M&A Insights

SUCCESSION PLANNING:
OPTIMIZING VALUE THROUGH A STRATEGIC EXIT

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For many business owners, the decision surrounding how and when to exit the business can be complicated and emotional. It is one of the most important life events for any business owner, yet many push planning to the back burner, believing it can be tackled later when they are ready.

In fact, many things in life happen before we are ready. Planning early enables business owners to leave a business on their own terms, whether the exit is strategic, or event driven.

A strategic exit typically is the culmination of a thorough succession or exit plan. It enables the owner to leave the business while in the most advantageous position and ensures business continuity is in line with their wishes. Options include a third-party transaction, intra-family or management succession, liquidation or other alternatives. While every owner likely wishes for a strategic exit from their business, it should be noted that any quality succession plan includes a blueprint for how to handle an unexpected event-driven exit.

An event-driven exit can be difficult to plan for and encompasses exits related to death, health/disability, family instability, unexpected business downturns, burnout or other unforeseen circumstances. Event-driven exits are less desirable for ownership and are less planned for, although many exits fall into this category. Developing a plan for each type of exit, whether strategic or event driven, is a critical piece of any succession plan.

Succession planning essentials

Define Business Success

A key part of initiating any succession plan is defining what business success looks like now and after exit. Because most succession plans will be developed while ownership is still in place, it is important for any owner, specifically an owner/operator, to take stock of their role within the business and the business itself as it stands today. What is working well? What could be done better? Once these questions are answered, the business owner can begin planning for the time leading up to their exit, whether that be months or years. Defining success after exiting is the next step and includes setting personal and financial/retirement goals so that they can prepare to exit under the most favorable conditions. This process includes creating a blueprint for how to handle an unexpected event-driven exit and thoroughly communicating plans to key management, shareholders and family members.

Assemble a Team of Advisers

At the core of developing a thorough succession plan is a team of trusted advisers who individually possess the various skills needed in the process and who can collectively coordinate their efforts to the benefit of the business owner. A team approach proactively involves all of the advisers throughout the process, allowing for the sharing of concepts and information that support each adviser's efforts. Disciplines included on the advisory team include financial planning, estate planning, business valuation, tax planning and investment banking. In addition, the team also may include the business owner's personal and/or corporate CPA and attorney. One of the first steps any business owner should take in the succession planning process is identifying and engaging this group of advisers in preliminary conversations.

Financial Planning

For many business owners, their largest asset is their business and much, if not all, of their retirement income is predicated on the sale of this asset. A thorough succession plan becomes important not only for the continuity of the business but for the owner's personal financial future. With the appropriate advisers, the business owner should explore how they want this asset, or the proceeds from the sale of this asset, to be transferred in the most tax-efficient manner. Planning ahead allows the owner more flexibility and creativity. However, it is never too late to start.

Business Valuation

Many business owners don't know what value to place on their business ownership interest, whether for the purposes of financial/estate planning or a potential third-party sale. Consequently, their advisers are at a disadvantage in attempting to prepare plans without a realistic estimate. Thus, it is key that an indication of enterprise value and of equity value is prepared at the beginning of the planning process. This information provides the foundation for creating a comprehensive financial plan, it more accurately defines the economic situation for estate planning purposes, and it establishes a benchmark for developing a strategy that maximizes the expected proceeds from a change-in-ownership transaction.

Enhancing Value

Completing a business valuation periodically throughout the lifecycle of a business is an important planning tool, especially in the event that the current business valuation does not meet the owner's expectations for retirement. Provided that the owner's expectations are reasonable, this allows time for the business owner to improve value prior to a strategic exit. Business owners should feel comfortable relying on their trusted advisers, specifically their valuation provider, to assist them in this process.

Transition Process

Business transitions can occur in many different forms, but ultimately, the success of any transition is predicated on the planning process. While there are many iterations, the most common transitions include either a full or partial sale to a third party or a full or partial sale to an internal party (family members, management, ESOP). Before beginning any transition process, a business owner should establish clear objectives. Factors to consider include employee protection, legacy within the community and/or business, and the importance of maximizing business value.

Expected Timeline

It's never too early to begin the succession planning process. More time between now and the transition is better, especially if the owner is involved in the day-to-day operations. For a strategic exit, business owners should begin the planning process 3-5 years in advance of a transition. Initial steps include establishing and engaging a team of advisers, completing a business valuation, defining current business success and establishing post-transition personal and financial goals. While it is always better to start planning as early as possible, any planning is better than none. Business owners should not hesitate to get started even if their desired transition date is fast approaching.

Conclusion

Planning for exit can be a daunting task for any business owner. However, if implemented properly and at the right time with the support of trusted advisers, the activity can pay dividends for not only the current generation of ownership but for future generations, as well. A well-executed succession plan enables the business owner to leave the business under the most favorable conditions and to attain both their financial and personal goals

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About Charter

Founded in 1989, Charter Capital Partners is a premier investment banking firm headquartered in Grand Rapids, Michigan. We offer a comprehensive range of investment banking advisory services, including buy-side and sell-side M&A, succession planning, business valuation and capital raise.

Charter was named one of the top 100 most referred middle-market advisory firms in the US, according to a survey of 1,000 private equity firms, strategic acquirers, and family offices compiled by Axial, a network of middle market investors, advisors, and CEOs. Our mission is to deliver superior professional guidance throughout the complete business lifecycle.

About the Author

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Elisa has been with Charter Capital Partners for 11 years. Prior to becoming Vice President, she worked as a Senior Associate as well as a Financial Analyst within Charter's M&A practice, where she performed company and industry research, developed financial models, and analyzed financial data for sell-side, buy-side, and capital raise transactions.

Elisa has transaction experience in the energy supply, trucking parts and services, office furniture, metal fabrication, and general manufacturing industries. She is a board member of ACG West Michigan and Chairs the chapter's Young Professionals committee.

Elisa holds her BBA in Finance from Grand Valley State University and brings a strong background in both engineering and math.

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