within the family** and its members still benefits from the company.
- gives the business owner the opportunity of limited tax liability by transferring the business interest as a gift during his or her lifetime.
- **drawbacks,**
  - some family members may not want the responsibility of owning the business
  - others may prefer to operate it. This may cause a family feud.

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Sell or transfer the business to a family member

- the business remains **within your home**, such that you will have some degree of control over what happens.
- The owner will be able **to witness and monitor**
- He can always **advise the heir** with your extensive and relevant experience.
- it's the **offspring or heirs** that inherit the ownership. Since they are most familiar with the mechanism of work, they easily adjust in the office and also get to have a thriving career.

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Sell or transfer the business to a family member

- Moreover, handing over the business to any family member certainly **not provides** the business owner enough capital to leave the business and live comfortably in retirement.
- For this reason, the owner may want **to completely sell his or her business to a family member and get the full selling price.**
- The business owner should also consider the family member's **skill set, age, desire to run the business** and the reaction of key non-family employees.

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Management Buyout (MBO)

- the MBO or Management Buyout is an **exit plan wherein business staff buys out the business.**
- sometimes part of the business staff, i.e., a team collects its resources together to either **buy out their respective complete section or the complete business.**
- When they buy the complete section, they intend to work in the same business team. However, the ownership of a respective department gives them the authority to deal with it in better terms and also benefits financially.
- an MBO may be adopted by either **a whole team** or an **individual**.

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Lease to Own Arrangement

- **the lessee** (would be buyer/user) is able to extend their resources while at the same time tapping into the established goodwill and name of the seller (lessor) and securing equipment, facilities and other assets.
- is one of the **most unique ways of selling** a business to an interested buyer who might **not have the means to buy at the moment but looking to own an existing investment.**
- Most people today are plagued by lack of sufficient start-up capital but a well-done and shrewdly negotiated lease-purchase can help mitigate the situation.

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Becoming a passive owner

- itl allows the **owner to remain in control** of his or her business, but business will be less dependent on him or her.
- This option attracts the business owners who want to start the selling process and want to observe how the business performs without the owner's involvement in the day-to-day business.
- the business owner can **maintain the company's mission and culture** and at the same time minimize income loss.
- the business owner **retains all risks** associated with business ownership and receives **very little extra cash** when exiting the active employment status.
- For this process to work, the company must be organized in such a way that the company owner may become the passive owner without affecting the income generation of the business.

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Maintain a Lifestyle company

- **Pay yourself** a huge monthly salary, reward yourself with a massive bonus irrespective of actual company performance.
- **Keep things simple**. Rather than reinvesting money in the business, you take out a comfortable chunk and live on the income of the business.
- **The drawback is** simple: "money in the wallet is no longer money in the company".
- If you own a business that must reinvest to grow, taking out too much capital will hurt your company down the road. Besides, if your business has other investors, taking too much cash will upset them.

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Gift

- A business owner **can gift assets, equity or stock** in the business as he or she sees fit.
- **Usual recipients** are charities, organizations or family members.
- This gift can be a **partial gift** (retaining interest for a period of years or a lifetime interest) or a **comprehensive gift** (transferring all shares currently).

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Capital transfer

- Many business owners don’t want a sudden retirement, they want to gradually move into retirement.
- A capital transfer exit strategy enables the business owner moving money out of the business without actually selling the company to an outside third party.
- The owner can start the complex process of recapitalization into voting and nonvoting stock or simply bonus out retained earnings as a dividend.

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Initial Public Offering IPO

- the process by which a **private company can go public by sale of its stocks** to general public.
- Is the ultimate exit strategy, because an IPO provides the business prestige, long-term capital, improved financial position and public awareness about the company.
- selling a business on the public market is **complex, rare and often not a viable option**, especially if the company doesn't have a high stock market valuation.
- Potential investors and analysts will take a close look at these reports and the company's **quarterly performance to determine the value of the stock**. This process will keep the business owner busy with investors and analysts instead of running the business.
- **An IPO also requires extensive record keeping**.
- If the company **finally goes the IPO route, the business owner is expected to lose control of the company.**

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Liquidating the business

- is appropriate when there is **no alternative exit strategy available and immediate exit is desired.**
- no negotiation is involved and no need to worry about the handover of control to new owners
- provides minimal money to the company owner.
- has a **destroying effect on customers and employees** and basically destroys everything the business owner has built, including relationships, reputation and client lists.
- Though, this exit route **offers the owner cash and a speedy end of the whole process.**

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Close the business

- If the business **doesn't have any assets of real value** and **doesn't have obligations** such as leases, debts and the owner ultimately finds difficult to sell the business,
- he or she can simply **close the business and walk away**.
- However, if any **company obligations exist**, the responsibilities can be transferred to the business owner personally.

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The 4-track exit process

- **1. fix your personal goals**
- **2. set realistic goals that you can achieve**
- **3. understand the market value and saleability**
- **4. evaluate tax and legal issues**

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Track One: **Fix your personal goals**

- Decide **two personal objectives**:

1. **How much capital** do I need from the exit plan to ensure my family's long-term financial security?

2. Do I want **any family member** to run the business or a trusted employee should own the business?

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Track Two: **Set realistic goals that you can achieve**

- For example, you may want to receive all cash when exiting the business,

- However, today’s economic condition is such that many lenders require the current business owner to have "some stake in the company” even after the sale of the business.

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Track Three: **Understand the market value and saleability**

- You need to understand **the market value and**
- **salebility** issues of your company
- For instance, if you feel the value of your company is insufficient to support your family after you exit, you have to do further financial planning and put in extra effort to enhance the value of your business.
- **Valuation process is very important!** Use a specialized consultany to do it!
- **Salebility**. Only 25% of businesses for sale are actually sold

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Track Four: **Evaluate tax and legal issues**

- Finally, you need to **evaluate the tax and legal issues**. This evaluation should include ownership structure and legal structure of your business and any related issues that needed to amend.
- Following this four-step process, you will be able to determine which strategy is **best one to leave your company**
- **Advice : when selling a company use a conculting company for valuation and legal and tax issues**

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What is a Business Exit Plan?

- it refers to a strategy or a plan that guides your business towards its end.
- this *end* need not necessarily mean that your business comes to a literal end, and it stops operating once and for all.
- It may as well mean the end of *your* tenure in the very business.
- Either way, the plan **contains complete detail** about the time, mode, and mechanism of the power shift or transition.
- For those who want some money, the business exit plan also sketches a plan of potential profits.

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Reasons to Have an Exit Strategy Ready

- is to avoid panic and poor eleventh-hour decisions.
- To keep that from happening, you ought to prepare an exit strategy plan *beforehand*. A planned exit will protect your business and your financial reserves from any possible severe blow.
- According to statistics, about 64% of entrepreneurs aged over 50 years of age had no succession plan for business. Due to such cases, we see a business losing its value and worth for no good reason now and then. Instead, owners sometimes have to pay compensation to close down the business.

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CONCLUSION

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Exercise

- Think about your personal objectives and draft an business exit plan for your future (current) business.

- Which strategy will you use?

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End

Thank you !

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