

Exit Scenario Assessment

Every business has a lifecycle that all shareholders hope will result in them joining the ranks of the lucky few that manage to capitalise their years of hardwork. Even though there are a multitude of options available, not all are appropriate or even open to your business; if they are, the window of opportunity may be small. Therefore, preparation and timing are crucial if there is to be a favourable result.

Initial Public Offering

- Description: Sell the shares of the company to the public to be traded on a stock exchange, LSE, AIM, PLUS.
- Advantages: Conversion to cash for investors, major shareholders usually maintain control, high potential return
- Disadvantages: Company must have significant growth potential to receive IPO, costly process, uncertain outcome, regulatory environment. Major shareholders may be limited as to when and how much stock they can sell

Franchise

- Description: Sell business concept to others to replicate
- Advantages: Receive cash, retain current management, opportunity for large scale growth
- Disadvantages: Concept must be appropriate for franchising, legally complex

Strategic Merger/Acquisition

- Description: Business bought by another existing company
- Advantages: Flexible deal structures, premium prices often paid by strategic partner, earn-outs can significantly enhance values
- Disadvantages: Fit must be appropriate, potential management changes, corporate identity may disappear

Private Equity

- Description: Sell a part of the business to a private equity group
- Advantages: Receive minimal cash, management enhanced, opportunity for large scale growth, door openings
- Disadvantages: Private equity groups negotiate hard terms, failure to hit targets can result in losing your business, by their nature the deal normally includes significant debt for the business to service

Minority Investment

- Description: Sell a part of the business to a private investor
- Advantages: Receive minimal cash, door openings if the investor is strategic
- Disadvantages: An additional shareholder, investors dislike cash going out the door

Management Buy-out

- Description: Management team buys out shareholders

- Advantages: Sellers receive cash, business remains within the existing team, saves jobs
- Disadvantages: Sellers must be willing, difficult for the management team to compete on price valuation especially in comparison to a strategic trade sale, financing usually required to fund purchase, therefore business saddled with debt

Forced Merger/Acquisition

- Description: Shareholders out of options and accept unsolicited offer for the business
- Advantages: Seller receives minimal cash, business continues as a going concern
- Disadvantages: Seller rarely achieves price expectation, terms are rarely favourable

Recapitalisation

- Description: Recapitalise the business with debt
- Advantages: Outgoing shareholders receive cash
- Disadvantages: Business saddled with debt to service, strong balance sheet and high margins required

Shareholder Buy-out

- Description: One or more shareholders buys out another
- Advantages: Seller receives cash, other owners remain in control of the company, fluidity and consistency
- Disadvantages: Seller must be willing, buyers must have sufficient cash to buy out the others, difficult price negotiation

Cash flow/Lifestyle

- Description: Shareholders out of options and continue to run business
- Advantages: Shareholders continue to receive income,
- Disadvantages: The business either fulfils its cycle to dissolution or evolves under new management or ownership – shareholders continuing to take cash out of the business while reducing their involvement will ultimately lead to dissolution

Family Succession

- Description: Business passed onto willing family members
- Advantages: Business continues as a going concern
- Disadvantages: Outgoing shareholders unlikely to receive any cash, family goals and business cultures often clash

Dissolution

- Description: The business ceases to trade and all assets are sold
- Advantages: Shareholders receive minimal cash, only worthwhile if the business assets are considerable
- Disadvantages: Assets sold at auction or in fire sales seldom fetch market value, no value for goodwill

Probability of types of exits



Market value of various exits

