The long goodbye

MYTHS, REALITIES AND INSIGHTS INTO THE BUSINESS EXIT PROCESS

INTRODUCTION BY DYLAN WILLIAMS

For many business owners, the business exit is the moment when they can reflect on years of hard work and the success they have achieved – it is one of the key moments in their personal journey. But there is a daunting and complex process leading up to this critical moment.

In our work with successful entrepreneurs, we know that for many it is the one opportunity to realise significant personal wealth from the business, but it is also a moment that few are fully equipped for.

For many it is truly a 'once in a lifetime' experience that few completely understand at the outset. This report is a digest of not only our experience, but also of other business owners who have either been through the process or are preparing for it. There is nothing like taking advice from the veterans and the current protagonists.

The business journey – and it is right to describe it as a journey – has exit as a potential destination almost from the first days of setting up. While it may not be the driving force for any particular moment as the business grows, our experienced panel of entrepreneurs give insight as to how they consider maximising the exit value from this journey of growth.

For the first time, our research brings to life exactly what goes on at each point – and the key decision making areas.

It is clear that a successful exit comes from months, if not years of careful preparation, and there is no doubt that the more information you can access through this process the better. Our hope is that this report will give you new perspectives on your business and ultimately a more successful exit, if that is your goal.

Dylan Williams | *Managing Director, Coutts*

CONTENTS

EXECUTIVE SUMMARY

This report examines the many stages entrepreneurs experience in preparing for, and going through, the business exit process. The research highlights the need for planning and preparation to secure a business sale that derives maximum value for the business owner, through creating maximum value for the purchaser of that business.

There are a number of key themes covered in this report representing the views of some of the UK's leading entrepreneurs, who share their own personal experiences of going through the exit process. These include:

- **The time it takes**: The majority of owner-managers will find it takes up to two years of planning before a sale completes – although 46% of pre-exit entrepreneurs believe it will take less than a year
- **Inexperience**: Those surveyed admit to being naïve as to what is involved in the sale process. This is critical as for most, this is something you do once and therefore need to get right, avoiding the common pitfalls
- **Choosing the right advisers**: Good advisers cannot only help open new possible exit channels, but are crucial in negotiating the best possible price, with examples such as the ability to create competitive tension and having an accessible list of likely buyers, cited as 'must haves'. However, professional advisers cannot replace the value of tapping into entrepreneurs who have already done this successfully
- **Maintaining focus on the bigger picture**: There are risks in focusing everything on the sale process and losing sight of running the business itself
- **Are you selling 'you' or a business?** The danger of becoming the 'face' of the business. Can it be sold without you?
- **Best laid plans**: Even the best laid plans can go awry, with one entrepreneur talking about his experience of a series of events which resulted in the sale process taking more than three years to complete
- **Life after exit**: And what happens after the deal is done? We explore how the vision of walking away from a business immediately after a sale rarely translates into reality with 51% still having direct involvement in their businesses post-exit

This report contains case studies, interviews and analysis from entrepreneurs in a variety of different industries, both pre-and post-exit. With top tips from the experts who have experience in advising them, we aim to give a comprehensive understanding of what an entrepreneur can expect to face throughout the exit process.

| 01 | THE EXIT LIFECYCLE

Starting out: the first step on the road to exit

The entrepreneur of today has truly become a modern day cult figure, celebrated in the media as an icon of freedom and financial success.

Given this near celebrity status, starting, building and selling your own business may seem the career of choice if you want to amass personal wealth. And for those who make this choice, starting a business is the first step on a road that may end with a profitable 'exit', as it's commonly termed.

As any entrepreneur will tell you, the road from start-up to success is rarely a smooth one: only two thirds of businesses survive the first three years.

Even then, turning survival into sustained success is a challenge which is beyond the capability of most businesses. And for those winning entrepreneurs who build a business of significant worth, the final challenge centres on how to extract themselves and the financial value they have built in the enterprise.

Preparation

David Molian has worked in entrepreneurship education at Cranfield School of Management, including the respected Business Growth and Development Programme, for more than a decade and offers a reality check for any entrepreneur.

"One thing any entrepreneur needs to know is that only 7% of businesses offered for sale attract a buyer – partly because they're marketed really badly and partly because there is no value in the business."

Motivation

Many people have the impression that the main motivation for starting a business is the 'liquidity event' at the point of business exit. This was not supported by our research. While financial gains were a factor, wealth creation wasn't the main driver for entrepreneurs. The primary motive is purely the personal ambition of building a business.

Top four motivators for starting a business

1. Building a business
2. Financial gains
3. Security or control
4. Personal ambition

Although this may suggest running a business is closer to a vocation than a career, for the successful it is a vocation which is ultimately likely to be the single most important source of wealth creation in their lives.

Planning

Cranfield's Molian believes that few first-time entrepreneurs are conscious about what you need to do to deliver a successful exit.

"Planning for an exit too early is a question of looking down the wrong end of the telescope," he says. "If an entrepreneur thinks too early on about getting out of the business they can set the wrong priorities. To take an agricultural analogy, planting and growing a seed needs an approach that is about nurturing and not harvesting the crop at the end."

So if an exit should not be a focused objective at the start, should it be an important part of thinking as the business grows?

The answer according to the entrepreneurs we spoke to in our research is a resounding 'yes.' Although only 6% of those surveyed said they thought about a business exit on a quarterly basis or less and 4% said they never thought about exit, the vast majority of entrepreneurs (71%) could be described as 'exit obsessives': people running and building businesses who consider their business exit on at least a monthly basis. And for over half (54%) the exit is something on their minds on a daily or weekly basis.

"It sounds extreme, but it gets entrepreneurs to think about where they want their company to go," says Sue Peters, Director of LEAD, a management and leadership programme for SMEs at Lancaster University Management School's Institute for Entrepreneurship and Enterprise Development.

"When we 'teach' entrepreneurs about succession planning we recommend that exit strategies and succession planning begin about 10 years before the exit. Many businesses won't change hands and when the owner-manager leaves, the business finishes, so building it into the vision of a growing business and sharing it with the team is advisable.

"It depends when the exit is planned whether there should be a written plan. In terms of how often it should be revisited, that depends on the vision, the size of the company, the number of people it will affect and the personal aspirations of the owner-manager. Certainly, the owner-manager should have it clear in their mind at the very least," says Peters.

Five golden rules for exit planning

1. Always have an end game in mind
2. Build your exit path into your business plan, but prepare to be flexible
3. Be realistic about what you can achieve from the start
4. Keep an eye on profitability
5. Leave scalability in the business

Reassuringly, our entrepreneurs resoundingly supported the creation of specific exit plans with some 89% saying they were important, but the readiness of those plans is patchy. Almost one in four entrepreneurs (24%) were vague about their exit plans, saying it remained something they wish to do in the future when they are in a position to commit to a clear route. Some 43% had identified the way they wanted to exit their business and only a third of these entrepreneurs (33%) had translated their thoughts into a concrete exit plan.

Given these figures it is not surprising that a third of our entrepreneurs felt they were unprepared for the day of reckoning. "I don't think I have come across a single entrepreneur where the business is wholly owned by them, who has a clear, robust exit plan," confirms Peters. "However, if there is external capital involved (e.g. venture capital) there is normally a plan with a route for exit progression."

For the remaining two thirds (67%) of entrepreneurs who said they were ready, there is a clear question around whether their level of preparedness is adequate for an exit. As we will see later, a lack of adequate preparation for exit is a key issue for entrepreneurs.

The advice around planning for an exit from the entrepreneurs who have been through the experience of building and selling a business is crystal clear: only 33% say the ideal time to plan is when you decide to sell up.

The overwhelming majority (63%) say exit planning is a job for the owner-manager as the business grows, with a third of these saying that it should begin at start-up or years two and three of growth.

This obsession with having a plan may not appear to sit easily with the notion of fleet-footed entrepreneurs but, as Robert Diamond explains overleaf, committing yourself to and mapping a trajectory towards exit, is a critical success factor in realising value from the business.

The sooner you plan your path, the sooner you can start the exit journey.

WHY YOU SHOULD FOCUS ON EXIT FROM DAY ONE: ROBERT DIAMOND - SOLD: EMNOS

Robert Diamond is Founder and Chief Executive of Emnos, a leading customer analysis company that works with four of the UK's top ten retailers.

In 2007, Robert sold his business to Europe's largest retail loyalty programme operator, a German company backed by a major venture capital fund. Post-deal, he is still running this rapidly expanding business and looking to deliver further growth through international expansion.

He believes that planning for an exit from start-up is simply good business sense.

"I started out with the early intention of exiting – although if I knew then what I know now, I would have done it differently. Back in 2001, I set up a business doing something I knew about – providing high end analytical services to retailers.

I didn't want to set up a lifestyle business – where you draw a good personal income, with limited risk but no 'exit' potential – and if anything, in growing the business I took a significant step back in terms of lifestyle.

I now know things we could have done to be more attractive as a service provider to clients and also as a proposition to an investor. We've worked on a lot of those since we sold. The value of the business now is six times what we were originally paid for it and that is most of the stuff done by us rather than by our acquirer.

If I were to start up a business again, I would think first about what could be done to drive the exit valuation. Having been through a deal, the valuation of a business is less about the technical side of what is done and, to be enormously simplistic, is based on some simple fundamentals – momentum of your revenues, sustainability of your business model, the intellectual property you develop, scalability and uniqueness within the market.

When it came to exit, I don't believe that knowledge of the particular sector is the real issue, nor is it passion for what you do - it's making a commercial case for being bought. I would argue that my exit Information Memorandum (IM) was the best business plan I ever wrote – it really focused on what the business did and how it was different.

If I were advising someone on starting a business that they intend to exit, I would ask them to draft the IM that they believe will maximise the value to an investor. This would make you look at differentiation and write your criteria for how you are going to grow before you get going.

In terms of my future, I'm looking at things in the medium term. Some people exit on day one after their business sale: usually they've built either a physical factory or a services factory that pushes a large volume of clients through it.

We're on the opposite extreme, with a five year earn out.

It was the right thing for our sector, given that we're in a 'boom' market and our business had scale potential that we weren't realising. We know we are in there for a while and I have to say, ours was a positive experience in terms of experience and management style."

| 02 | THE EXIT CROSSROADS: WHY SELL UP?

While the need for a clear plan for exit is clear-cut, managing the timing of the exit and knowing when it is the right time to sell is less so.

One thing that emerges strongly from our research, both in the quantitative survey and the in-depth debate we had with a number of the entrepreneurs, is that the exit crossroads is a place where personal ambition, the future well-being of the business and the personal needs of the owner-manager collide.

What's more, it is quite apparent that going through the exit experience changes the perspective of what is important.

For those who have been through an exit, the priorities are, in order of importance: the price offered (36%), the long-term security of the business (15%), whether the deal is cash or not (10%) and the readiness and the detail around how quick the exit is (7%).

The entrepreneurs who had yet to sell had a different perspective. Price was still important, but 8% fewer rated it as the most important factor in deciding whether to sell or not compared to those who had sold.

And while the readiness of the business was important to 17% of the sample, the third most important factor was not whether there was a cash offer on the table or whether the business would be secure in the long term, but whether their personal goals had been met.

Perhaps the most striking finding is just how the process of selling up makes entrepreneurs value the legacy of their business. While only 4% of pre-exit entrepreneurs feel the long-term security of the business will be a driver of the sale decision, 15% of those who had sold up said this was the main reason.

With the original motivation for starting a business centring largely on the ambition of building a business, it is not surprising to see this change when it comes to facing up to an exit.

Judging by the entrepreneurs we spoke to in-depth about their exit experiences, the issue of legacy, which they defined as the well-being of the business and the staff, was a critical consideration in the sale, and one which caused considerable tension.

As one entrepreneur told us: "The pressure not to tell people really compromised my moral values. I would be up all night working on the

Most important factor for sale	All	Pre-exit	Post-exit
Price	32%	28%	36%
Readiness of the business	15.5%	17%	14%
Cash exit	10.5%	11%	10%
Long-term security of the business	9.5%	4%	15%
External market conditions	7%	7%	7%
Fast exit	7%	2%	12%
Other	19.5%	31%	6%

due diligence and then have to face someone in the morning talking about a long-term business issue."

Many of these entrepreneurs said there was nothing like an offer for the business to sharpen the mind around exit planning and priorities for the future. It is telling therefore that from our pre-exit sample, a full 70% of entrepreneurs had already received one or more offers for their business and turned the offer down, while 85% of those who exited said they did so when the time was right.

Determining that 'right time' to sell though is often motivated by personal drivers. Mark Roy, Founder and CEO of The REaD Group plc, set himself an age-based deadline of 50.

While not strict about the exact date, he has been planning and exploring various options, such as a public market flotation or an MBO, but knows that ultimately other factors will determine the time and the crucial thing is to spend the interim adding corporate value.

"Our philosophy has always been 'we only get one chance at this, so we need to get it right'. Therefore we involved an M&A team early. Bearing in mind the recession, our exit aspirations have probably been knocked back two years," says Roy.

Although the exit timing may have been delayed slightly, it has left a residual focus on maximising value in the business.

Roy is also divesting the business of any 50/50 joint ventures as "50% represents a real problem when exiting, and needs to be disposed of pre-deal or changed. We have taken a really good 'warts and all' look at the business, pressed by our advisers. Now is not the time to be precious – if it's not adding value, then ditch it."

"Another trigger," says Cranfield's Molian, "can be boredom – a destructive energy if not channelled in the right way."

"This is particularly a problem for entrepreneurs who are good at getting things started and doing deals – they tend to get bored in the longer term and that can be destructive." One answer is to take a different job, for example as chairman in a new business development.

"For others," continues Molian, "knowing when to sell up is a gradual process. But there are some clear signals. One of the most common is the moment that there are people in the business making decisions about the systems and processes and the entrepreneur is happy for that to happen and not get involved. There you have a machine which is running independently from the owner-manager."

Three considerations going into the process

1. **Get advice:** you may think your plans for an exit are realistic but someone who has been through it before will be best placed to advise you
2. **Take stock:** it can take up to five years to get a business in shape for exit, so find out whether the business is really ready for sale
3. **It's not just about you:** you may want to sell but ask yourself who you will need to take with you in the final decision in order to exit successfully

THE EXIT CROSSROADS:
DAWN GIBBINS - SOLD: FLOWCRETE

Dawn Gibbins MBE is Managing Director of Barefoot, a luxury brand providing flooring to the consumer sector. She set the business up months after selling commercial and industrial flooring company Flowcrete, a business she built to a turnover of £35m.

"The first feeling I had that I wanted to sell up was in 2006. I wanted to start a new venture within the existing company but the team wouldn't come on board with the idea.

I couldn't have taken a back seat operationally as I was involved as the HR and marketing director. I also knew I couldn't function as a chairman or in a non-executive role. When I had my vision for a different new business I knew it was time to sell. I really wanted to do it but the biggest challenge was to get the team fully engaged.

I worked with the management team to sell up either in a trade sale or through a management buy-out, but in the end it was one of our suppliers who bought us.

Of course the other element influencing the sale was financial security. We had a large mortgage but had only drawn a wage like the other directors. There is no doubt that the money coming in from the sale was life-changing.

How do you know when it is right to sell? The key for me is to have a dream and be sure where you are going and what you are doing. If you do make it a reality and succeed it will take over your life but then you have to dare to move on.

I started Flowcrete with my dad on 1 October 1982 and the dream that I wanted to achieve is strongly associated with him. He developed flooring for industry. I wanted to take it further and into the home. I am living my dream and that is so important to me.

The two drivers of my business now are still passion for what I now do, which is educating people around health and well-being, and money – I have invested £2m in this business and I need to start earning revenue."

| 03 | INSIDE THE EXIT: READY OR NOT?

When we look at life after exit, a business sale may not necessarily be a once in a lifetime experience for an entrepreneur. However, most entrepreneurs going through an exit will be doing so for the first time.

So while the learning curve effect ensures that the more we do something, the better we get at it, most entrepreneurs will not have the benefit of personal experience.

So, here we share what really happens and what can be learned. Our research revealed four key lessons.

Lesson one:
fail to plan, plan to fail

The most important insight from the entrepreneurs who had sold up was how going through the exit changed their view on the value and timing of pre-exit preparation.

Of those who successfully sold up it was only a fortunate minority of 16% who got away with less than six months' planning. While 26% managed with 6-12 months' planning, the majority – that is 58% – had spent a year or more planning the exit.

What's more, when this group was asked if they were to re-live the exit experience, 78% said they would have planned a year or more in advance and the number advocating a planning period of less than a year falls to a minority of 18%.

Quite simply, you are unlikely to sell your business for its true value if you do not invest time in preparing for the exit. As Cranfield's David Molian says: "It is good to get the skeletons out of the cupboard early on."

What he means by that is that if you haven't been through the contracts, systems and paperwork in detail, it can just cause problems later on.

"A decent lawyer and accountant will unearth any issues as soon as a potential buyer sets them loose on your business." By putting everything on the table at the start, the process – when you come to it – will be mercifully faster.

Founder of bed superstore brand Dreams, Mike Clare, sold his 23-year-old business in early 2008 for around £200m. And what he describes as an exhausting five month process, driven in part by a need to exit before changes to the capital gains tax regime came in, might have been slightly more palatable with even better preparation of the business.

"I had groomed the business a bit and done some of the vendor due diligence. But it was much more in-depth than you'd believe. Indemnities, securities, warranties. They wanted to know what happened 15 years ago when I got rid of a salesman. Nothing is obvious. Everything has got to be proven. We had around 180 shops and they needed to see the original leases for each of them!"

With 46% of entrepreneurs pre-exit thinking that a year or less of planning will be adequate, it is clear that many will need to re-think their plans and perhaps learn from Mark Roy of The REaD Group. Despite not yet having sold his business* he has consulted widely and absorbed a great deal of advice to the extent that his exit plan is impressively developed.

"Realistically, we would have had corporate finance advisers involved for 24-36 months beforehand. The recession has probably extended that to 48-60, but it's not necessarily a bad thing," he says.

"Our strategy is built around a five-year plan with a proposed exit at year three to allow significant upside for the acquirer in years four and five. Recession-wise we had to extend this window to allow for a period of consolidation without the normal cash gains."

*February 2009

Lesson two: expect a tough ride

The second lesson is around the time it takes between making a decision to sell and actually exiting.

Any entrepreneur building a business must be under no illusion about just how long this takes.

One in ten entrepreneurs we surveyed said they had still been in their business two or more years after making the decision to sell.

Another 22% said the time taken between decision and exit was 1-2 years. While 33% of business exits completed within six months, 21% of these were within 4-6 months.

Overall you are twice as likely to still be in your business waiting for your exit six months after making the decision to sell as to have made the business exit. This is further supported by the 42% of entrepreneurs who said the process took longer than expected against the 15% who said it took less time than planned.

These figures suggest what the entrepreneurs confirmed in the in-depth conversations we had with them: the exit is a gruellingly long process and making a decision is just the start of a tough journey.

As one entrepreneur told us: "It is like having two jobs; you are running the business by day and then working on getting the business ready for sale at night. It's a tough time and there is a real danger you can take your eye off the ball with the business and undermine the sale."

This is precisely what happened with a business that serial entrepreneur Max Kantelia was involved in as a non-executive director. Questionable judgement calls by the CEO and CFO included not involving the board in the hiring of corporate advisers, despite having assembled an executive team with grooming and managing the exit smoothly in mind. Mistakes like this led to a painfully long sale.

"The entire process took around 14 months, which turned out to be at least twice as long as the CEO had expected," says Kantelia. "I've seen it so many times – eyes glazing the minute they engage in that process. Mentally they've already exited. It's a vulnerable time."

Lesson three: it takes more than good financials to pull off a great exit

The third lesson is around understanding what the impact of different types of sale will have on the work you need to do to prepare for the sale.

With 62% of those who sold up or were planning to sell up, expecting a trade or private equity sale, there is a clear need to make time ahead of a sale to network and build a reputation for your business in your sector, so you are making you and your business known to potential buyers. (see Hugh Chappell's experience on page 17)

"However, don't build your reputation to the extent that you extinguish other lights within your organisation," warns David Molian of Cranfield School of Management.

"Raising your own profile can be to the detriment of the business. If you are wholly identified [with it] then you come back to the issue of who will buy the business without you – there is a balancing act. Make sure it's not just yourself on the speaker circuit, but others too."

Equally, with 25% of sales going to new or existing management teams, getting the right management lined up for your business is key to a successful exit. The message then, is that you can't leave it to the financial, legal and corporate finance professionals to propel your business towards a successful exit, you need to play a role too.

Lesson four: be realistic about how you will exit

The fourth lesson is around focus. Looking at the exit routes realised by the entrepreneurs compared to those initially envisaged, it is clear you must be realistic about where the exit for your business is most likely to come from.

While pre-exit entrepreneurs imagined exits ranging from family succession to private equity sales, the reality is that you are most likely to sell up to a trade or private equity buyer, or sell up to a new or existing management – other scenarios just don't figure highly.

The message for the one in ten entrepreneurs who don't have a plan and those that have more exotic ideas about how they will leave their business, is to reflect on these figures and re-think their plans. Again, it's something REaD Group's Roy has opened his eyes to.

"Hey, we've looked at them all, and spent money on most. Practically it matters not a jot! The mantra is really simple – maximise shareholder value. So who buys, what route, what mechanism, is of no bearing. It may be that as we get closer and we know exactly what the business looks like, a particular exit channel rises to the top of the barrel."

Lastly, and perhaps most importantly, according to our panel of entrepreneurs, is the importance of retaining control and perspective in the exit process. "Absolutely," agrees Kantelia. "It's like the belief that you've paid the doctor therefore you're going to be cured," he says. "You've still got to manage the process. It's tough and you can't think about the beach or a new house. You have to work hard. Don't put yourself completely in the hands of advisers."

The five golden rules of doing the deal

1. Know the deal you want to do beforehand and set clear parameters which go beyond purely the financials
2. Always remember it's your business: it's up to you who you sell to. If the sale isn't right then make the decision that works for what you really want
3. Be prepared on every day of the exit process to walk away
4. Selling is at least a part-time job: don't underestimate how much time it will take to see it through
5. Be prepared as you do the deal for the potential buyer to be busy with other things and for the deal to go cold for a while

FROM DECISION TO DEAL:
HUGH CHAPPELL - SOLD: TRUSTEDREVIEWS.COM

In 2003, Hugh Chappell founded TrustedReviews.com, an online only publication in the tech sector. Four years later he sold the business to IPC Media, the UK's largest consumer publisher and a wholly owned subsidiary of Time Warner Inc. In 2005, he acquired a second online publication, bit-tech.net. He sold the business to Dennis Publishing, the UK's leading tech publisher.

"I had enjoyed a successful career as a company director but didn't have ownership in the businesses I managed. I wanted to be totally free to make my own business decisions and build a successful business. I was determined to prove to myself I could achieve greater success as an owner as opposed to an employee.

I believe it is important to consider the end game from the beginning and to be focused on this. In my case I wanted to prove that an online only publication could be financially successful, achieve a clear market leading position and then sell the business. I made my objectives known to the industry, I was open and honest.

I had a few approaches to buy TrustedReviews.com in the first couple of years; however I was fortunate to recognise that I should continue. Never sell too early. Instead I acquired a second online publication in 2005, bit-tech.net and decided to push on.

By the summer of 2007, four years after I established TrustedReviews.com I had two very successful market leading websites. I received an unsolicited offer to buy my businesses and realised that I had reached a point where an exit on my terms was achievable. I decided to appoint a mergers and acquisitions adviser with in-depth experience of the traditional and digital media and they approached the entire industry. I sold TrustedReviews.com in October 2007, retaining bit-tech.net in order to develop this business further. I sold bit-tech.net in October 2008.

In simple terms, deciding when to sell a business is a bit like a game of blackjack. It is important to recognise when the right time has come to leave the table. In my case I had achieved all of my objectives and more – so I could walk away with the job done and with great pride.

Before starting TrustedReviews.com, I had a long, corporate career in the technology sector and I had the pleasure to know and work with many entrepreneurs. I had witnessed many successes but I had also seen some businesses run out of steam. In terms of exit it is therefore important to recognise when the correct time is to sell and to seize the opportunity.

In my case I sold my businesses based on market leading positions, strong financials and plenty of scope to expand. A 'win-win' for buyer and seller. I went for a cash sale instead of an earn-out in both cases because I did not want my ultimate consideration linked to the performance of the company when I was no longer in control and making the decisions. I left TrustedReviews.com after a successful three month handover period and bit-tech.net after six months.

There is no doubt that when you sell your business, you really miss the people you have worked with and I continue to ask myself "What if I had taken it further?" You cannot look back; you have to go with your decision. The money safely in the bank reminds me that I made the right decision in both cases."

THE FINAL COUNTDOWN:
MIKE CLARE - SOLD: DREAMS

Mike Clare sold national bed superstore chain Dreams in March 2008 in a deal worth an estimated £200m. He shares his recollections of the day of the sale.

"On the final night I got quite excited about it. I'd heard about pizzas being ordered up and it being very stressed. Normally the entrepreneur throws a paddy and walks out. I said to my wife that if I haven't got my car keys when I get up and walk out it's just for show. I half wanted the pizzas and the argument.

It took place at the private equity house's corporate lawyer's office. It was a massive building and we were told it was having its electrics changed so we'd have to be out by a certain time. I had dozens and dozens of things to sign to the extent that I got 'sign happy'.

The lawyers stood over me and explained what each one was. I wanted to video it as this was my life's work, but was told I couldn't. Everyone was having meetings in different rooms and then you go back into the big room and nobody says anything.

There were 37 lawyers – two or three for each team. I had never seen them all together. The table was so big there were microphones on it so that the people at the other end could hear. They checked I wanted to do it. We completed at 11pm on Friday evening. My wife cried, then we had champagne, which was pre-ordered."

Method of business exit		
	Planned	**Actual**
Trade sale	56%	52%
New management team	6%	15%
Existing management team	7%	11%
Majority sale	2%	10%
Private equity	6%	10%
Other	23%	3%

| 04 | PREPARING FOR EXIT: LESSONS LEARNED

For an individual who has built their own business and is master of their own destiny, one of the most daunting parts of the exit process is putting your trust in the advisers at the time of exit.

Lesson one: choose your advisers carefully

The most important piece of advice offered by entrepreneurs who have sold a business is to choose your advisers carefully – 50% gave this as their best advice to someone planning on selling up. Part of that choice involves recalibrating your view as to who is best placed to help you.

Before an exit, accountants are rated as delivering the best advice, compared to lawyers who are resoundingly voted as the least useful source of advice. Yet when it comes to selling up, the picture is completely different.

Lawyers come into their own when it comes to the exit process, with those who have sold a business seeing them as most influential on the timing and nature of the exit as well as being most likely to cause a change in plans.

Yet across the board you won't be alone if, in the exit process, you start to question what exactly you are getting for your money from the advisers you do choose to work with. As one entrepreneur who had sold two businesses scathingly put it:

"The thing about advice as you go through the process is that professional advisers are so obsessed by covering their own backs they don't actually give you advice any more. I have found a team and I use the same ones on every deal. Professional advice is only as good as the person who is giving it."

David Soskin, who sold his chain of prep schools Asquith Court in 2000 for £66m, offers a slightly different perspective. He says the top-tier corporate finance house he used did the job for him and the business.

"We had an auction process with a first and second round. The documentation was excellent. The communication was excellent. We had a very good result."

Asquith's adviser had an accessible list of likely buyers. They were used to setting a firm timetable and pulling together the memorandum for a company the size of Asquith Court. "The third thing they brought to the table," says Soskin, "was an ability to create competitive tension, which is not to be underestimated."

He admits, though, that there is no right answer for the type of adviser you take on, as it depends on the stage

Most valued source of business advice	
Accountant	24%
Management team	22%
Fellow business owner	15%
Least valued source of business advice	
Lawyer	21%
Family	12%
IFA	11%
Who did you consult about your business exit?	
Lawyer	64%
Accountant	62%
Fellow business owner	49%
Management team	47%
Family	34%

of the business and its focus, as well as where you want the business to be when you come to sell.

Cranfield's David Molian cites a former participant on the Business Growth Programme. "A lot of ambitious businesses don't realise you need to hire advisers for the business you want to be, rather than the business you are. A good example is Cobra Beer's Karan Bilimoria who took on Grant Thornton. He worked quite hard early on to get them on board because he wanted to be a £100m business."

So what are the criteria for a successful relationship with an adviser? Overall, our research found the most important factors were rated as reputation (32%), understanding of an individual's situation (28%), the personal relationship (12%) and referral (11%).

Lesson two: select advisers where the chemistry is right

The biggest transformation in decision-making came to those who had been through an exit and the value they attach to a personal relationship – rated by 20% of entrepreneurs as important post-exit compared to 7% pre-exit.

Again, in the conversations we had with entrepreneurs about the exit experience, they unanimously rated the relationship with the deal advisers as a critical success factor in the exit process. "Personal chemistry is vital," says Soskin. "In any sale things will get tense, so it's worth working with enjoyable and likeable souls. Only by sitting down and talking to them will this become clear."

Mark Roy adds simply: "They may have brilliant track records, but if you can't bear to be in a room with them, then you are going to have a problem as you're going to spend a lot of time with these guys."

Lesson three: beauty parade before you hand out the contract

So where do you find them? "First off, and this can't be emphasised enough, plan earlier rather than later and hire advisers that are appropriate for your business," says Soskin. "You can either ask around your own contacts or simply ask for a list of previous deals to see their track record. In my view you should always have a beauty parade. It's time-consuming but very worthwhile."

Kantelia concurs. "Any CEO should conduct decidedly thorough due diligence and a proper selection process," he says. So what have they done in your area of business? Vet their processes and expect them to have carried out research of the target landscape to determine what options you are likely to have. If you've done your homework already, many of their thoughts and the bulk of their target list may not be new, but offer an indication of their grasp of your space, and the more creative they are with alternatives the better.

Find out how they would approach target clients and what method of confidentiality agreement they employ.

"They should have to show a little bit of leg – track record and ideas – otherwise it's just CVs and a process that could be lifted from elsewhere," he adds.

Mike Clare carried out a beauty parade of lawyers first before embarking on the same for a corporate finance adviser, simply because he wanted to legalise the agreement between Dreams and the corporate finance house first.

"We went to a wide range, sent a few letters, then shortlisted four or five and went to their offices. We whittled that down to two, then made a decision. And we still weren't sure that in the end we made the right choice. They felt a little lightweight. Talk to an entrepreneur who has done something similar, not just a corporate finance person. Go for a beer and share stories."

Lesson four: make sure advisers understand you and you understand them

And the 28% who felt an adviser's understanding of the entrepreneur's own situation was an important factor in their hiring decision? Mike Clare

Most valued source of business advice	
Lawyer	22%
Accountant	22%
Corporate financier	15%
Management team	11%
Fellow business owner	10%
Who was most influential on the nature and timing of your business exit?	
Lawyer	22%
Management team	19%
Accountant	18%
Fellow business owner	15%
Corporate financier	12%

felt there was insufficient appreciation that selling up was an entirely new experience and a different world in many respects.

"They assumed I understood the process," he recalls. "I'm very proud of what I've achieved but I've never sold a business and it was the same for my team too. Sometimes I think advisers are a bit naïve – if there are one or two things you don't understand you ask questions, but when it's ten or more it's not so easy. I didn't know things like who has to pay for vendor due diligence and what can be claimed back."

Lesson five: manage your advisers as much as they manage you

When it comes to getting the most value from the relationship, our panel of post-sale entrepreneurs had a great deal to say. One of the most striking messages is that it is all too easy to hand over control of the process and see it suffer as a result.

McLaren Global Partners' Kantelia has seen this on numerous occasions, and particularly with the 35-person, £6.5m turnover management consultancy he was advising as a non-executive director.

After the CEO and CFO hired a corporate finance adviser without consulting their own board, they soon realised their mistake. They made a common error of hiring a third party thinking it would leave them to focus on the business. It quickly became apparent that the adviser had set no clear objectives and had not imposed a clear timeline, yet the contract didn't allow any form of break-away from the partnership. "I ended up spending an inordinate amount of time with the CEO trying to manage the corporate finance house," recalls Kantelia.

Ultimately the adviser did add value to the eventual deal, which was in the region of £10m in value. "They needed substantial guidance on the target marketplace, making sure research was thorough, methodical, creative and evolving" says Kantelia, who adds that pushing them to evolve the original list led to a new prospective buyer.

In addition, you should insist on regular review meetings on your own timeline, not the advisers. Kantelia suggests either weekly face-to-face or telephone review meetings with exactly the same group, even if they are on holiday. Each time you should review the last week and set actions.

And from a legal point of view, don't get caught up in the rapture of the moment and signing. Review every contract carefully and ensure you have break-out clauses. "If they mess up, you want to be able to get out and save face," advises Kantelia. "A corporate finance house can make a stupid error and leave you with nobody to sell to."

Lesson six: don't be afraid to do what you think is right

When it comes to the final reckoning, Dreams' founder Clare took a slightly more eccentric approach. He pulled his corporate finance adviser out of the final price negotiations with the private equity firm and took over himself. "They all knew each other. I was a one-off member. They all seemed a bit friendly and I got suspicious so took it upon myself to get involved. In the end I felt I got a good price, mainly because I've spent the last 20 years negotiating. As much as they're experts, at the very end it's sort of like a horse trade."

Nevertheless, he admits, he couldn't have done it without his advisers ensuring the Information Memorandum was sent out at the right time and competitive tension was created, with another potential buyer in the wings. His act though helped him to secure another £2m. "I just said, 'I own the business, it's nearly there but needs to be a little more'. I just needed some emotional extra and had the cheek to ask for it – a corporate finance person wouldn't have wanted to do it."

Golden rules on advisers

- Professional service providers aren't necessarily the people who will give you the best advice, that will come from someone who has been through it before
- But when you are preparing a business for sale, professional advisers will do a better job than you will on your own
- When it comes to choosing who to work with, it is about individuals who will be working with you, it's not about the firm
- You may struggle to see the value your legal adviser brings to the table but they are best placed to change the words on the final documents which could turn a deal around in your favour – and you only have one chance to get it right
- As one entrepreneur told us: "Once you have got all your ducks in a row ready for a sale it is all down to the legals." All your work getting the business in shape financially may be undone if you don't get a good lawyer

DON'T EVER BANK ON IT: DAVID SOSKIN - SOLD: ASQUITH COURT SCHOOLS GROUP

Asquith Court Schools Group, which was started by David Soskin in 1989, was sold in 2001 for £66m – more than three years after starting the process.

"The exit process is never plain sailing. You can have a beautiful timetable, but it can go horribly awry. We were very far down the line with Asquith, when the non-executive chairman was involved in a road accident and we had to put it on hold.

This was in 1998/99 when stock market valuations were up. We lost exit momentum so drew a line. We re-set two years later. In 2000 there was a wobble in the stock market.

So in 2001 Asquith was doing very well. We had bought some more nurseries. We hit the go button again and picked up three years on. While it was three years later the exit value was substantially higher. A lot of work had been done. I had already moved into a non-executive role by then.

Throughout the period PwC kept involved – by then we knew them and they knew us. The lawyers were the lawyers of the lead VC investor in Asquith and had worked with the company for ten years. When markets began to sour it was inappropriate to keep the process going. With profits and the business growing it was better to keep everyone busy as the payment was on a success basis. The revised timetable was meticulous. Second time around the process took four or five months from beginning to end. It's a great skill to get on with it quickly. You need a very tight time deadline."

THE ROLE OF THE CORPORATE LAWYER: MAX KANTELIA, SERIAL ENTREPRENEUR

Max Kantelia of McLaren Global Partners LLP shares his views on the role of the lawyer in the sale of a business he was involved with as a non-executive director.

"We involved the law firm that the CEO and CFO had engaged with in a variety of ways. It's important to hire lawyers with expertise in corporate finance at the level at which you're playing, as there's usually some degree of overlap.

Unfortunately, in this case, the lawyers had not worked with the corporate finance house before and were instead used more for execution on the orders of the CEO and CFO as opposed to being more proactive. A stronger law firm with a better presence would have made a difference to the speed and execution of the deal.

With any corporate finance transaction the devil is in the detail, which is wholeheartedly why you hire real experts. They know where the pitfalls lie. They proactively educate the CEO. And they tick off potential issues before they arise.

When selecting a law firm you should be looking for a combination of experience, attention to detail and an ability to be creative. They should add real structure to the process, ensuring the exit progresses in the most cost-effective and timely way.

You also need them to be able to explain the implications of specific actions on share options and shareholders. Finally, lawyers are adept at negotiation so the CEO should be able to make decisions without getting involved in the minutiae. Only at the last knockings should the law firm step aside and involve the CEO to ensure the terms are to their satisfaction."

| 05 | GOING, GOING, GONE: LIFE AFTER EXIT

The papers are signed, the nightmare of getting to the point of closing the deal is over and a new life begins with a pop of a champagne cork.

That may be how many entrepreneurs see their exit, but the reality is that 51% of entrepreneurs we questioned were still involved with their businesses post-exit. The truth is that although exit may be a goal it is not an end point, largely because so many deals tie the business owner into an earn-out whether they like it or not.

And it is clear that for many entrepreneurs, delivering the business sale is less of an opportunity for celebration and more a cause for relief. While 36% of the people we spoke to said they felt elated or happy on the day of the sale this was nearly matched by the 32% who said they were relieved and the 26% who were simply filled with tiredness, sadness or anti-climax.

The good news is that with time, most entrepreneurs look back and feel happy about the exit. The bad news is that many entrepreneurs are unprepared for life post-exit – personally and financially.

On a financial level, for the majority of entrepreneurs we spoke to, personal financial planning is completely overlooked, with 59% leaving it until after the exit to sort out. Only 18% had done any planning in the year before exit. This is despite 69% of entrepreneurs saying they had made plans for when they left the business and a resounding 79% seeing planning for exit as important.

On a personal level the picture is the same. While many entrepreneurs claim to have a clear idea of what they want to do post-exit, few stick to their plans.

Given the arduous process of building and selling a business, there is no doubt that this is their prerogative. But any entrepreneur should be aware of just how hard a habit running and building a business is to break.

The biggest proportion of entrepreneurs gravitate back towards starting or running a business – some 40% post exit – with dreams of emulating the angel investment activities of Dragons' Den and social entrepreneurship often firmly out of the picture.

Life post exit: aspiration vs reality

- **The serial entrepreneurs**: These are the owner-managers who are ready to get back in the saddle, starting up or running a new business. While 35% have this ambition pre-exit, the reality is 40% will end up back in business post-exit
- **The dragons**: The group who dream of investing in or supporting other businesses once they have sold up. Although 28% have this ambition pre-sale, only 11% actually see their ambitions through
- **The philanthropists**: Not-for-profit and social enterprise is the third most popular ambition for entrepreneurs post-exit with 19% hoping to be active in this area. The reality is only 5% manage to realise this plan
- **The sun-seekers**: The number of people who are happy to enjoy the benefits of the business they have sold swells from 17% to 25% post-exit

It seems clear, listening to entrepreneurs and understanding the size of the challenges they have faced in building and exiting their businesses, that life post-exit is a great chasm which is often overlooked when planning a sale. What they confront when they get to the other side is a totally unfamiliar existence.

Fortunately this is something which can be easily avoided with the right planning. A strong network, both of peers and trusted advisers, is part of the answer. So too is a clear focus on the kind of career you want post-exit, and critically, a clear idea of how you now will manage and preserve the wealth which will support your lifestyle beyond the exit.

LIFE POST EXIT:
PHIL CORT, SERIAL ENTREPRENEUR

Phil Cort left his first business, a bed retailer, in 2005, four years after selling up. He subsequently exited his second business, an internet retailer based in Bolton.

"I am just a retailer through and through. I started out in the furniture business with one business selling carpets and then another selling kitchens. I sold both these on as small businesses knowing that they were not what I really wanted to do. Whilst reviewing the furniture market I talked to Tom Clarke, who owned and ran Silentnight Beds, and he said to me there was a gap in the market for someone specialising in retailing beds. With the help of Silentnight and some other great suppliers, we grew from one to 125 stores and concessions to create the first one stop 'category killer' bed store in Leeds in 1999.

In 2001, I was approached to sell, and got a really good offer. I thought this was a good opportunity and, after discussing it with my son who didn't want to take the business on, I decided that I would take it. I stayed on with a six month contract because I enjoyed the industry, the buzz and the people. I continued for four years, giving the new owners increased turnover and profits until 2005, when, as they sold out, I decided to leave and look for another challenge. We employed around 500 people and I personally knew around 350. After I left I received many letters of good wishes from both staff and trade and I must confess to shedding a tear on the day I left for the final time.

An opportunity arose in an electrical retail internet business. I didn't know much about the internet or the electrical business but I enjoyed retail. After reviewing the business I knew that I had much that I could add to it, as it was full of many technical people but short on retailer expertise. I therefore decided to invest in the business, which we turned around.

I love the buzz of being a retailer, where on a Monday morning you have a blank piece of paper, a plan and a sales target to meet. I took on the role of Executive Chairman and built up a great team. After three years we had turned the business from making a huge loss to a great profit, with a £70m turnover.

I held a strategy meeting recently and the other board members wanted to exit in another four years. That timing didn't interest me as I was looking for a quicker turnaround and it was clear that the retail future was beginning to look more challenging. I therefore agreed to a sale of my shares to one of the other Directors and was very happy with the deal, but this time there was no emotion – it wasn't my baby just something that I had been part of and enjoyed.

I don't know what I want to do next - I am still very interested in retail so will watch [the sector] with interest over the next 12 months."

| 06 | CONCLUSION

As an adviser on commercial and personal wealth for business owners and entrepreneurs, understanding the world of our clients is critical to us providing sound advice. As the business is often their main asset, preserving and realising its value is at the heart of their personal wealth strategies. As an adviser, we need to both understand the exit journey and also do what we can to ensure its success, drawing on both our own expertise and the experience of our clients.

With business and personal affairs so often intertwined for business owners, personal financial planning is important prior to sale, whether it be around protection, funding or tax. In addition, post-sale there are the challenges of managing the proceeds and taking life in a different direction.

We hope you have found this research informative and of use. It is a call to action as it highlights that the exit journey is more demanding, protracted and time consuming than people expect at the outset. In addition, the power of good preparation cannot be underestimated.

Methodology

The contents of this report are based on research conducted on behalf of Coutts by Communications Management.

The research consisted of three phases:

- Quantitative research from a randomly selected sample of entrepreneurs consisting of 127 respondents
- Qualitative research from three separate focus group discussions among entrepreneurs who had exited at least one business
- In-depth interviews with 12 entrepreneurs and academics with direct experience of the exit process based on the findings of the research

The research was completed in February 2009.

To find out more please contact your Wealth Manager or Private Banker.

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