A Guide to Exit Planning Timeframes for Software Technology Businesses

How to time your exit to maximise the equity value of your business.

BOSS
EQUITY

Why is Exit Planning Important?

Having an Exit Strategy in place enables you to drive value in your business and will positively affect your ongoing, strategic planning.

Your Exit Strategy should be a detailed plan, enabling you to work towards exiting your business on YOUR terms and within YOUR timeframe, with an acceptable valuation and deal structure of YOUR choosing.

It's never too early...

Your Exit Strategy should include succession planning and a blueprint for business continuity. This will serve as a vehicle for transferring operational responsibility from the CEO and other senior executives who may also be exiting, onto future business managers.

Add value with succession planning

In addition, succession planning could free you to assume a more strategic role, focused on instilling leadership skills into the next generation of managers and driving greater value within your business. Creating a succession plan for your business, generates a higher valuation at sale.

Your Exit Strategy should work in harmony with your business plan, which will address how you will maximize the growth and value of your business, making it more attractive to a wider range of potential acquirers.

Achieve your objectives at Exit

It's never too early to plan your exit as, the earlier you begin, the more time you have to refine your plan and the more likely you are to achieve your ultimate objectives. We advise our clients to plan their exit from the outset, alongside their business plan, so that every action they take is shaped by the end goal and they are continually growing value in the business and increasing the odds of a successful outcome.

Recurring Theme Amongst SMEs...

As Merger & Acquisitions (M&A) specialists working within the software tech industry, we work with business owners, shareholders and executives from a wide variety of businesses.

One of the most common themes we encounter, is that businesses that regard exit planning as a Board-level priority, and have planned their exit in advance, achieve significantly greater value when their business is acquired.

"Success rates for companies looking to acquire or sell are, on average, typically less than 25%."

Mark Edwards – CEO & Founder, Boss Equity

“We Plan to Exit in 3-5 Years...”

Strategic Imperative to maximize value

When discussing future plans with executives in the software tech industry, a common response to whether they have detailed plans for their exit strategy is, “We will start to plan our exit in 3-5 years when we’re ready to sell...”

As a Director of the business, you have a fiduciary duty to maximise shareholder return. So, planning an exit in advance, to maximise value, should be a strategic imperative.

Of course, it could be said, that perhaps the 3-5 year statement is common because 3-5 years is far enough away to be stated as a goal whilst, at the same time, not close enough to be of much concern and therefore, not requiring any attention or action.

Act now and reap the benefits at exit

If asked the same question in 2 years, how many of those same executives would say, “We will start to plan our exit very soon - probably within the next 1-3 years”?

Exit planning is no different to any other sort of business planning. The time to create your strategy is **now** to ensure you reap the benefits later.

A true Exit strategy needs the input of all senior commercial management.

***71 percent** of all small and medium sized business owners plan to exit their business within the next 10 years - and more than **90 percent** of these owners will not be able to sell their business to meet their retirement cash requirements.*

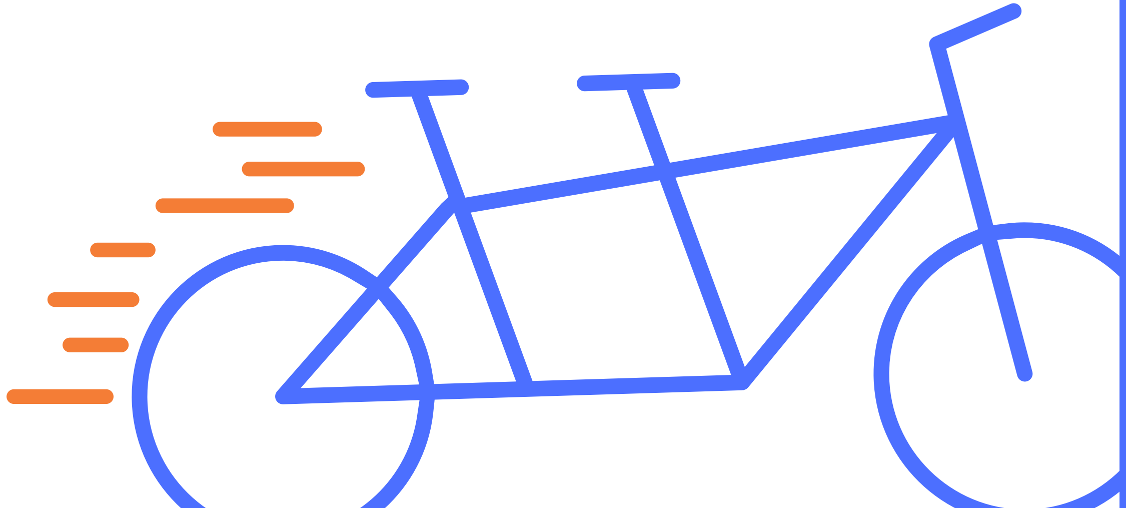
Deloitte & Touche

“He who fails to plan, plans to fail”

Sir Winston Churchill

This is true in many situations - and company divestment / exits are no exceptions.

Exit planning should begin in tandem with business planning and the two should continue to work together, one feeding into the other.



So why then, are these time scales used?

3-5 years is perceived as far enough away not to require any further consideration at present.

In some instances, executives are too busy reaching revenue goals to think about exit planning, in others, it’s simply too big or complicated an issue to deal with ‘right now’, so it’s filed away for ‘future reference’.

But action is required – sooner rather than later.

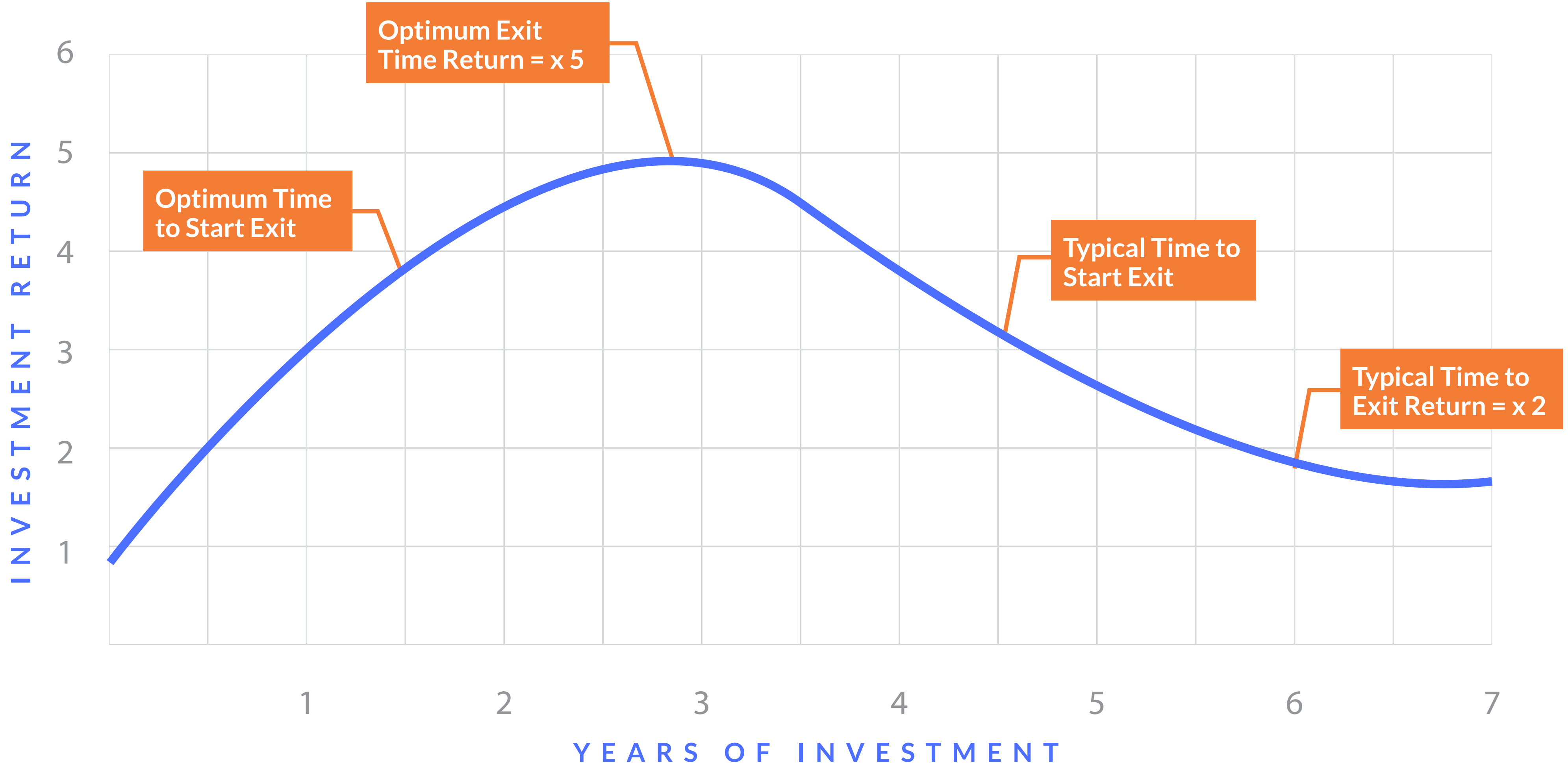
Why plan so far in advance?

Most business owners wait too long to start thinking about their exit and, as a consequence, lose a large part of their investment. They become brainwashed by the "Valuations" discussed within this industry, which focus purely on profit, Earnings Before Interest, Taxes, Depreciation and Amortisation (EBITDA) and revenue multiples.

Such owners can ride their business 'up and over the top', losing the benefit of the valuation curve, often selling their companies for much less than could have been achieved; and losing the maximum return to their shareholders in the process.

Delaying can severely reduce valuation at exit

A typical, proactive M&A process takes 6 to 18 months from making the decision to sell a company to completing the sale. That means, in order to achieve maximum valuation at exit, the decision to sell has to be made 6 to 18 months before the sale price peaks. Delaying any longer than that, typically results in a decreasing return as valuations hit the downward slope of the bell curve.



Act now!
Create an Exit Plan

Owners work extremely hard to build equity in their business, but they don't always recognise where the REAL equity value lies – or, more importantly, how to unlock it.

Equity growth is not the same as revenue growth, yet businesses continue to prioritise the latter while buyers look for evidence of the former.

Minimise your corporate risk

Even if your goal really is to exit in 3 to 5 years, you need to be proactive in creating a solid Exit Strategy that will minimise your corporate risk.

Otherwise, you will be unlikely to achieve your exit goals and you will end up exiting at the wrong time to the wrong buyer at the wrong price.

Achieving maximum sales value is not easy and business owners need external guidance to succeed.

Invest time now to increase the equity value of your company at exit.

If you want to grow your business and create an attractive investment opportunity, then speak to us about our new Equity Value Accelerator service.

75%

percent of business acquisitions are unsuccessful in achieving their stated objectives

Planning your exit early pays dividends.

You can...

- Create competitive tension to ensure you exit at a time of your choosing, when your business is doing well and market conditions are advantageous.
- Mould your business into the ideal shape for your chosen exit option – maximising the value you get from it
- Prepare successors if they're coming from within the business, this could be a family member or part of your management team
- Prepare the 2nd tier management team, if you wish not to sell but draw a regular income from the business
- Make your business more appealing to a wider range of potential buyers.

Take stock while the business is thriving

Business owners don't typically start to consider an exit when the business is achieving good growth and profit. However, it is probably a better time to stop and take stock than when growth slows and things become tougher.

Don't ride your business up and over the top of the valuation curve

Don't fall into the trap of riding your business up and over the top. Plan your Exit Strategy early, ensure all company stakeholders are in alignment and that you are aware of the dynamics and drivers in your niche of the software tech market. By being well-primed, you can ensure you cross the finishing line ahead of the competition.

The Equity Value Accelerator™

"Unlocking Your Hidden Equity Value"

Planning your exit strategy, and executing that strategy through to the final sale of your business, needs to be handled with focus, meticulous care, knowledge and experience.

Boss Equity are specialists in helping SME owners and senior executives the software tech industry maximise the equity value in their businesses.

Our Equity Value AcceleratorTM service is a revolutionary new approach to the mergers & acquisitions process that will radically transform and improve the experience for both sellers and buyers of software tech companies.

About Boss Equity

Unlocking the Hidden Equity Value in your Software Technology Business

Boss Equity work as a mergers and acquisitions firm at a strategic and operational level. We use our deep domain experience and knowledge of market drivers to enable entrepreneurs and investors in the software tech sector to recoup their capital, dramatically increasing the return on their investment and the 'sweat equity' in their business.

To unlock YOUR hidden equity value, contact…

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