

4 different types of business exit strategies

Although it seems a long way off when you're starting up, your exit strategy is one of the most important aspects to consider when building your business.

When we set up new business ventures, some of us have the mindset of growing the business for 5 – 10 years and then selling off at a higher valuation, whilst others may want to continue running the business until they wish to retire. In either scenario, a suitable exit strategy must be planned well in advance so that all of the necessary elements, like succession planning and appropriate pension schemes, can be put in place. There is no requirement to commit to a particular type of exit at an early stage, but prudent planning for multiple outcomes can be rewarding in the future.

Below, we provide an overview of four different types of business exit strategies to help you decide what might work best for your business in the future.

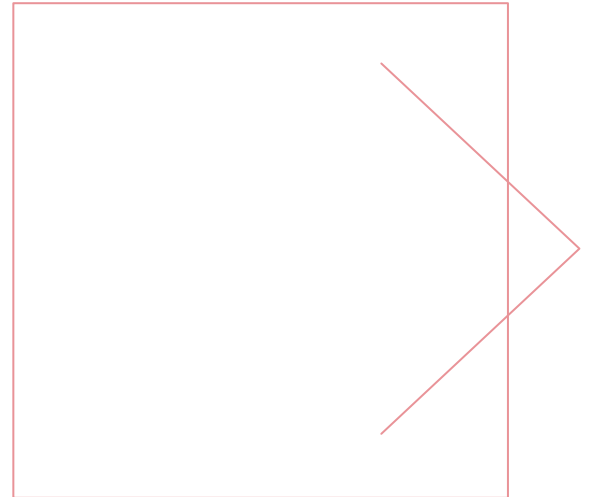
1. Selling assets or shares

If there are no family members willing to take over the business, you may wish to consider exiting through an asset or share sale. Generally speaking, share sales are quicker and more beneficial to sellers, as the buyer takes on all of the business's assets and liabilities. Asset sales can be more complex, and may require some regulatory consents as the buyer is only purchasing specific assets of the business.

Regardless of the type of sale you're aiming for, it is imperative to take certain steps well before seeking possible buyers: a sales strategy should be developed with a wealth advisor; a tax plan should be established with a financial advisor; and financial records must be impeccably organised.

2. Auction sale

In an auction sale, various buyers are invited to



participate in a competitive tendering process, thus incentivising them to offer more generous terms than usual. As such, business owners are increasingly using auction sales as an exit strategy.

However, preparing for an auction takes a great deal of time and effort, requiring input from management teams and third-party advisors from early on in the process. This is because there are more prospective buyers to furnish with due diligence information while striving to protect your business's confidentiality. It should also be noted that auctions will only be lucrative for sellers if there are several viable buyers with genuine competitive tension.

3. Handing over to a professional management team

Some business owners may wish to retain ownership while withdrawing from daily business operations. In such cases, the most appropriate exit strategy may be to keep the business, but hand over its management to a professional team.

This option calls for long-term advanced planning, as a suitably qualified and experienced team of professionals will need to be recruited and trained in order to ensure that business operations continue smoothly. Management procedures and motivational incentives should also be put in place to this end. Furthermore, the business owner will need to give careful consideration to the level of control and information he or she wishes to maintain before handing over to the management team. For example,

are there certain business decisions such as winding down, selling of assets or incurring large capital expenditure, etc. that will require the consent of the business owner? A careful balance will need to be created between the interests of the business owner and the needs of the business.

4. Management buy-out

In a management buy-out (MBO), an existing management team purchases the business. This exit strategy is often a quick, simple option for business owners who want operations to continue for the benefit of their employees after the sale. However, early planning remains essential, as you must ascertain whether the management team has the willingness, ability and funding to purchase the business.

Every business exit strategy comes with inherent legal complexities and financial considerations. It is therefore critical to have the proper guidance from a suitably experienced solicitor to help you plan and prepare well in advance.

For more information, or for expert advice on business or personal legal issues, call us on 020 3475 6751 or via email at info@carterbond.co.uk

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