

## TIPS ON HOW TO CASH OUT OF YOUR BUSINESS?



The new-normal in business is slower growth, global competition, disruptive technologies, millennial integration and an ever accelerating rate of change; and it's wearing down a lot of business owners. One of the most common conversations I have these days with my boomer friends is about their feeling stuck in their businesses. They've spent years of long hours and sacrifice building up successful businesses. Some had opportunities to sell prior to the 2014 Alberta recession, after which the valuations were too low.

Today, they've survived another very tough economic cycle and are 4 years older, a little more beat up, and feeling like its time to move on to the next phase of their lives and enjoy the rewards of their hard work. In today's new normal though, they are finding that it may not be as easy as they'd hoped to cash out.

The numbers are scary for them, according to the Exit Planning Institute (EPI), 85-90% of the net worth of the average business owner is tied up in their business; 2/3 of small businesses never sell and are just closed when the owner retires; and of those that do sell, the average sales price is about 1/2 of what the owner thought it was worth? Also recognize, the larger a business is the more these numbers improve.

The bottom line is if you are a business owner, you need to be planning for this long in advance. If your goal is to cash out of your business within the next 5 years then you'd better be actively executing your exit plan. If you don't have an exit plan, here's some suggestions based on the wins and losses I've had with my own companies and some of my clients.

The steps I recommend are to plan for and execute a 3 phase strategy to cash out your business.

In planning there are several considerations:

- Determine your goals
- Calculate how much money you need
- Understand your options
- Set your schedule
- Engage your team

The three phases of your exit are:

1. Maximize the Value (building profit and potential)
2. Transact the Value (positioning the deal to win)
3. Transfer the Value (transferring all the value to the buyer)

**Phase 1** is maximizing the value of your company prior to selling to make it more attractive, give you more options and make the sale price higher.

Building value in your business has 3 priorities:

- Increase profitability – operational excellence, build quality, speed, efficiency, reduce costs...
- Increase future value potential – new technology, new markets, new products, new IP...
- Make it shine – restructure, build leadership, fix the books...



**Phase 2** is transacting the value, depending on your strategy to do a deal in such a way as to give you the greatest payout. The better you do phase 1, building more value in the company, the more options you have for your exit (go public, sell to an acquirer, sell to employees), and the higher the price you'll get.

- Maximize your options – create demand/competition to buy (public or private) – smarketing...
- Minimize your transaction costs and taxes

**Phase 3** is transferring the value to the new owners. In most cases business sales include golden handcuffs, so you stay around long enough to ensure the new owners have a smooth transition and have taken over all of the relationships, partnerships and captured all of the “secret sauces” to set them up for success going forward.

- Restructuring & team building to retain key people
- Transferring relationships – client, partners, staff...
- Capturing best practices, IP, trade secrets...
- Executing on growth opportunities



Packaging the process up this way makes it all sound simple and easy, the hardest part I've found is executing the plan. To do all this you will need to engage your entire team to support you in doing what is needed to accomplish your cash out.

As both a seller and as a consultant, I've found there are big advantages and better ROI by getting help. So whether its engaging peers who have done it themselves or a consultant who specializes, cashing out is a big enough issue to get the help you need to do it right.

These are the things I suggest you consider if you want to get the most from cashing out of your business.



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