



WILEY FINANCE

BUSINESS EXIT PLANNING

Options, Value Enhancement, and
Transaction Management for Business Owners

LES NEMETHY

Business Exit Planning

*Options, Value Enhancement,
and Transaction Management
for Business Owners*



WILEY

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To my father

Preface

Over the years, I have spoken to thousands of business owners and investors on the subject of buying or selling businesses. It has become apparent to me that there is a real need for business owners to better understand how to go about planning and managing their **Business Exits**. While there are thousands of books on the subjects of Mergers & Acquisitions (M&A) and corporate finance, these are generally aimed at M&A or finance professionals, not at business owners. This book is designed to fill that gap. Targeted to business owners, it covers both **Business Exit Planning and Transaction Management**.

This is not a textbook. It does not go into tremendous detail on any subject, but rather gives a bird's eye view of what you, as a business owner, need to know to plan and execute your business exit. Entire tomes could, and indeed have been written about Management Buyouts, Initial Public Offerings (IPOs), valuations, and so on. But in giving very brief introductions to these and many other subjects, my goal is to give you enough information (in an easily readable format) so that you can decide for yourself whether a particular subject warrants further investigation.

The generality of this bird's eye view is also reflected in the fact that I don't analyze the subject of planning and executing Business Exits within the context of any particular legal jurisdiction. I will look at universal themes and issues, rather than provide a detailed roadmap for a particular company within a particular legal jurisdiction. It has been a challenge to give meaningful advice in the absence of the legal context in areas like tax or estate planning. Nevertheless, most of the content should be applicable to any country; but please, consult legal counsel and other advisors before taking any concrete action.

I have done my best to illustrate the principles set out in this book with real-life examples. I use miniature case studies, based on personal experience, throughout the text. The majority of these are in the context of **Transactions** or assignments carried out by my firm, Euro-Phoenix Financial Advisors Ltd. The case studies themselves generally don't reveal sufficient information to identify the companies or individuals in question. Although our Confidentiality Agreements have expired in the majority of instances, we respect the confidentiality of our clients above and beyond the minimum

legal requirement. In one or two cases where I thought the identity might be of particular interest, I obtained the consent of the company.

I do not claim originality for the ideas expressed in this book, as can be seen from the sources quoted in the Endnotes. What will be of use to you, as a business owner, is the bird's eye view and the way in which the information is synthesized and illustrated with relevant case studies and a glossary of frequently used technical terms.*

This book is designed for owners of what I would call 'mid-sized' businesses. These are typically businesses that have minimum values in the range of \$10 million to \$100 million, although I am the first to admit that this range is arbitrary. Businesses with values smaller than \$10 million often resort to business brokers rather than corporate finance or investment-banking-type advisors. Some do not use advisors at all (other than legal advisors) because the advisory fees would consume a large percentage of the Transaction revenues. It is particularly challenging for owners of such small businesses to obtain quality advice at a reasonable cost, given the size of the deal in question. This book is a good starting point.

Businesses with values larger than \$100 million are at the other extreme: they typically have numerous investment banking or corporate finance relationships, and are usually more sophisticated in their corporate finance knowledge than small and mid-sized firms.

As already mentioned, this book deals with two major subjects: *Business Exit Planning* (presented in detail in Part I), followed by *Transaction Management*—what a business owner needs to know in managing the exit Transaction—(covered in detail in Part II).

I have heard the argument expressed that a book on Business Exit Planning should not cover Transaction Management. After all, there are many other methods of exiting your business than an outright sale. There are two reasons why I ultimately opted to include Transaction Management in a tome on Business Exit Planning. First, for mid-sized businesses, sale is probably the most frequent form of exit, and in a chess game it is always good to plan several moves or alternatives in advance. And second, exits other than sale (such as Management Buyout or transferring ownership to the next generation) will also involve a Transaction of sorts. A book that covers both Business Exit Planning and Transaction Management should equip you, the business owner, with a full overview of what's involved in exiting your business.

That does not mean that this book covers everything you need to know. As the saying goes: the larger the circumference of light, the larger the

*Terms included in the glossary appear in **bold** when first used in a chapter.

circumference of darkness around it. Part of the value of this book is that it will make you more aware of possible blind spots, where expertise is lacking within your organization, or where you may need to seek further advice.

Just as planning the construction of a house takes longer and is not as dramatic or exciting as seeing the house grow before your eyes, so too, you will find that it may take some effort to work your way through the planning phase, whereupon you will be rewarded with a faster and better construction. I have built a number of houses, and have always found that the planning (architectural drawing, permits, etc.) takes two or three times longer than the actual construction itself. If you persevere and invest time to understand Part I, you are likely to achieve a better result with Part II.

Should you wish to contact me, please feel free to do so at the email address following, or follow me on Twitter or on my web sites.

Les Nemethy

Email: LNemethy@europhoenix.com

Twitter: www.twitter.com/lnemethy

Euro-Phoenix web site: www.europhoenix.com

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I would also like to thank those who contributed to editing the manuscript: Mary Murphy, Simon Mort, and Christine Ro, as well as Erika Szabó, who made numerous constructive suggestions with respect to the book.

Special thanks go to Paul Garrison, for providing some of the impetus for writing this book (and also reviewed the document), as well as to Dante Roscini, Brian Hoyes, and Hartmut Emans for their useful suggestions; to Doug Robbins for his insights into the M&A industry over the years; and to José Manuel Ferrer for providing information on the Codorniu company.

I would like to give special thanks to John and Tamara Scurci for their hospitality on the islands of Montserrat and Virgin Gorda (of the British Virgin Islands) and for making the writing of this book possible in such wonderful locations.

Disclaimer

This book is designed to provide business owners with general concepts for preparing and executing Business Exits. Every business, however, is different, faces different challenges, has different objectives, and is in a different legal jurisdiction. This book is not intended to encourage 'do it yourself' activities when it comes to selling a business or planning an exit. None of the statements set out in this book should be relied upon as professional advice to form the basis of a Business Exit. Readers are urged to seek legal, accounting, tax, financial, and other professional advice, as appropriate.

Foreword

For any company, a change in ownership structure is an extraordinary event and the decision regarding when and how to exit the business is among the most important that the controlling shareholders have to make. The exit can take many forms: will it be total or partial? Will it be through the public or the private markets? Will it be through the injection of new capital or the sale of existing shares?

These decisions are made more involved by the presence of multiple shareholders. But for many small and medium-sized businesses, where the ownership structure is less complex, the decision maker is often not only the main shareholder but also the main executive and the operating leader. He or she may have founded and grown the business or inherited it from previous generations, making the responsibility for the decision all the more burdensome.

The result is that a change in ownership is generally emotionally charged and has far-ranging consequences for the business owner from a professional, financial, and personal standpoint. The decision impacts the individual and his or her estate, the company, its management, its employees, and all of the other entities associated with the business. If the owner is also the manager, the issues of transition and of his or her involvement after a financial transaction are central to the very continuity of the firm.

In more than two decades as an international investment banker I was able to verify that the issues and the process shareholders face in a Business Exit are remarkably similar regardless of size, sector, or geographic location. Yet even with these similarities, planning and managing an exit is a highly complex undertaking.

The consequence for smaller enterprises is that this is not a do-it-yourself endeavor. Working with advisors is inevitable in order to deal with the process efficiently, identify and negotiate with the right counterparties, follow the appropriate procedures, abide by the varying rules and regulations, and conduct a transaction that leads to the best outcome.

This book not only helps to maximize value, but also assists with the countless nonfinancial aspects which must be examined in the overall scheme of business exit. An entire industry of advisors revolves around shareholders who are planning a transaction. Large companies tend to have

established relationships with investment banks and produce deals of sufficient size to allow them to receive high quality advice on a regular basis. But high quality advice is costly and can be challenging for owners of smaller businesses to obtain. This book represents a very good place to start.

Many books have been written regarding mergers and acquisitions, initial public offerings, leverage buy outs, and other forms of partial or total change in ownership. This book is unique in several respects: it is primarily written for owners rather than for advisors, it is practical rather than theoretical, it synthesizes complex information in an engaging and easy-to-read manner, and it is rich in real-life case studies.

I have known Les Nemethy for 40 years and I have followed his career as an entrepreneur, as a government official in charge of Hungary's privatization program as a senior manager at the World Bank, and then as an investment banker. His successful firm, Euro-Phoenix Financial Advisors Ltd., has given advice to hundreds of companies, making his experience particularly relevant to the topic and the case studies so insightful.

The book gives a very complete overview of the issues involved in business exit planning, identifies the critical decision making points, describes how to choose and work with advisors, warns about the possible mistakes in the process, and explains how to avoid these mistakes. I believe it is one of the best and fastest ways of getting a clear grounding on one of the most important and complex processes that a shareholder will face in the life of his or her company.

Dante Roscini
Senior Lecturer, Harvard Business School
Former Global Head of Capital Markets,
Merrill Lynch

Contents

Preface	xi
Acknowledgments	xv
Disclaimer	xvii
Foreword	xix
Introduction: The Challenge of Exiting Your Business	1
Three Overarching Themes	6
A Few Words of Advice	9
PART I	
Business Exit Planning	11
CHAPTER 1	
An introduction to Business Exit Planning	13
Ways to Exit Your Business	14
What is Business Exit Planning?	15
Evidence on Why Business Exit Planning is Necessary	16
Understand Your Motives	17
The Special Case of Retirement	20
CHAPTER 2	
Begin with the Endgame in Sight	23
Develop a Game Plan	24
Value Systems and Visualizing the Endgame	25

CHAPTER 3**Exit Options 29**

Intergenerational Transfer	29
Initial Public Offering	32
Merger	35
Hiring Professional Management	36
Management Buyout	37
Refinancing	38
Employee Stock Ownership Plan	39
Liquidation	39
Choosing the Right Exit Option	39

CHAPTER 4**Building Your Team to Assist Your Exit 43**

Reasons for Building a Team	43
Composition and Role of Your Team	45
Selecting Advisors: An Overview	53
Your Advisors' Ethical Standards	55

CHAPTER 5**Building a Business with Sustainable Value 57**

Look at Your Business from an Investor's Perspective	58
Clarifying and Adjusting Corporate Strategy	59
Corporate Governance, Systems, and the One-Man Show	61
Pre-Transaction Restructuring	68
Identify and Manage Risks	72
Operational Improvements to the Business	78
Non-Arm's-Length Situations	82

CHAPTER 6**Business Plan and Valuation 85**

Reasons for Making a Business Plan	85
Should You Perform a Valuation of Your Business?	87
Recasting Financial Statements	88
Building a Business Plan	90
Introductory Comments on Valuation	91
Types of Valuation	93
Adjustments to Valuations	96

CHAPTER 7**Tax Planning, Estate Planning, and Insurance 101**

Tax Planning	101
Estate Planning	102
Use of Insurance in Your Exit Strategy	105

CHAPTER 8**Finalizing Your Exit Strategy 107**

What Type of Investors Should Be Targeted?	108
Should There Be a Listing or Asking Price?	110
Should There Be a Competitive Process?	110
Why Use a Competitive Process in Selling a Business?	112
What Are the Possible Drawbacks of a Competitive Process?	114
Timing Your Exit	115
Communicating with Other Shareholders	116
Your Contingency Plan	117
Business Exit Planning Report	117

PART II**Managing the Transaction 119****CHAPTER 9****The Transaction Process 121**

Overview of a Competitive Process	122
Confidentiality through a Transaction Process	124
Involving Company Staff in the Transaction Process and Communications with Investors	129
Marketing Your Opportunity: From Long List to Short List	131
The Information Memorandum	132
Nonbinding Offers	135
Due Diligence	135
Binding Offers	141
Exclusivity	141
Transaction Structuring	142
Head of Agreement	145
Sale and Purchase Agreement	146
Closing the Transaction	151
Noncompetitive Processes	151

CHAPTER 10**Negotiating a Transaction 153**

Get to Know Your Negotiating Partner	154
Let Your Negotiating Partner Make the First Offer	155
Concede in Small Increments	155
After Asking a Crucial Question, Hold Your Tongue	155
Every Term of the Deal Also Depends on Every Other Term	156
Be Prepared to Walk Away from the Deal	157
Know Your Best Alternative	157

CHAPTER 11**Cross-border Transactions 159**

Why Don't More People Market Their Companies Internationally?	160
The Challenges of Cross Cultural Negotiations	162

Conclusion: The Only Question with Wealth Is, What Do You Do with It? 165

Revisiting the Three Overarching Themes	165
You Have Raised Your Cash. What Next?	167
The Macroeconomic Effects of Succession Failure	170

Notes 173**Glossary 175****References 179****About the Author 181****Index 183**

Introduction

The Challenge of Exiting Your Business

*All the world's a stage,
And all the men and women merely players.
They have their exits and their entrances;
And one man in his time plays many parts ...*

—William Shakespeare (1564–1616)
As You Like It, Act II Scene VII

Anyone can buy or create a company. But how do you exit successfully? A Business Exit is not just a simple question that you might ask yourself as a business owner: Do I exit—yes or no? Most business owners find the issue excruciatingly difficult to grapple with because it is not just one decision; rather, in most cases, there are many interrelated decisions to be made, such as:

- What will you do with your free time after exiting? What new purpose will your life take on?
- How much money will you receive upon exit? Will this be enough to cover the objectives that you'd like to achieve? If you are nearing retirement age, will this be enough to cover retirement expenses, leave a legacy for your family, and cover possible medical costs?
- What will happen to your staff, clients, and business partners?
- What is the best timing for your exit, given the economic cycle of your country and industry, as well as the growth curve of your company?
- What will be the best form of exit (e.g. sale, going public on a stock exchange, selling to management, or transferring to your children)?
- How will you preserve confidentiality during the exit process, to ensure that your business isn't damaged?