Chapter 1 - Take timing out of the equation

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Transcript

Andra Ilie
Timing is critical when looking to sell, but how can a business owner take timing out of the equation, or at least manage it as best as possible? We explore what you can do to reduce timing risk during a business exit, how to respond to an unexpected offer, preparation and precautions you can put in place, and how to reduce the risk of sector and cycle challenges.

Russell Prior
Let's start with one of the most burning questions from business owners. Is there ever a right time to sell?

Greg Limb
I always say there's never a right time, there's always an optimum time to sell the business, and that can be a point that needs to be factored in. So often, people will be finding that they're always striving for the perfect time in terms of when they want to sell the business, they think they can make more money, they think they can achieve something different.

Sophie O'Connor
First of all, as business owners, I think it's really important to be clear on what is your motivation for selling. And that may or may not play to a timeline, but nonetheless to be aware of it because that will steer the remainder of the process.

I think the second strand to it is there will be market factors in play, whether that's an election year - we tend to see deal activity slowing down around election time - or whether there are particular considerations that relate to a change in tax year, which may be a reason for slightly accelerating or decelerating on the deal timeline. As well as much wider macro-economic factors like the availability of debt, or interest rates in the market.

John Barnett
I guess a quick key question is, is there ever a right time to sell? And if you're looking at price, the answer is no, there's never a right time or a right price. If you think the price is right, then the purchaser won't, and if they think it's right, you won't. So you're going to need to come to some compromise on that.

Andra Ilie
We've just heard some interesting insights from a business perspective, but you also need to think about the personal side of things.

John Barnett
I think in terms of selling, you'll know when the right time is. You'll know when you've outgrown the business or the business has outgrown you. And I think a useful test that I've seen put out there is that the right time to sell is when there's enough for you, but there's something left on the table for whoever follows you.

The other aspect of this is thinking about the wider question of succession, not just of selling, and sometimes a key thing to think about is when it comes to succeeding to this business, the question is when, not if. Somebody will eventually have to take this business from you because you won't be around to do so. That may seem a morbid thought in some ways, but quite often realising that eventually this business will be somebody else's does help you get over that emotional block and helps you answer that personal question of when the right time to sell is.

Andra Ilie
Having started with the hardest question to our speakers around the right time to sell, we're then looking at how to reduce timing risk when exiting a business.

Nicola Roberts
I think the key thing is as a seller, you need to be clear about your divestment strategy, and so that is how, what and to whom you envisage divesting. In addition, whether you intend to stay within the business or whether you want to exit the business completely. For example, what I mean about that is, do you intend to exit to a third party sale? Do you intend to raise money via private equity or other investment monies? Or do you intend to sell the business as an IPO on the main market?

Greg Limb
I think one of the key things that any business owner can do when looking at exiting a business is prepare and plan. The more you prepare and plan, the better.

Tobias Sommer
Here at HSBC, we work with many privately held businesses, which want to address succession planning or exit related topics, and our main recommendation is really around preparation, preparation, preparation. That means involving your accountants, lawyers, bankers, and other advisors early on to help you prepare your business for an eventual sale and make sure that all your stakeholders, sometimes that means family members, sometimes it means partners in the business, or your suppliers, or many others, are aware of your plans to sell the business. And the more time you can give them to plan ahead, the better usually the outcome.

Russell Prior
For some an unexpected offer to buy their business may come as a complete surprise, depending of course on where they are in their exit journey. We asked our guests, what would be your suggestions in this situation?

Anna Macrae
Responding to an unexpected offer always requires a careful and strategic approach. It's important to assess the offer thoughtfully and consider both the short term and longer term benefits and implications. While some offers may stem from opportunistic moves, others may present genuine opportunities for growth and development of business.

My suggestion would be to appoint an advisor who has a good understanding of the sector and potential buyers, and can lead you through the process.

Sophie O'Connor
I think when an unexpected offer lands for your business, you'll be in one of two situations. Either you'll be totally surprised, or you might be expecting it because you've been thinking about an exit horizon of, for example, three to five years time. I think the key here is to avoid a rushed response and treat perhaps that offer with a healthy degree of scepticism. You're the expert, you know your business better than that external buyer. So I think an appropriate response might be to thank that relevant party for their interest and indicate that you are open to a strategic discussion. And sometimes it can take 12 to 24 months from an initial approach in that manner to turn into an ultimate exit.

Tobias Sommer
As a business owner you often will be receiving unsolicited inbounds or offers, and it really depends on where you are in your thinking regarding exploring a potential sale. Are you ready to entertain that conversation? Are you ready to let go? Is the company at the stage at which it can be passed on to another shareholder? If some of these statements are true, then we recommend you take the time to assess the offer and work it through with your advisors.

Andra Ilie
Some great practical thoughts there. Now moving on to during a business sale, there are always risks and you can't predict the unexpected. We were really interested to understand what preparations or precautions should owners have in place.

John Barnett
Clearly during the process, there are always some risks, for instance, that something unexpected might happen to the business owner. They might have a serious illness, they might pass away sadly. Clearly in that situation you want to think about things like having your will up to date. But almost more important than your will is Power of Attorney, allowing somebody else to sign things for you if you are not able to yourself. And ideally that will be what's called a Lasting Power of Attorney, so that if you lose mental capacity somebody can still sign things for you. That won't though enable somebody to sign director level decisions for you. So do also have a look at your company's articles and shareholders agreement. There's usually something in there about what's called an alternate director. So, make sure that you have somebody provisionally appointed as your alternate just in case you need them to be so.

Then finally you might want to think about things like life insurance. Two sorts of that – one's called keyman insurance that provides the company with funds if you are no longer around to run the company. The other sometimes used is called shareholder cross assurance, which would enable your co-shareholders to have a fund of money to buy out your spouse or your heirs if something unexpected happens to you.

Nicola Roberts
I think in terms of trying to prepare for unexpected illness or other events that might take a key person out of the business for a period of time, then it is the normal sort of thing. This is almost separate to any kind of exit planning anyway. It is all the normal sorts of things in terms of key person risk. What processes are in place? Does the rest of the business know what to do if that happens? And again, is the rest of the business, and that might also include the rest of the family, the other stakeholders, the other shareholders, clear on what would happen in such an event? And again, I think those things can be, with a lot of investment of time and it's not an easy thing to do, but those things can be prepared for in advance.

Russell Prior
So it's clear there are multiple factors to think about when selling a business. And it's a decision that requires careful consideration and planning. We hope our experts have given you plenty of helpful and practical information as you start to develop your exit plan.

To view the remaining chapters in this episode head over to our Beyond Business Ownership series page:
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