
TECHNOLOGY ACQUISITION UPDATE

Get Moving on your Exit Strategy



A sound exit strategy improves the probability of a successful exit and of obtaining the maximum price. An exit strategy is a plan that prepares a company for the multitude of activities that are involved in the eventual sale of a company. A business should begin thinking about its exit strategy two to four years before the actual event.

Numerous benefits result from taking the time to develop a real exit strategy. The primary benefit is getting the highest price and not leaving money on the table. A good exit strategy ensures that the sale process proceeds as smoothly as possible. The sale of a company is a complicated endeavor with many moving parts. The better prepared a company is, the smoother this process will be.

Thinking through the exit strategy will also help management to have a clearer picture about the optimal time to sell. They will have more clarity about long-term goals and about the company's strategic alternatives. A clear exit strategy can improve the alignment between various shareholder groups and/or management.

View your Markets Strategically

Viewing a market strategically means perceiving the movements in your market sectors and considering the probable effects of that movement. Notice the stage of the market's development and where your company fits into that picture. The smart company will understand the nuances in the market and have a sense of where the market might be going over the longer term.

The best time to sell the company is when the market will pay the highest price. To achieve the top price, market awareness and timing are critical. Timing is a primary determinant for getting the best price. The market may be on a different time schedule than your company's growth curve. The optimum time may be sooner than you think.

Viewing the market strategically also means understanding who the best buyers might be and why. How will a buyer consider your company? How might a buyer assess your strategic value? Strategic value will vary depending on the degree to which a buyer can capitalize on the strategic assets of the selling company.

Improve your Value

Value is the ability to generate earnings—both now and in the future. In practical terms, the value of a company is what a buyer is willing to pay. People love to quote multiples and other metrics when selling a company, but what matters is what the market thinks. Value is solely a function of the market.

An effective exit strategy will include steps to improve your company's value. For example, increasing the portion of your revenues that are recurring will increase your value because these revenues have less risk.

Track and manage the profitability of each product. You would be surprised how many companies don't do this. Also, track the profitability of each customer. Perhaps you should fire a few customers. Pay attention to your customer mix; should you attempt to attract more of one type of customer and reduce the number of low profitability customers?

Risk has a significant impact on value. Companies with lower risks are worth more than higher risk companies, even with similar profits. CEOs typically think about ways to improve growth and profits, but less attention is paid to reducing areas of risk. Reducing a company's risks will have a positive impact on value.

A good exit strategy will identify areas of risk and weakness so that you can deal with them in advance. Customer concentration may be a weakness. If a significant portion of revenues are derived from only a few customers, revenues could take a hit if a customer leaves. From a buyer's viewpoint, this is a risk. What about management risk? Are the right

people in the right jobs? Every business has areas of weakness; a good exit strategy will identify and minimize these elements.

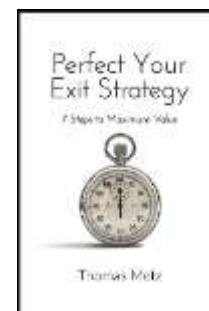
Alignment is another topic that a sound exit strategy will address. Misalignment can occur between management and shareholders or between different shareholder groups. In my experience, quite a few companies have problems with alignment. Shareholders may have different opinions about how aggressive the company should grow and about the timing of an exit. Differences in liquidity preferences can also cause misalignment.

Conclusion

Business owners should begin thinking about their exit strategy sooner rather than later. The prepared company will have increased its value, reduced its risks and it will not be scrambling at the last minute to get things in order. It will have a keen understanding of the movements in its market and understand who the best buyers are likely to be. In addition, it will be prepared in case a buyer makes an unsolicited offer.

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This article is adapted from my book, *Perfect Your Exit Strategy—7 Steps to Maximum Value*.





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