Chapter 3 - How do you get the timing right?

Speakers

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Transcript

Russell Prior
In this next chapter, our speakers discuss how you can get the timing of your sale as close to right as possible, delving into the critical considerations for you, your family and key stakeholders. And what you can do if the timing is wrong, but you still need to sell.

Andra Ilie
If the emphasis is on trying to get it as right as possible, let's explore what are the critical time-related considerations for a business when preparing an exit strategy?

Anna Macrae
The most critical time length aspect to prepare your business for sale, is preparing it. This means having the right people in your team. It means having a financial model, business plan, and a compelling investment story, which you'll present to potential buyers. By preparing this in advance, it speeds up the whole process. This is also an aspect where your advisors can support you in order to drive an efficient process.

Nicola Roberts
So there are time critical and time-related issues that you do need to think about. One of which is, all of this stuff takes quite a lot of time. But I suppose looking at some of the tax specific or structuring specific issues, if you are only going to sell a part of your business, it does take time to separate those businesses, again in whatever structure there is. And it does take time to make sure that you can get a good structure going forward for the business you're going to retain, as well as ensure that the part of the business you want to sell is in the right form to be attractive to the market. So time is taken to ensure all stakeholders are in line with that, and that planning and restructuring is done well in advance is critical.

Russell Prior
Some interesting points from a business and structuring perspective.

Now let's have a look at some other points of view.

John Barnett
So in terms of some of the timing issues, the key timing, particularly from a tax point of view, is two years. Often you will need to have two years of ownership to qualify for inheritance tax relief. You will need two years of ownership to qualify for what used to be called Entrepreneurs Relief and is now called Business Asset Disposal Relief, which gives you a lower rate of capital gains tax when you sell. So two years is the key time limit. That aside, obviously the earlier you can do things, the earlier you can incentivise management.

Tobias Sommer
The point also to take into account is communication. Often at times, the entrepreneur, the business owner, the CEO of the business, has been building the business from the ground up and communicating your plans around an eventual sale or change in ownership is important. Stepping back or succession is quite important for all your stakeholders, employees and various other partners. So thinking through a communication plan as to when to announce the plans for a sale or who you're communicating with I think is really, really important.

Russell Prior
Contrastingly, our last contributor has a different perspective.

Greg Limb
I don't think there's ever really one time-critical thing that you will ever come to see when somebody's, considering a sale or an exit from a business. But there's always things that you should consider in advance of that sale. And we always find it's best to sit down with as many of your trusted advisors as you possibly can, together with the business advisor or the broker who's helping you sell the business or look to the exit, and think about what needs to be looked at, what needs to be addressed, what are those critical things you need to make sure get done.

Andra Ilie
Now our focus has been on the business owner. Let's look beyond the business owner and at their family and key stakeholders. What might the impact be on them?

Sophie O'Connor
I think when preparing for an exit process, it's key to recognise it's not just the sellers who are involved in the process. You know, it could be wider family, co-shareholders and other key management. And I think it's critical to think about managing communications in relation to an exit. Understandably, an exit process can be quite an unsettling time, particularly when people may feel that they're not in the know. So I think whilst there might be a small deal team put together in the first instance, discussing initial offers and unsolicited approaches, it maybe that once there is a wider team involved, for example, in a due diligence process, it's critical to have a few talking points that can be discussed with that wider core group to keep everybody up to date and maintain business as usual, but also bring people along in that exit process.

John Barnett
In terms of considerations for your family, you may want to think about setting up trusts or passing some shares onto them. That will have both a tax impact and an impact on the deal itself. So make sure your family are on board and on a personal level, obviously your family are not going to be seeing very much of you for the six to 12 months that this deal takes.

In terms of other stakeholders, managing the information flow is going to be really key for you here. You don't want the information to get out too quickly about the business sale because it could disrupt the business, but you will need a core team around you, particularly your PA or your secretary, you need to think about how early to tell them what's going on.

Russell Prior
The emphasis so far has been about trying to get it right, but what if the timing isn't looking favourable and the business owner still needs to sell?

Greg Limb
I think when you are looking at the sale and things don't always go the way that you want and it might not be yet the right circumstance for what you were hoping for, I think it does come down to balancing priorities. What is the reason for you actually making that decision and taking that decision to sell or exit the business, versus is it better to carry on and move forward with the business from there? And it is balancing those priorities to make sure that the one that you choose, is the one that you are comfortable with as you move forward.

Anna Macrae
In the event of unfavourable timing, where there is a need to sell, the appropriate course of business depends on the specific circumstances at hand. If the timing is perceived as suboptimal, we can usually explore alternative solutions, such as other lending products or a minority investor to support the business in the short term, ensuring that it's then well prepared for sale when the timing is more appropriate. Your advisors will be able to present to you a range of potential options and alternatives if you are unable to achieve a preferred exit at that time.

Andra Ilie
When it comes to trying to get the timing right, it's clear from our experts that preparation is essential. That means sitting down with your trusted advisors to talk timelines, key considerations and goals. Legal and tax considerations should be factored in too, especially if you are only looking to sell part of your business. But you also need to prepare contingencies for the unexpected.

To listen to the other chapters in our 'Is Timing Everything?' episode, visit our Beyond Business Ownership series page on the HSBC Global Private Banking website, **www.privatebanking.hsbc.com/beyond-business-ownership.**