

PACE Capital Advisors

Creating Transferable Value

This issue brought to you by:

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Exit Your Business Without Leaving It

As advisors, we often hear from business owners some variation of the following comments:

- “I think it is time to back away from my business.”
- “I’d really like the freedom to do whatever I want, whenever I want.”
- “I’m tired of running this company, but if I sell, I’m unlikely to get the sale price I want in today’s merger and acquisition marketplace.”
- “If I could cash out, where could I invest and generate a reasonable rate of return?”
Don’t even think about suggesting that I put my money in the stock market!! Even if I were foolish enough to let you do so, I doubt you could match the return I get on investments in my own business.”

Faced with limited prospects, owners often wonder if, rather than exiting, they can “back away” from their companies. They contemplate treating their companies as investments that they continue to own.

Many owners realize that today’s merger and acquisition market contains fewer cash buyers. Consequently, owners may be reluctant to offer their companies for sale. They may be convinced that there could be less risk in keeping their businesses—at least in the short term.

In addition to a scarcity of all-cash buyers, except for the top companies in the market, the merger and acquisition market is no longer supporting the valuation multiples of six or seven times EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization) achievable just a few years ago.

It may be difficult to dispute that the lack of cash buyers willing to pay fair value for successful companies, and poor investment opportunities may certainly be sound reasons for owners to choose to stay in their companies. The issue for many owners then is: how do I back away and let others run the business *without transferring ownership and control?*

One answer is to engage in Exit Planning as if you were going to exit your business. After all, someday you will exit—even if you are carried out on a shield. As a subscriber to this newsletter, you know that traditional Exit Planning can help to enable you to orchestrate a successful, permanent exit. Intermediate Exit Planning, however, can help to enable you to forge a path toward an exit without giving up ownership.

In order to create an intermediate Exit Plan, you should:

- Establish your (owner-based) on-going business objectives
- Determine future cash flow needs for yourself and for your business
- Build a stronger business—defined as one capable of running without you

Let's look briefly at each component.

First, working with your Exit Planning Advisors, establish your timetable for backing away from your business. Communicate your wishes clearly: What does backing away mean to you in terms of time commitment, emotional involvement, financial guarantees, etc.

Second, you must determine the amount of income that you need the business to provide you. Ask members of your Advisory Team to help you make this determination.

Third, the characteristics of a stand-alone business (one that can run without you) may be the same characteristics third party cash buyers look for. A company that can be managed from a distance and that is able to pay adequate cash flow with little risk of nose-diving without its owner at the helm, may be a highly-attractive business. It can be valuable both to third parties and to the owner who wants to step away. To create that type of business, you should have in place critical Value Drivers. They are:

- Increased cash flow
- Operating systems that improve sustainability of cash flows
- Improved facility appearance
- Debt reduction
- Documented sustainable earnings
- Growth strategy
- Strong management team

When you work with your advisors to fashion your stand-alone business, pay particular attention to creating repeatable, sustainable internal systems and developing and properly motivating your management team. In order to run successfully without you, your company needs systems and management in place capable of replicating your leadership.

The most valuable businesses are those in which the owners are no longer valuable. Planning to step away using intermediate exit planning can create a more vibrant

business. When your day of departure does eventually arrive, both you and your business will be prepared.

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Any examples provided are hypothetical and for illustrative purposes only. Examples include fictitious names and do not represent any particular person or entity.

As a Certified Exit Planning Specialist, Denis brings a unique blend of experience to the marketplace having been involved in more than 100 transactions as a buyer, seller, investor, advisor or financier of businesses throughout his career. He previously was involved in private equity for ten years and was responsible for identifying, underwriting, structuring, closing and managing investments including developing growth and exit strategies. In addition he has served as a director of a variety of both domestic and international privately held companies.

Pace Capital Advisors provides merger and acquisition advisory services to owners of lower middle market businesses in the Southeastern US, typically companies with revenues ranging from \$5 million to \$50 million. Our target market comprises entrepreneurs, family business owners, and other privately-held business owners who seek the guidance and counsel of proven merger and acquisition professionals when considering the complex set of options available to them for selling or transferring ownership of their business. Our services range from preparing business owners and their companies for the process of ownership transition to full responsibility for conducting a business sale process on the owners' behalf. Pace's principals have acquired and sold numerous businesses during our careers in private equity, corporate development, investment banking and venture capital. We know how to properly package and position a business to maximize its transferable value. Our experience includes over one hundred merger and acquisition transactions in which we have occupied almost every seat at the transaction closing table - buyer, seller, owner, lender, and M&A advisor. We know what it takes to make a deal work, strategically, financially and psychologically, how to prepare business owners and their companies for the sale process, and what it takes to close the deal. (404) 843-8618

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