Checklist for Maximizing Post Tax Exit Proceeds – Required Time, 5 Years

The US Census Bureau considers baby boomers to be those born between 1946 and 1964 or aged 45 to 63 in today's currency! Many of these folk own businesses and will want to realize their life's work over the next 5 years. A remarkable few will achieve their goal. Below I've listed 31 issues worth discussing with your trusted advisor.

1. Shareholder objectives: Why are you in business? All shareholders need to be crystal clear how their objectives translate into an attractive strategy for the company.
2. Acquirers love a compelling story. They love targets that dominate their unique market.
3. Customer dependency, a customer accounting for more than 20% of your sales could be a deal breaker.
4. Growth drives value. A company growing at 20% plus could be worth more than a much larger competitor with low growth.
5. A business dependant on the owner is not an attractive target whatever its size.
6. High competitive margins indicate a quality management team with a secret sauce worth buying.
7. The absolute size of pre-tax profits has a major bearing on the Price Earnings achieved on exit.
8. Business models with a sales annuity stream - supporting sustainable earnings growth have rarity value.
9. Holding on too long is probably worse for your wealth than selling out too early.
10. Founder/CEOs appointing a chairman with the skills they don't posses transforms the value of the business.
11. Keep the P&L items clean, minimize personal expenses, pay market salaries, and use dividends for toys.
12. Use a respected auditor with expertise in your sector. File clean, timely accounts in accordance with GAAP.
13. Ensure all non-core activities are divested. Focus on being remarkable in one area.
14. Invest constantly in innovation and keep it tightly linked to your compelling story. Be brutal about mistakes.
15. Consider VC/PE funding for two reasons: scale and credibility.

16. Engage all staff in your vision. It will increase the success of your execution, tenfold.
17. Buyers don't like a long shareholder tail. Be careful with ESOP schemes and sophisticated structures.
18. Tax planning: it is never too early to consider the tax position of shareholders and to plan accordingly.
19. Recruit world class people with a great attitude for all levels. Buyers don't have a warehouse full of spare staff.
20. Build a collection of due diligence files over time, covering all the data that acquirers need.
21. Protect all IPR, patents, and trademarks as quickly and as efficiently as you can.
22. Ensure your HR policies minimize risk of claims with comprehensive processes supported by insurance.
23. Your main assets probably leave every night in the elevator. Execute reasonable non-competes.
24. Standardize the training of all staff. Develop a love of constant learning and encourage curiosity at all levels.
25. Constantly update staff on all the successes and how it relates to the vision in plain English.
26. Remember that marketing campaigns including PR not only build a great brand but motivate your own staff.
27. Creating a constant buzz around your brand is not easy but essential. Customers and acquirers buy for emotional reasons!
28. If one day you are in the stressful but fortunate position of considering an offer remember that cash is king.
    Don't let your tax advisor tell you that shares (paper) are more tax efficient. Ask yourself: if I had the cash would I spend it on one company's shares!
29. Earn-outs are a great idea for some situations. However the acquirer should reflect in the up-front sum what has been achieved to date. The earn-out is for future achievement.
30. Earn-outs can seriously damage your proceeds from a deal unless you document in the sale and purchase agreements, the rules surrounding the calculation with a worked example.
31. Find a keen, naïve, overseas acquirer with a track record of reflecting their exuberance in the price.

Conclusion

The next 5 years present owners with an unusually attractive time to build a remarkable business that will attract a premium valuation on exit. However a careful review of some key issues and a plan to address them are crucial to ensure shareholders maximize their big day. Of course in creating a remarkable business you could just keep it.