

Finance Matters

Guiding you to lifelong prosperity

Extracting value from your business – Exit planning

Eventually, every owner leaves their business. Few, however, properly plan for succession or exit on their own terms.

It is never too early to start thinking about exiting your business. It is important to realise that exit planning is not a single event, but a tailored process. Even if you are not currently planning to exit your business, understanding the process will make it easier to maximise your financial return when you are ready to sell and/or retire.

It can take up to five years to become 'investment ready'. A period of 'grooming' is therefore required to maximise value.

Management should consider:

- Operations - terms of trade, pricing policy, proper registration of patents/trademarks
- Improving current and forecast profitability - remove non-essential costs
- Enhancing company appearance - present the business in its best light
- A 'balance sheet manicure' - pay down debt, harden attitude to working capital management
- Building a solid management team - groom successor / second tier management

What is your business worth?

Owners and advisers need to understand value in order to determine if financial objectives can be met. Value is largely determined by pre-tax 'sustainable' earnings, multiplied by a price earnings ratio/multiple, with an adjustment for excess assets.

Company multiples differ and largely depend on risk. Factors to be considered in assessing risk include:

- Size of company
- Dependency on business owner
- Sustainability of competitive advantage
- Growth and profit trends
- Business disciplines and practices
- Industry sector
- Market / economic environment

Companies with a blue chip client base and reputable brand name will generally attract higher multiples. Intangible benefits, e.g. intellectual property attract a premium.

The potential end result:

- Adjusted pre-tax earnings - £1 million
- Price earnings ratio/multiple - 6
- Valuation - £6 million

So, groom your business for sale (remove contentious valuation points, improve profitability, etc) and value grows exponentially.

Taxes on Exit

Entrepreneurs' Relief ('ER') allows individuals to claim relief on qualifying gains made on the disposal of a trading business.

Continued overleaf...



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For those that qualify, up to £10m of lifetime capital gains (£20m in a husband and wife owned company) will be taxed at 10%, as compared to 28% (for tax payers at the higher rates).

In order to qualify for ER, you must have held the business being sold for at least one year. If shares are being sold, the individual must:

- own at least 5% of the ordinary share capital and have at least 5% of the voting rights; and
- be an officer or employee of the company.

Common pitfalls include:

- significant non-trading activity, e.g. large cash balances;
- less than 5% ownership and voting rights (ownership and control can often be diluted by voting rights attached to preferential shares and the exercise of any employee share options); and
- share transfers to a spouse who is not an employee or director of the company.

ER relief is not always available, but advance planning may improve the position. How the sale is structured will also be key in deciding how much of your hard earned value is lost to the tax man!

What about you?

Too many business owners get this bit wrong! What will your pot of gold represent? Future security,

income and lifestyle? Opportunity to pass wealth to the next generation? Start your personal planning early. Hazlewoods design and implement wealth management strategies, ensuring that business owners meet their lifestyle, income and security objectives.

How can we help?

- Evaluation and timing - sounding board through the decision making process
- Grooming for a successful sale - identify issues, retain maximum value
- Business valuations - how will purchasers view your business?
- Preparation of Information Memorandum - attract purchasers, start negotiation
- Identification of potential buyers - network of contacts and research capabilities
- Negotiation - clear strategy and experience
- Due diligence - manage process and liaison between parties
- Completion - push the deal through to a successful conclusion
- Tax - efficient structuring
- Wealth management - design bespoke client strategies

Most business owners will only go through the exit process once. We do it every day!

Start early. The succession clock is ticking... will you make it in time?

For further information, or to arrange a free initial meeting, please contact:



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