

The benefits of letting go slowly

By Graham McBride

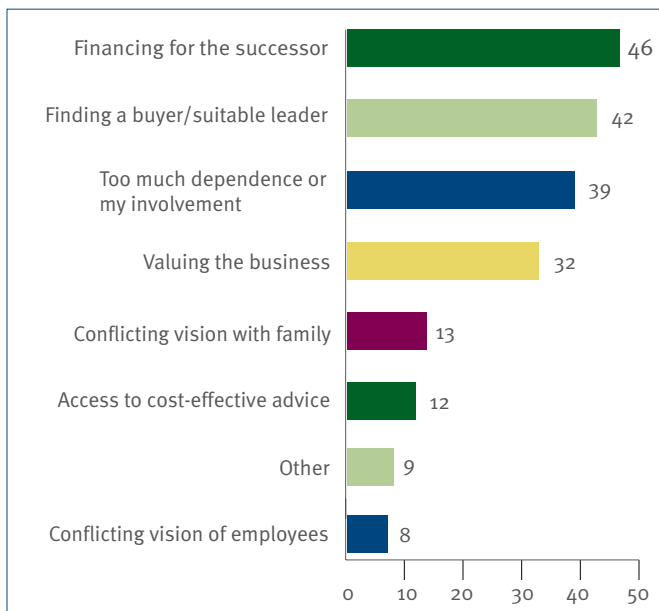


How a phased exit can help with the many issues of business succession

There are both technical and “soft” issues at play when it comes to planning the succession of your business. Technical issues are the matter-of-fact items such as legal considerations, valuing the business and securing financing. Soft issues are those associated with the personal emotions involved and could include a conflicting vision with family or key employees, or simply “letting go”.

figure 1.

Barriers to Succession: Current Owners (% respondents)



source: CFIB

According to the Canadian Federation of Independent Business (“CFIB”), business owners’ belief that “there is too much dependence on my involvement” is one of the biggest “soft” barriers to a successful succession (see figure 1). On the flip side of the coin, business successors cite “getting the owner to let go” as the main soft barrier standing in their way. It’s hardly surprising. Imagine taking something that you have spent years nurturing and building and simply handing it over to someone else.

For those business owners that struggle with the concept of giving everything up all at once, a “phased exit” or “partial buyout” may offer a more agreeable path. The right financial partner will not only work with you to phase out your involvement over time, but also provide help with those technical matters along the way to achieving the most important issue at hand - maximizing the end value of your business investment.

A phased exit allows you to start the succession process while you are still heavily involved in your business. Your ownership stake and involvement will eventually be phased out, but only after you have reached the stage that you are confident that the right people, processes and financial arrangements are in place in the best interest of your business and your personal future.

Phased Exit: The Benefits

- You don’t have to “let go” all at once
- Begin the succession process while you are still working
- Realize some upside and take some risk off the table
- Gain a financial partner with the same ultimate goal as you
- Introduce new skills to help the succession process
- Easier to raise funds or change direction in the future

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How does it work?

Often, a phased exit involves partnering with a private equity investor that will step up and provide capital on your business' balance sheet in one form or another. This financial partner will take on a portion of equity, and a portion of the risk, in your business.

There is a real benefit here for business owners in the fact that you are able to liquidate some of your hard work and secure some of the upside that has been built up over the years. You may have plans to grow the business even further before you leave, but you're probably not willing to put your entire retirement fund at risk to do so. A phased exit enables you to retain control over your business and the potential for further upside, while taking some of your personal risk off the table.

You are also gaining a financial partner who shares your ultimate goal – realizing the maximum value of the business when the time comes for a full buy-out. Business owners are very good at the operational aspects of their business, but the right financial partner will bring other skills that are central to a successful exit, such as handling intermediaries and public markets. If you have control over your business, but are struggling with the components required to maximize value upon succession, an experienced financial partner will add significant value.

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Once you have a financial partner that shares your same financial goal in place, it is also easier to raise future rounds of financing if required. Private equity firms find it much easier to write another cheque once they are involved with a company.

So what should I look for in a financial partner?

When selecting a financial partner, you are looking for someone that you will be able to work with over a number of years. In that sense finding the right partner is about more than money. Qualities that you might want to consider when selecting a financial partner include:

- An understanding of your industry
- A focus on, and commitment to, businesses of your size
- A strong strategic network, including potential successors and corporate financiers
- Access to capital and ability to offer flexible financing options
- Experience in negotiating the ultimate sale of a business

Remember, at the end of the day, you are looking for a source of capital that can actually work with management to help realize the maximum value for your business – making it easier for you to “let go”.



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