EXIT READINESS *HANDBOOK*

A STRATEGIC GUIDE TO EXITING YOUR BUSINESS

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Strategy | Execution | Partners

Taking You Beyond Business As Usual

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A BUSINESS THAT'S READY TO SELL IS A PLEASURE TO OWN

You've given your life to your business. You've seen long weeks and you've sacrificed weekends. You've counted big wins and small victories. You've fostered some incredible people and built invaluable connections in your industry.

But when it's time to move on, then you need to know what to do.

Exiting your business is, we hope, a privilege that you can anticipate with excitement. It's your chance to see the rewards of your hard work, and to achieve the life that you deserve – on whatever terms that means for you.

Selling your business is a process, not an event. And the more you embrace that process – its challenges and opportunities – the better the rewards you can expect from your exit.

If you simply sell your business, then you'll typically see a multiple of your EBITDA of around three times. That's standard. But your dedication and commitment wasn't 'standard' – and your reward shouldn't be either. So: how do we extract the most value from the sale of or exit from your business?

But also, let's not forget the other concerns that might stop you from exiting your business with confidence. Is your business ready for your exit? And are you? And what will that exit mean for you – in terms of your life rewards?

The AdvisoryWorks Exit Readiness Handbook is here to give you the confidence you need for the process ahead, whenever you're ready to start the process towards the most important transaction of your business and your life.

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A strong team at the helm

To inspire confidence in your vendor, your leadership team needs to:

- Proudly own its culture – that's reflected in its purpose, BHAG, vision or mission
- Support the strategic intent of your organisation – the solution you offer and your competitive advantage in the market
- Hold your senior team to a high standard of leadership performance – who will create and lead the organisation through change, maintain organisational performance, and direct regular strategic plans
- Lead your strategy with disciplined execution – holding the team to a high standard of accountability to the goals they set and own.

By mastering the pillars of leadership, your team proves that they're going to continue to steer the organisation towards excellence in the future.

WHAT IS YOUR BUSINESS WORTH?

Liquidate, Transfer, Merge or Sell?

When it comes time to exit your business, there are various options – and various rewards. Here are some of the common options, with typical valuations listed as multiples of the EBITDA.

Liquidate/Wind Down

With few obligations and no legacy to manage, liquidation frees up cash to pay off debts or distribute among shareholders. But it also coincides with the end of jobs for your team, and can come with significant legal costs that will add to the burden of wind-down, and your assets might not be worth what you think. That's the cost of a clean slate.

You'll receive the net asset value, once liquidated, and as per the value on the balance sheet.

Merge

Merging with another business means combining resources, expertise and customer bases too – something that can help increase your market share. You'll need common values, as well as careful planning and communication with clients and stakeholders – especially since there's a serious risk of conflict, mis-alignment and power struggles during and after a merge.

There's rarely a cheque at the end of this; you'll usually receive shares in the new company, depending on the valuation of each business.

Transfer of Ownership/Management Buy-Out

The option of choice for professional services, transfer of ownership is typically a leveraged exit that spans multiple years, and slowly sees new leadership and fresh ideas revitalising your business. Your successor needs the same values, and to share your passion for your business. Transfers tend to result in a low multiple of your EBITDA – often as much as the new owners can borrow, and little more.

EBITDA multiple: In 2023, the median multiple paid for businesses in Aotearoa New Zealand was 3.45x; this figure has not varied beyond five percent in the last few years.

Outright Exit

Ready to sell now? After due diligence, the new buyer will assume ownership of your business, with the purchase price paid out in tranches when certain criteria are met. There'll be negotiations, of course, but the benefit is that you're able to walk away with a strong multiple of your EBITDA in hand, even if it takes some time to come through.

This is by far the most common in Aotearoa New Zealand, and a lot of business owners have been considering this as a fast exit from a difficult environment. But outright exits also leave a lot of value on the table; your acquirer is getting your business as is, where is – and they know it.

EBITDA multiple: Typically estimated around 2-3x for Kiwi businesses, with some industry variation.

Strategic Exit

This is where you want to be. While the sale is similar to the Outright Exit, a Strategic Exit is a planned exit – one where you get ready for your exit by building up your company, increasing confidence in your team, clarifying systems and documentation, and then entering the sales process to a strategic buyer.

Strategic exits are usually to another company or private equity company that sees strategic value in your business, and will pay a premium for your points of difference – your client base, systems, strategy, intellectual property, and so on.

Strategic exits usually come with a transition period and defined targets that impact your final reward. And because you can prove to an acquirer that your business has defensible positions and documentation, a robust strategy, and a leadership team that'll deliver assured value now and in the future, you can typically ensure a higher multiple comes your way.

The process of a strategic exit increases the value of your business – often by increasing your EBITDA, but more importantly, increasing the multiple that someone's prepared to pay. Even in a downturning macroeconomic environment, a strategic exit uses the time before sale to your advantage.

Rather than feeling hurried into a sale or being forced to sell, a strategic exit means getting your business ready – and with that, plenty of comfort and power.

A strategic exit isn't just about being prepared. It's about creating a powerful, thriving business that's a pleasure to own – and that you part with on the best possible terms. An acquirer wants to know whether the value, profitability, sales and success of your business are intentional and driven by the leadership team – and you need to be able to prove it.

If your future earnings are believable, and you have a proven track record of your strategy working, then your business's competitive advantage is there. Therefore a higher multiple of the EBITDA is more defensible – and that means more in your pocket.

EBITDA multiple: 4-8x, depending on strategy and industry

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IN 2023, THE MEDIAN MULTIPLE PAID FOR BUSINESSES IN AOTEAROA NEW ZEALAND WAS 3.45X

THE FOUR PILLARS OF A STRATEGIC EXIT

There is a lot to consider when making a strategic exit. You need to understand your own expectations; you have to have a plan for project management, and how to handle the additional burden on management during the process; you should know the plausibility of your business plan and how you intend to structure the sales process.

Exiting a business is complicated. We've identified four key elements essential to making the most of the blood, sweat and tears you've invested in your business, and maximising the return on your investment by undertaking a strategic exit.

With any exit, you can expect a non-binding offer before due diligence begins. From here, the price only goes down, as the potential acquirer identifies any uncertainties or risks.

The goal of a strategic exit is to eliminate those uncertainties – to document everything about your business so clearly and far in advance that these risks or uncertainties are hard to justify. At the same time, you'll also need to prove that your business has the potential for ongoing, increasing growth and success. In this way, undertaking a strategic exit can improve your EBITDA – something that makes you very attractive to a buyer – while also increasing the multiple that you receive.

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REWARDING RETENTION :
YOU MAY BENEFIT FROM IDENTIFYING KEY PEOPLE IN YOUR TEAM AND BRINGING THEM INTO THE SALE. THIS CAN INCLUDE A REWARD FOR SALE COMPLETION, OR CONTRACTING THE LEADERSHIP TEAM AS MINOR SHAREHOLDERS TO ENSURE THEY REMAIN INVESTED IN THE ORGANISATION – SOMETHING THAT'LL BE VALUABLE FOR AN ACQUIRER TO SMOOTH THE TRANSITION.

1.

Talent: A leadership succession plan

Identify the talent that has leadership capabilities, and develop them. If you don't have it, then hire it.

One common problem that owners report is a feeling of being handcuffed to their business.

But a well-developed leadership team can take that burden from your hands. Your exit strategy must include the plan to build up your talent who'll carry that weight with confidence. This will ensure that your business is in a more robust and rewarding position, and that you can get peace of mind that it's going to be in safe hands.

As the owner, you'll have a depth of talent that might cause your team to panic if you had to leave unexpectedly. That's what developing your leadership team prior to exit means: showing them how they lead, with the right empowerment and knowledge, to lead the business without you.

Developing your talent is the most rewarding part of a strategic development. It is also one of the slowest to grow, and the ROI at the beginning is often small. But do it knowing that your competitors aren't likely to be doing the same thing – and that it's virtually impossible to copy once you have it up to speed.

As part of an exit strategy, you'll want to pay attention to the key people whose change will move the dial considerably over a short period of time. You can also reward these people by making them associate directors/minority shareholders for an exit down the line – so that they benefit from the increasing value of your business too.

Focus on doing the heavy lifting in the areas that will pay the largest dividends, while also nurturing your SLT as a whole – and the value will be evident to an acquirer.

2.

Clean Books: Normalise the accounts

No one has truly clean books, but the tidier they are at sale time, the more proof you have of a robust model.

Generally speaking, a vendor will want to look at two to three years of past financials, and a further two or three years predicted, to understand your (growing) revenue, spot any leakages, and size up the hard data that is the dollars.

A set of normalised accounts will show what buyers can expect from your business, and should include key information such as board minutes, financial reporting, strategic reports, up-to-date market research, employee contracts, customer/vendor contracts, your business plan, and relevant HR info.

The sales process is about the future view, so your buyer is going to want to know that you've consistently invested in that future – especially where the market's growing. Budgeting and reporting accurately will suggest that what you're projecting has higher confidence, based on past performance.

3.

Documentation: The proof of the plan

Your acquirer will want to know that your business's success hasn't happened by accident. Documentation proves it.

Documenting the people, processes and activities that show how your business works isn't just good for the sale either. Your track record also shows that you can be scaled and refined. You'll have proof of strategic goals, outcomes, and results. You'll be able to say that you did what you defined in your business strategy. And that confidence is a powerful tool to leverage a higher multiple of your EBITDA.

Whether you're planning for a sale in the coming months, or two years from now, evidence of defined processes and documentation across sales, marketing, finance, health and safety, HR, governance and all other aspects of your business will show that you've planned for contingencies and continuous improvement.

Prove that you have the policies in place that your company has rules and frameworks that you, as the owner, can choose to implement. And show, through your bookkeeping, that you've also supported developments and initiatives that have supported your business's growth.

4.

Advisors: Your pit crew

The quality of your advisory team will affect the quality of the most important transaction of your business (and possibly of your life).

Go into a sale unprepared, and your buyer's specialist accountants, bankers, lawyers and advisors will find shortcomings in your offer – and that's leaving money on the table during negotiations.

Instead, consider the process of negotiating a deal like this in terms of confidence. The higher the standard of management quality – the more information you have at hand, and the quicker you can respond to any queries – then the faster the transaction can happen, and the sooner you can get to enjoying the rewards.

AdvisoryWorks can bring visibility to the areas that can be developed and addressed to add substantial transactional value to your organisation, if and when you sell. Let us project manage the full process – from preparation to readiness, the sales process, pulling together the right partners, negotiations, the final closing of the transaction, and beyond – so that you can get the outcome you want.

THE STRATEGIC EXIT PLAYBOOK

You only get one shot at exiting from, or selling your business, even if that involves one or two years of a managed earn-out.

These steps are key to a successful merger or acquisition-style strategic exit.

1. Identify what exit means to you

Travel. Leisure. Family. The call of the ocean. What will you do with the hours you'll reclaim each week?

While exiting one business can mean re-investing in another, for many it enables them to live a life they've long wanted. The journey towards exiting can be a long process, and a taxing one. But knowing what that ideal outcome looks like will keep you motivated throughout the process, and guide you to that destination.

You'll also need to know whether your exit is outright, or managed over one or two years. The choice is yours, however the continuity offered by a managed exit is generally more attractive to potential buyers, since it ensures continued performance in the short to medium term.

2. Prepare

As suggested above, thorough documentation is necessary for a successful exit. Start by building a portfolio of business plans, pitch decks, intellectual property, financial forecasts, accounts etc. These should be extremely comprehensive, and capture your organisation's position and processes in high detail.

One of the best ways to manage this is to create a (virtual) data room – an online repository of information where your project leads can load documentation, and note where additional documentation might be needed.

3. Identify who your business is most valuable to

This is the homework stage. A broker, merger and acquisition specialist, or your accountant can start anonymously approaching potential acquirers to see who might be interested, and who might be prepared to take your business based on certain criteria.

Consider who your business is going to be the most valuable to. What is it that your business has that a strategic buyer wants but can't yet get? These could include your customers, geographic reach, culture, systems, market specialisation, and so on.

4. Get tentative offers

Your sales specialists will run the process and get the best offers. Ideally, you'll have a competitive environment with multiple potential acquirers who can present diverse offers (and be leveraged against each other).

As part of this stage, you can expect to set dates for memorandums of understanding and letters of intent with some high-level, non-binding numbers.

5. Due diligence begins

Once the letter of intent has been accepted and confidentiality agreements have been signed, you can start this process.

This is where a potential buyer really looks under the hood to see the condition of your business. So be prepared to offer up detailed financial figures, processes and documentation, every internal and external contract, and the proof that your business is in a robust shape and being led by a talented team to deliver on an exceptional strategy.

In effect, you're answering the question of what value you're offering, as well as the potential risks involved in the acquisition of your business, and why you should receive top dollar. And every shortcoming or uncertainty – such as poor systems, unclear strategy, confusing or conflicting books, high staff attrition, and negative financial performance or legal uncertainties – will leave value on the table. And don't forget that unmet tax obligations will also impact value (most sale agreements have a clause that holds you accountable for seven years for any tax issues).

A positive due diligence ends with the signing of a term sheet – the brief for lawyers to start working on the final contracts.

6. Legals begin

While a tentative figure gets offered at the start of the exit process, due diligence tends to revise that figure down. In any case, the legal process will see the price negotiated, contracts drawn up, and sale and purchase agreements completed.

This is also where you and your team will lock in who stays on board and who exits. If you want to walk away, then the price on offer will be lower; continuity is more attractive to a buyer, and can include rewards for ongoing work and meeting KPIs.

7. Begin the exit itself

It takes a lot of time and emotion to go through a sale, so at this point, you have to be ready for the change, and be truly satisfied with the outcome – because you're finally exiting your business. Having a support system throughout this process, and especially during the final transition out of your business, will be invaluable.

TIMING IS EVERYTHING – EXITING YOUR BUSINESS SHOULD BE PROFITABLE. IDEALLY YOU'LL BE ABLE TO TIME IT TO COINCIDE WITH A GROWING MACROECONOMIC ENVIRONMENT, AN IMPROVING INDUSTRY CYCLE, AND AT A TIME WHEN YOUR BUSINESS IS ALSO DOING WELL RELATIVE TO OTHERS. WHEN THOSE CURVES LINE UP, YOU CAN GENERATE SERIOUS CONFIDENCE – AND SEE MASSIVE RETURNS FOR THE SALE.

EXIT READINESS ASSESSMENT

A strategic checklist of things of consider when exiting your business

↘ ARE YOU READY TO STEP AWAY FROM YOUR BUSINESS?	
GENERAL	✓
You have a documented succession or exit plan (who, what, when)?	
Are you confident that the business can operate without you?	
Your three-year financial budget aligns with your strategic plan?	
You have the right support structure of professionals (legal, accounting and banking relationships) to support you through the exit process?	
FINANCIAL	✓
You have full clean financial accounts for the last three years?	
You produce and review management accounts monthly?	
Your Net Profit Margins have improved compared to pre-Covid levels?	
MANAGEMENT	✓
'A' Players lead each of your departments? ('A' Players being defined as exceeding performance expectations and being fully aligned with company values).	
There is a high level of trust amongst the team?	
MARKETING	✓
You have a clear understanding of the target market(s) and their needs, wants and drivers?	
SALES	✓
You have a sales forecast — that you meet regularly?	
You track your conversion ratio — and regularly meet your standards?	
OPERATIONS	✓
You have key performance metrics in place to track production/service delivery throughout the business?	
HOW	✓
You have identified the types of new owner(s) who would be attracted to your business?	
You have a longlist of potential buyers (and competitors), and identified the benefits they'd bring to your business?	

To take the extensive readiness assessment, click the link below:
https://advisory.works/exit-ready-assessment

NEED A PARTNER TO HELP YOU WITH THIS PROCESS? CONTACT ADVISORY.WORKS

At Advisory.Works, we understand that leaving your business can be as overwhelming and complex as starting one. But over the last three decades, we've worked with countless SMBs, helping them develop their strategies, build their cultures, scale their revenues, and work with partners to sell their businesses to get the value they deserve.

Let us guide you to your strategic exit, from valuation and succession planning to dealing with legalities, partners and potential buyers. We provide the insights, strategies, and tools necessary to help you exit on your terms – and receive a higher reward of your EBITDA.

It's time to think ahead, think strategically, and take control of your future with Advisory.Works by your side.

1.

Value Maximization

A well-orchestrated exit strategy can significantly enhance your company's value – and that can help you attract premium buyers, get a better price, and ensure that years of hard work pay off.

2.

Future Readiness

No one can predict the future, but we can certainly plan for possibilities. Whether for health, retirement, or to launch you on to new ventures, a robust exit strategy provides a clear roadmap for what comes next – and ensures that you've get the results you've planned for.

3.

Legacy Assurance

Your business is your legacy. With a strategic exit plan, you can make sure your business continues to flourish long after your departure, preserving the brand and values you've worked so hard to establish.

PLANNING YOUR EXIT IS MORE THAN JUST A ONE-TIME DECISION. IT'S A STRATEGIC BUSINESS MOVE THAT SHOULD ALIGN WITH YOUR PERSONAL AND FINANCIAL GOALS. THINK OF IT AS THE GRAND FINALE OF YOUR ENTREPRENEURIAL JOURNEY. IT'S NOT JUST ABOUT LEAVING. IT'S ABOUT LEAVING A LEGACY.

TAKE A HOLIDAY

As part of the sale preparation process, we recommend a simple test: take a break. To determine whether your governance and leadership team can run your business without you, take planned, uncontactable holidays of increasing lengths.

Go off grid for two weeks. Your business should be able to continue as usual – and that means it's passed the first test.

Take a month off. This length is more likely to expose missing processes and documentation. But if your team is empowered to operate things without you, then you're setting yourself up for good continuity.

Finally, take three months off. Passing this test comes from seeing your business operate successfully and grow. This will be evidence of empowered talent, robust processes and a solid business. That's what generates a higher multiple of your EBITDA, and will distribute a higher profit.

YOUR BUSINESS NEEDS TO RUN WITHOUT YOU. IF NOT, THEN A POTENTIAL ACQUIRER IS BUYING A JOB AND A TASK – AND THAT'S GOING TO TAKE MORE RESOURCES, AND REDUCE YOUR SALE PRICE.

TAKING YOU BEYOND

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