Episode 1 - Is Timing Everything?

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Transcript

Russell Prior
Hello and welcome to our Beyond Business Ownership series where we share guidance on every stage of a business exit journey.

I'm Russell Prior.

Andra Ilie
And I'm Andra Ilie.

Russell Prior
And we're here to offer fresh insights and actionable strategies from leading industry and HSBC experts to support successful business exits.

Andra Ilie
You can view the full episode or watch it in shorter chapters to help you find the information you're looking for at a time that suits you. You can re-watch each episode anytime by visiting the Beyond Business Ownership webpage on the HSBC Global Private Banking website, **www.privatebanking.hsbc.com/beyond-business-ownership.**

Russell Prior
Now let's get started with our first episode, "Is Timing Everything?". Timing plays a crucial role in the success of any business sale. It can affect the appeal of the business and ultimately its value.

Our panel of industry leading specialists and HSBC experts explore key themes, including how long it takes you to prepare for an exit, what you can do to reduce the timing risk, and the importance of resilience during a sale.

Andra Ilie
Timing is critical when looking to sell, but how can a business owner take timing out of the equation, or at least manage it as best as possible? We explore what you can do to reduce timing risk during a business exit, how to respond to an unexpected offer, preparation and precautions you can put in place, and how to reduce the risk of sector and cycle challenges.

Russell Prior
Let's start with one of the most burning questions from business owners. Is there ever a right time to sell?

Greg Limb
I always say there's never a right time, there's always an optimum time to sell the business, and that can be a point that needs to be factored in. So often, people will be finding that they're always striving for the perfect time in terms of when they want to sell the business, they think they can make more money, they think they can achieve something different.

Sophie O'Connor
First of all, as business owners, I think it's really important to be clear on what is your motivation for selling. And that may or may not play to a timeline, but nonetheless to be aware of it because that will steer the remainder of the process.

I think the second strand to it is there will be market factors in play, whether that's an election year - we tend to see deal activity slowing down around election time - or whether there are particular considerations that relate to a change in tax year, which may be a reason for slightly accelerating or decelerating on the deal timeline. As well as much wider macro-economic factors like the availability of debt, or interest rates in the market.

John Barnett
I guess a quick key question is, is there ever a right time to sell? And if you're looking at price, the answer is no, there's never a right time or a right price. If you think the price is right, then the purchaser won't, and if they think it's right, you won't. So you're going to need to come to some compromise on that.

Andra Ilie
We've just heard some interesting insights from a business perspective, but you also need to think about the personal side of things.

John Barnett
I think in terms of selling, you'll know when the right time is. You'll know when you've outgrown the business or the business has outgrown you. And I think a useful test that I've seen put out there is that the right time to sell is when there's enough for you, but there's something left on the table for whoever follows you.

The other aspect of this is thinking about the wider question of succession, not just of selling, and sometimes a key thing to think about is when it comes to succeeding to this business, the question is when, not if. Somebody will eventually have to take this business from you because you won't be around to do so. That may seem a morbid thought in some ways, but quite often realising that eventually this business will be somebody else's does help you get over that emotional block and helps you answer that personal question of when the right time to sell is.

Andra Ilie
Having started with the hardest question to our speakers around the right time to sell, we're then looking at how to reduce timing risk when exiting a business.

Nicola Roberts
I think the key thing is as a seller, you need to be clear about your divestment strategy, and so that is how, what and to whom you envisage divesting. In addition, whether you intend to stay within the business or whether you want to exit the business completely. For example, what I mean about that is, do you intend to exit to a third party sale? Do you intend to raise money via private equity or other investment monies? Or do you intend to sell the business as an IPO on the main market?

Greg Limb
I think one of the key things that any business owner can do when looking at exiting a business is prepare and plan. The more you prepare and plan, the better.

Tobias Sommer
Here at HSBC, we work with many privately held businesses, which want to address succession planning or exit related topics, and our main recommendation is really around preparation, preparation, preparation. That means involving your accountants, lawyers, bankers, and other advisors early on to help you prepare your business for an eventual sale and make sure that all your stakeholders, sometimes that means family members, sometimes it means partners in the business, or your suppliers, or many others, are aware of your plans to sell the business. And the more time you can give them to plan ahead, the better usually the outcome.

Russell Prior
For some an unexpected offer to buy their business may come as a complete surprise, depending of course on where they are in their exit journey. We asked our guests, what would be your suggestions in this situation?

Anna Macrae
Responding to an unexpected offer always requires a careful and strategic approach. It's important to assess the offer thoughtfully and consider both the short term and longer term benefits and implications. While some offers may stem from opportunistic moves, others may present genuine opportunities for growth and development of business.

My suggestion would be to appoint an advisor who has a good understanding of the sector and potential buyers, and can lead you through the process.

Sophie O'Connor
I think when an unexpected offer lands for your business, you'll be in one of two situations. Either you'll be totally surprised, or you might be expecting it because you've been thinking about an exit horizon of, for example, three to five years time. I think the key here is to avoid a rushed response and treat perhaps that offer with a healthy degree of scepticism. You're the expert, you know your business better than that external buyer. So I think an appropriate response might be to thank that relevant party for their interest and indicate that you are open to a strategic discussion. And sometimes it can take 12 to 24 months from an initial approach in that manner to turn into an ultimate exit.

Tobias Sommer
As a business owner you often will be receiving unsolicited inbounds or offers, and it really depends on where you are in your thinking regarding exploring a potential sale. Are you ready to entertain that conversation? Are you ready to let go? Is the company at the stage at which it can be passed on to another shareholder? If some of these statements are true, then we recommend you take the time to assess the offer and work it through with your advisors.

Andra Ilie
Some great practical thoughts there. Now moving on to during a business sale, there are always risks and you can't predict the unexpected. We were really interested to understand what preparations or precautions should owners have in place.

John Barnett
Clearly during the process, there are always some risks, for instance, that something unexpected might happen to the business owner. They might have a serious illness, they might pass away sadly. Clearly in that situation you want to think about things like having your will up to date. But almost more important than your will is Power of Attorney, allowing somebody else to sign things for you if you are not able to yourself. And ideally that will be what's called a Lasting Power of Attorney, so that if you lose mental capacity somebody can still sign things for you. That won't though enable somebody to sign director level decisions for you. So do also have a look at your company's articles and shareholders agreement. There's usually something in there about what's called an alternate director. So, make sure that you have somebody provisionally appointed as your alternate just in case you need them to be so.

Then finally you might want to think about things like life insurance. Two sorts of that – one's called keyman insurance that provides the company with funds if you are no longer around to run the company. The other sometimes used is called shareholder cross assurance, which would enable your co-shareholders to have a fund of money to buy out your spouse or your heirs if something unexpected happens to you.

Nicola Roberts
I think in terms of trying to prepare for unexpected illness or other events that might take a key person out of the business for a period of time, then it is the normal sort of thing. This is almost separate to any kind of exit planning anyway. It is all the normal sorts of things in terms of key person risk. What processes are in place? Does the rest of the business know what to do if that happens? And again, is the rest of the business, and that might also include the rest of the family, the other stakeholders, the other shareholders, clear on what would happen in such an event? And again, I think those things can be, with a lot of investment of time and it's not an easy thing to do, but those things can be prepared for in advance.

Russell Prior
So it's clear there are multiple factors to think about when selling a business. And it's a decision that requires careful consideration and planning. We hope our experts have given you plenty of helpful and practical information as you start to develop your exit plan.

In chapter two, our HSBC and industry experts discuss how long it takes to sell a business, the key steps involved, and how owners can prepare themselves in the event that the sale falls through.

Andra Ilie
So let's kick things off by talking timescales. How long does the business exit process typically take?

Greg Limb
A question we're often asked by clients while we're advising is, how long should it be before I think about the timing for the sale? When do I need to start considering the timing for that sale? The right answer is there's never an optimum point as to where it is, but we generally find that those who prepare in advance – two, three years in advance of the actual sale taking place, find themselves better prepared for the sale. Better prepared in terms of the fact that they've been able to consult, they've been able to plan, they've been able to consider what they may need to do, all in the hope of helping them maximise the value that they can take out of the business. And it could be that there's often simple things that they can do. It might be that they know that there's some big windfalls coming into the business down the line. So making sure that you time it so that that windfall falls into the business at the period of time that a purchaser is looking at, can be a real key ingredient to making sure that the time is perfected.

Sophie O'Connor
So when talking to business owners about preparation for an exit and realistic timelines, I would estimate that an active sale process is somewhere between perhaps three to six months. But the overall deal timeline, including from the very initial offers or indications, early marketing, fireside chats, all the way through sale preparation, due diligence, and ultimately to execution, can be more in the range of 12 to 24 months.

Nicola Roberts
I think in broad terms, people do need to allow at least 12 months in all honesty, almost regardless of the state of their business at the outset. I think the key criteria are really around making sure the data tells the right story that you want it to and are you in a good position to be able to do that? So inevitably, that's going to take at least a year.

Russell Prior
It's clear from what we've heard, that it is never too early. However, what we've also heard is that the timing you need to allow can vary depending on which part of the process you are preparing for. And in addition, don't forget that you need to think about how much time you need to prepare yourself personally for an exit.

Andra Ilie
Now breaking that timing issue down into more detail, we next asked our speakers – What are the key steps for owners preparing for and going through a business exit?

Tobias Sommer
In terms of the key steps in the sale process, we really think about the preparation phase as the most important one. That includes hiring advisors who will support the due diligence phase, particularly commercial, financial and legal due diligence advisors. Your banker will help you select the right advisors.

John Barnett
I'd say number one, know who your buyer is likely to be, possibly even before they know it themselves because that will impact a lot on how you prepare for the exit.

Second, do what's called vendor due diligence. So, think about the legal, commercial and financial questions that the purchasers are going to ask and have the answers ready, ideally set up in a data room.

Third, I would say get your team in place early. I would say this, but speak to your lawyers early, the legal stuff comes later, but if you speak to your lawyers early, it can make a real difference. And don't worry that the clock is ticking straight away. Be open with your lawyers about that and they'll be very happy to have early conversations with you.

Jacques Callaghan
One of the key considerations is momentum. And making sure that one maintains that momentum, which is helped by competitive tension. As part of thinking about that objective, part of the comprehensive preparation that one needs is to hire a series of specialist advisors, whether that be financial, vendor due diligence providers, or legal or IT, or environmental or real estate, or management advisors, to ensure that all the due diligence is comprehensively done before the launch.

Nicola Roberts
I think when preparing to sell your business, there are a number of key steps. I think the one at the outset though, is making sure you are able to really present the right value of your business to the market or whoever your market is, who's interested in buying it. In relation to that, having a really compelling exit strategy and equity story, and making sure the data tells the right story. So to start with, have all divestment options and the impact on the valuation for all assets being considered? What's the portfolio investment and capital allocation strategy? Is there a clear proposition and compelling growth story behind that strategy? Have the current and potential value of the portfolio been assessed? And then will that story resonate with different types of investors or buyers and their requirements?

Russell Prior
We know that a business exit can be a stressful and emotional process. So how can business owners prepare themselves and manage the fallout if the sale doesn't go through?

Anna Macrae
Preparing for an exit does involve navigating through different emotions and uncertainty, including the possibility of the deal not going through. So in managing this tension, it's often useful for the business owner to entrust the process to a trusted advisor who can offer support and guidance on these topics. It's important to establish a relationship of both trust and accessibility with any advisors. That could help to alleviate the tensions that may arise during the process.

Greg Limb
Walking that fine line between looking to the sale and losing track or losing focus within the business, is incredibly delicately poised when anybody is going through that sale of the business. We often find, and the best advice we tend to find to give people, is to make sure that you have a close group of people who are working with you on the sale within the business – who keep that information tight and then let everybody else carry on running the business. In the event then that the sale doesn't take place, the business hasn't been harmed. Equally, we also tell people not to get too far ahead of themselves and think about being on the beach, rather than being in the business.

Andra Ilie
Listening to our experts, it appears that it's time that's important when preparing to exit, rather than timing. Consequently, preparation is key, and that includes having the right team in place to help you prepare and execute your exit plan.

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.

Russell Prior
Our final chapter explores the role and effects of the wider macro environment on a business exit. For instance, how interest rates, elections and geo-political uncertainty can each play a part. We conclude by examining the role of resilience in managing the effects of timing in an exit.

Andra Ilie
When we look at what is going on in the world, we ask our speakers whether there are any factors that may indicate favourable timing for a business exit.

Tobias Sommer
The short answer is yes, macro conditions such as high interest rates or geo-political events can have a bearing on the timing of an exit. Other considerations to take into account are the valuation levels in the stock markets, the availability and cost of leverage, and confidence levels, all of which can be positive or negative in achieving a successful exit.

Willem Sels
Part of preparing ahead of time is trying to figure out whether you are likely to be able to get a trade buyer, or whether you want to look at financial buyers or even do an IPO. All of this gives you more options and therefore more flexibility when you want to sell your business.

Russell Prior
We've explored market and economic factors. Let's now turn to the effect of socio-economic and geo-political events.

Tobias Sommer
In the last few years, we have obviously seen a huge amount of events from Brexit, to the pandemic, to wars, to global financial crises, and they all have an impact on an eventual sale process. The one thing to bear in mind is that we cannot forecast these events, but what we can do is be as prepared as possible for the eventual sale of the company.

Willem Sels
Geo-politics and the election cycle can have an impact on the timing of your sale because it can either lead to lower valuations or even make liquidity completely dry up. So either you want to be ahead of such events, or wait until they have passed. In terms of macro elements, which will have an impact on valuations as well as the ideal timing of the sale, the economic cycle is important, but also the interest rate cycle because that will have quite a big impact on the valuations as it impacts the public markets.

Andra Ilie
Thinking about what we've heard, it's clear that the business owner has an enormous number of factors to contemplate, let alone manage when thinking about their business exit. With all of the uncertainty that this implies, the high levels of resilience are going to be key. We close by asking our guests for their perspectives on this really important point.

Nicola Roberts
Resilience is really important and I almost think about it in terms of not becoming too emotionally attached to the outcome if you are looking at a sale. I think business owners need to be very resilient, as they have been managing a privately owned business, and will have seen all sorts of ups and downs over the period that they've owned, built and grown that business. So the same applies in any kind of sale process.

Sophie O'Connor
I think an exit process is a challenging process, and working with business owners and entrepreneurs, I think business owners are typically quite resilient characters, otherwise they would not be in the position of having built a business that is attractive as a sale target. And I think the conflict that some business owners have, is they are the experts in what they have done and what they have developed.

Greg Limb
I think that business owners and entrepreneurs, and particularly the ones I deal with, are incredibly resilient in their nature anyway. It's what got them to be where they are today. It's often what drives them in their business. And often you'll find that even those entrepreneurs who don't quite get what they want out of the business the first time round on a sale, or an exit, or whatever comes from there, are looking to go again. Their resilience drives them forward and really makes them passionate about what they're doing and making themselves successful, successful again or twice as successful.

Russell Prior
We've heard a range of really interesting insights and reflections from our experts. Macro-economic, geo-political and socio-economic factors all have an impact on timing and business exit. It is of course clear that you can't forecast momentous events, but what you can do is plan for, and prepare for your exit strategy. Resilience is also key, so make sure you're personally prepared too.

Now that's the final chapter in our first episode of series two of "Beyond Business Ownership." Thank you for joining us, and of course a huge thank you to our expert speakers. Time and timing are incredibly important when it comes to planning your exit strategy. We hope our experts' insights will help you with your own exit journey.

Andra Ilie
Having reached the end of our first episode, "Is Timing Everything?" Look out for our next episode in the series, "How to Value Your Business," as our experts delve into this intricate subject.