Nexia Australia

Have you considered your **exit strategy?**

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During the last 12 months, I have worked with clients who have successfully managed an exit strategy by either selling their business or implementing a succession plan within their family.

With each of these situations, there were several obstacles to face. These included tightening of borrowing conditions from banks, businesses which had a reduction in turnover due to COVID-19, as well as a business in an industry that was disrupted by innovation. In addition, I have advised families where some family members were working in the business and some were not. Regardless of these hurdles, with good planning, patience, perseverance, a few difficult conversations and not too mention a little luck, in the end, our clients achieved great results.

Whilst this may sound familiar for many family businesses, there were a number of important lessons which I would like highlight.

1 Planning / timing

For some of the businesses, we were able to take advantage of the small business tax concessions, which saved our clients thousands of dollars in tax. Unfortunately, for another client, we were unable to change their existing structure to meet small business tax concession conditions. As they only approached us for advice in the year prior to sale, it didn't allow enough time to make any changes to their operating structure. This will potentially end up costing them over $500,000 in additional tax.

It is vital to begin planning an exit strategy early with your financial advisor to ensure your business is structured correctly to take advantage of any tax concessions. Don't leave it until it is too late regardless if you are considering exiting in the next few years or later.

2 Greed

Everyone wants to achieve the maximum return on the sale of a business after many years of hard work. However, sticking to a fixed dollar amount as your exit price can also be dangerous.

As an example, I had a client who had been attempting to sell their business for 5 years, and despite receiving many offers, he refused to sell. In the interim, the business incurred losses due to a change in trading conditions and finally, they ended up accepting a lower amount. This coupled with funding losses along the way proved to be costly.

3 Difficult Conversations

With any family business, it can be extremely difficult to bring up succession planning and to discuss the owners' intentions along with their thoughts on retirement or death. As such, this tends to be one important conversation that often never happens.

In one instance, I recall many years ago sitting around the dining room table of a client who had passed away and explaining to the family how their family business was positioned. It was unfortunate that although I had tried to encourage this conversation for three years before his passing, it was not one that my client wanted to have with his family. This resulted in the family not having any idea what assets had been accumulated or how to run the business. They could no longer seek his guidance and wisdom.

Many times a difficult conversation centres around the different roles family members have in a business. Some may be more involved, working fulltime for a number of years and making many sacrifices in order to grow a business, whilst other family members may have no involvement. Likewise, sometimes the recent success of a business could be linked to the input of the founder's child, who now works in the business and sometimes this goes without appreciation, value or acknowledgement. This may result in different family members having an uneven split of the family wealth as well as difficulty in gaining a consensus on the timing of the exit.

In both these situations, the key takeaway is to ensure that as a business owner, you layout the personal and business' financial position to your family, discuss your succession plans and how the split of assets will be undertaken on your eventual demise or retirement. This conversation is much easier to have if done years in advance. It's also important to review the succession plan every year or two (maximum), to ensure it still achieves the original intention and there have been no significant change in asset values.

Having an impartial person involved in these discussions can also assist to remove any family history or perceived favouritism that could affect the outcome of the family meeting. Having an agenda, being direct, concise and summarising agreed outcomes of family meetings will go a long way in overcoming any arguments now and in the future.

4 Preparation

When selling a business, the purchaser will undertake their own due diligence.

To avoid a barrage of questions, it is a good idea to prepare a financial and business information pack before you put the business on the market. This should include as much information as possible. For example;

- history of the business
- major customers and suppliers, details of ongoing contractual obligations such as premise leases
- the last 3 or 5 years of trading results
- explanation of any major variances from one year to the next
- explanations on improvements in the business in recent times which will lift the performance of the business in the years ahead, such as new customers, or a new online business platform.

You should also clearly articulate what exactly is being sold; Is it just the business? Is it shares in the company? Can the purchaser take an option to acquire the real estate if it is not included? What fixtures are included, does it include intellectual property, patents, websites, existing contracts?

If you do the hard work in compiling such information upfront, then the time and resources spent in numerous back and forth communication between you and the purchaser will be reduced significantly. This also eliminates some of the smaller and less significant questions allowing you to focus on the major issues.

You will be surprised how much time can be consumed when you are involved in answering so many questions, so the compilation of an information memorandum upfront will make the process smoother and will allow you to continue concentrating on your business without losing focus with the sale process.

Editor's note: This article has been written by Nexia Sydney Director, Ian Stone, and reflects his anecdotal experiences with his clients over the course of his 40 years at Nexia.

How can Nexia help you?

If you are thinking of selling your business now or in the future, speak to a Nexia advisor today. We can help guide you through the process along with assisting to facilitate some of these difficult family conversations.

We can also review your existing business to ensure its structured correctly for the optimal result and maximum concessions. Remember, the earlier you start conversations about your exit strategy, the better chance you have for the best outcome.

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