

# Exit Strategy

## The right way to sell your business



“In many respects, the restaurant industry is no different from most other industries. It faces the same cyclical ups and downs, changing consumer preferences and similar economic factors as other service and manufacturing industries” CHRISTIAN FERNAINE

Most ventures cannot truly be defined as a business or a company due to the fact that most business owners do not establish an operating and exit strategy plan at the onset. Planning allows you to control different aspects of your business - the more you plan, the more you are in control. Once you have established this strategy, all business decisions and operational focus should reflect that exit plan.

So, what is your exit strategy? Before you can answer this question, you have to know what your various options are.

- Trade sale
- Management buyout
- Family succession
- Management buy-in
- Stock market flotation
- Merger
- Liquidation

Before getting to those options, the owner should have a good understanding of what affects the value of a company and how value is determined. The first step is to understand the difference between a valuation and an appraisal.

An appraisal is used to determine the value of something tangible or physical, something you can actually see, feel, touch or stand on (i.e., property). In contrast, a valuation analyzes the tangible and the intangible, the physical and the non-physical.

An appraisal often supports a valuation. You may have an appraisal performed on property or equipment that the company owns and then use that appraisal to justify the value being placed on the equipment or property in the business valuation; an appraisal does not typically consider income. The appraisal is used to establish the Fair Market Value (FMV) or liquidation value in some cases, of tangible assets.

In addition to analyzing the FMV of the operational assets, business valuations analyze internal and external factors related to the business. A formal business valuation analyzes internal factors such as intellectual property, proprietary rights, manage-



ment structure, operational strengths and weaknesses, projections, forecasts, historical performance, and customer base, just to name a few. External factors focus on the economy, the industry, the market, the competition, the location, and any governmental regulations or licensing requirements. All of the internal and

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external factors ultimately determine the intangible or goodwill portion of the businesses' value.

Once the value of the operational assets has been determined, the income has been adjusted, and the internal-external factors have been considered, it is time to decide which standard of value will be used. This is determined by the purpose of the valuation.

FMV is used to determine the value of a company to the market. FMV is the price that a business can expect to

bring if it were effectively exposed for sale on the open market, for a reasonable amount of time, assuming an informed seller and an informed buyer, neither of whom is acting under undue pressure or compulsion. Several factors must simultaneously come together to achieve FMV:

- Fair Value
- Investment Value
- Liquidation Value
- Intrinsic Value

Once a standard of value is chosen, a proper valuation will then analyze the value of the company from several different approaches:

- **Cost approach** - value based upon the cost of replacing a property with the same utility (i.e. replacement cost). This is generally estimated on a square-meter basis.
- **Sales comparison approach** - method of valuation which estimates the value of a property by comparing it with similar properties recently sold in the open market..
- **Income capitalisation approach** - method of valuation which converts the anticipated future benefits (dollar income) of an investment into an estimate of present value.

An in-depth, impartial analysis of all the factors is necessary to determine an accurate opinion of value. Often, business owners receive far less than FMV because they failed to know how to have a proper business valuation prepared and because they did not develop an effective exit strategy.

All business owners should seek the counsel of an estate attorney and/or a merger/acquisition consultant that specializes in the areas of tax, corporate structure, financial and estate planning. They will help to structure a company (in preparation for a future transaction) or to structure 'The Deal' to help avoid paying unnecessary tax.

There are several creative and legal methods that can be used to reduce and sometimes eliminate much of the tax liability. Many of these methods must be established prior to the sale and usually before entering into negotiations. A formal third party business valuation is recommended to help in the process and to defend the plan, if necessary.

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