



Exit Strategy: Preparing Your Company

“You only sell your company once” is a phrase founder/family-owned business leaders often hear before embarking on a major liquidity event.

It is meant to demonstrate the enormity of the undertaking. But it tells us something else. Most company leaders who have spent years, or perhaps generations, running a business probably don't have much experience effectively selling one. Ensuring your company is prepared for a sale is crucial to any exit strategy, and should be considered long before beginning a sale process.

Below are three questions that business owners should expect and aspire to have answers to leading up to a liquidity event, followed by four critical focus areas that are important for them to consider.

Key Questions

- 1 What are your overall objectives—raising capital for growth (equity or debt), generating liquidity, or facilitating an ownership transition (generational, to employees, or to a new outside investor)?
- 2 Have you considered the benefits of bringing in an outside investor with specific expertise and new capabilities (e.g., private equity, a family office), alongside weighing the changes that may come?
- 3 Beyond the financial, how do you evaluate the importance of maintaining your company's brand and legacy, employee retention, customer and vendor relationships, and community and philanthropic work?

Critical Focus Areas

Be Able to Tell Your Company's Story

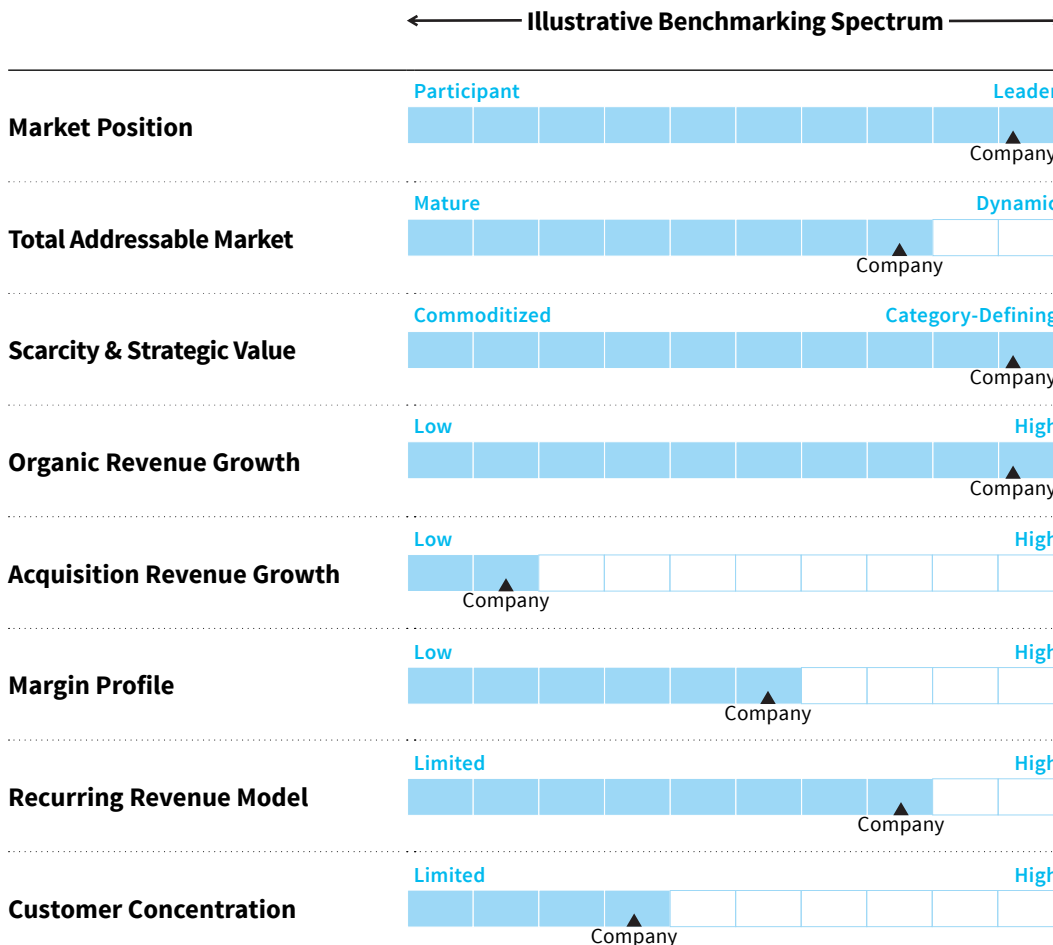
- Prepare to effectively discuss your products and/or services, the market you compete in, its size, growth potential, and why it's attractive and growing.
- Develop positioning to differentiate your company's products and/or services and quantify a growth plan with specific customer and market opportunities to build conviction in your story.
- Be ready to communicate about key competitors, your company's position, as well as any weaknesses or threats that exist relative to the industry or your company (see chart on next page).

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Since 1935, William Blair has guided owners of closely held businesses and their trusted advisors through monumental decisions. Our relationship-driven approach empowers owners to maximize the value of their businesses—and turn that capital into an enduring legacy. We invite you to contact us to discuss the ways we support and advise business owners and help our clients capitalize on the tremendous opportunities available to them today.

How Companies Can Evaluate Their Competitive Position

As part of an exit strategy, businesses should assess what is called their “competitive moat,” i.e., how they are differentiated from competitors.



The chart above outlines several of those factors using a hypothetical example company and select benchmarking metrics.

Get Your Company’s Financial House in Order

- Make sure your financials have some level of assurance from a recognized accounting firm and prepare an annual budget with monthly projections (tracking performance versus actual results).
- Prepare a 3- to 5-year projection model and historical EBITDA calculations that include documentation of add-backs for one-time expenses (e.g., personal travel, charitable donations).
- Organize your company sales database and develop detailed data analyses to tell a more compelling growth story (customer analysis, pipeline/backlog data, price volume mix).
- Gather documentation for cash on hand, capital expenditures (machinery, facilities, vehicles, etc.), and bank commitments as well as debt/loans, letters of credits, and liens (to the company or made by the company).

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Ready Succession Planning for Your Team—and Yourself

- Determine your preferred post-transaction role; if you don't want to remain the active CEO, evaluate the current team for possible successors or consider external recruitment.
- Assess the strength of your executives, specifically the CFO, COO, head of sales, and head of HR; if there are any gaps or upcoming retirements, what is your succession plan?
- Review compensation for executives, whether they have employment agreements, non-compete agreements, or equity incentives; do they own equity and would they consider reinvesting given the chance?

Gather and Organize Legal Documentation

- Compile corporate documents, articles of incorporation, and documentation of ownership; are there any shareholder disputes that need to be resolved?
- Collect copies of all material contracts (e.g., customer, supplier, insurance) and determine their status (signed, renewed, etc.).
- Prepare a schedule of facilities (owned or leased) and related documentation; if property is leased to a related party, are leases at arms-length/fair-market rates?
- Document any past/current legal disputes and resolutions and quantify liability exposure.

The decision to sell or find an outside investor is a big one. But preparing a company with the above guidance—along with guidance to prepare yourself and an understanding of the typical transaction process—are key steps for any business leader in the run-up to a liquidity event.

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