AXIAL FOR CEOS

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THE CEO’S GUIDE TO

A SUCCESSFUL EXIT

AXIAL FORUM

THE SELLER SERIES

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Exploring an exit strategy is a process that no CEO should take lightly. More often than not, the sale of a business is the most important transaction an owner will ever complete.

Most people will only sell one business in their lifetime. Every CEO or owner wants to sell to the right acquirer, at the right time, for the best price possible. The potential financial and personal implications of a sale are enormous. It's natural to have some anxiety as you approach the process.

Many of the CEOs we work with at Axial benefit from having a trusted executive coach to advise them on best practices in operating their businesses. Executive coaches work with business leaders to enable their professional development, and provide an objective perspective on how to handle specific issues a CEO needs to work through. While there are thousands of executive coaches across the world, **Vistage Worldwide** is one example of an organization that has fully embraced the value of the executive coaching model.

Vistage is a peer-to-peer executive coaching organization that provides leadership training and business coaching to CEOs and executives to help them grow their companies. Every month, members of a Vistage group meet for a full day led by their Executive Coach, otherwise known as a Vistage Chair, to talk through all of the critical issues facing their businesses.

For this ebook, we talked to 11 professional CEO coaches and Vistage Chairs about the most important questions for CEOs to consider before an exit.

"A big part of what we do as coaches is challenge business owners to look to the future," says Arturo Lopez, a Vistage Chair in Houston, Texas. "Some will sell for financial gain, others to take the chips off the table, but many don't think about what they're going to do on a day-to-day basis after the sale. Where a coach adds value is in asking the really tough questions about their future."

Make a Plan for the Future

There are a number of crucial considerations that will impact the success of an exit. One important area to think about is your involvement in the business once the deal is consummated.

"Will you be able to handle ceding control of the company you've built to an outsider?"

Think long and hard about whether you want to stay on with the business post-transaction. Picture yourself at your headquarters with someone else in the corner office. Will you be able to handle ceding control of the company you've built to an outsider? Whether or not you want to stay will help determine how you position your company, to which types of buyers. Private equity firms, for example, will typically require a management team stay on board. Strategic acquirers can more easily insert their own executives.

If you think you want to leave, be sure you're ready to exit the business you've worked so hard to build. Ambivalence on this front may negatively affect the exit planning process. As Bob Berk, a Master Vistage Chair in Chicago, notes, "Although business owners intellectually understand their identity is not their business, it can be hard to separate the emotional attachment. Understand what your business goals are and what your personal goals are. Remember that you have value as a person, and not just as a business — this is crucial. There is a life after the business."

To prepare yourself for exit, think about what you will spend your time doing after you've exited the business, and be realistic. If you're used to working 12-hour days, and find satisfaction in your work, you may not enjoy constant relaxation as much as you think. You might plan to start a new venture, or dive headfirst into a passion that was formerly a hobby. Perhaps you'll spend your time travelling. Whatever it may be, crafting a plan will help make exiting your business easier.

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Identify the Right Buyer

As you begin to explore the exit process, identifying the key differences between strategic and financial buyers can help you understand their decision-making processes. Clarifying what each type of buyer is seeking can help you decide which fits your situation best. "Write down what your perfect buyer would look like," suggests Lopez. "Really challenge yourself to think about what life looks like without the business. What are the things you need to commit to get that done? What are the things you need to let go of?"

Adds Phil Akin, a Vistage Chair in Waterloo, IA, "It always gets back to the question of what you want. Do you want a check? Do you want a legacy? I'm constantly coaching CEOs to help them clarify what their goals are so that they can formulate a strategy for their decision-making process. At the end of the day, many don't know what they want so it can be hard for them to get there. CEOs and owners are constantly coming from a place of fear. It comes back to security and safety, and sometimes they just need a little bit of reassurance." Your desired personal and financial outcomes in a sale will impact the type of acquirer that fits you best.

Know Why You Want to Leave

"It's not always about the money"

There are a number of reasons that an owner may be ready to pass the baton. It's not always all about the money. "Start with the why," recommends Chuck Andrews, a Vistage Chair in Chicago. "Why are you doing it? What are you going to do afterwards?"

"When things are going well for an organization is the best time to look for an exit. Unfortunately, most business owners aren't looking to exit because that's the time they're having fun," says Berk. In some cases, the current ownership may have pressing personal reasons to exit such as irreconcilable differences between the co-owners, lack of an heir, or health problems.

Other times, owners simply need to pull liquidity out of a business to invest in an emerging opportunity. Owners may decide that the risk associated with that business is too great. Investment criteria can also play a role if the business isn't performing in line with the owner's desired rate of return.

IDENTIFY YOUR GOALS

Your goals may depend on current industry multiples or other market factors outside of the owner's control. But in some cases, ownership and the business's executives can play an instrumental role in increasing the probability of success, by a) valuing their company at or near a realistic number and b) employing a diligent and thorough process in marketing the company:

Several exogenous factors that may impact your planning:

- → Overall performance of the global, national, regional and local economy
- → Idiosyncratic risks/outlook associated with that industry
- → Individual company performance relative to overall market performance
- → Individual company performance relative to its competitors
- → Socio-political and regulatory environment

The Three P's

During a transaction, focus on the three P's — your purpose, your people, and your processes, says Roger Blackstock, a Vistage Chair in Atlanta, GA. "Do we have a clear purpose... a vision that is clearly articulated by all? Do we have the right people in place? If not, look for the right ones and replace the others. Do we have defined processes in place in order to execute properly?"

Focus on the three P's:

1. Purpose
2. People
3. Processes

Adds Kirk Dando of Dando Advisors in Fort Collins, CO, "Hope is not a strategy. You don't have to have a perfect plan, but you need a strategy with goals. You need a management framework and a cadence to review that framework on a monthly or quarterly basis. Everyone needs to obsess over the strategy, otherwise going through a transition is going to be even more difficult."

"The deal will be 10-100x more difficult than you anticipate"

Be sure that you have a team of people who can help with the deal or with day-to-day business needs. "I tell people, you think it's going to be difficult, but it'll be 10-100 times more difficult than you anticipate," says Dando. "That's an important thing, because during stressful times, sometimes we look the other way on things we shouldn't. The process can have a way of wearing us down, and we need to stay strong on the long haul."

8 Tips for the Transaction

Make sure you have a team supporting you during the deal process. Here are a few things to keep in mind:

1 "**Timing is critical,**" says Hank O'Donnell, President of Positive Traction LLC, a Entrepreneurial Leadership Team coaching firm. "If you lose an opportunity, it may never come again. Market conditions often dictate the best time to sell."

2 **Keep the customer at the core.** This applies during a transaction or not, says Dando. "The customer is depending on you to add value and so if that's already built into the way you operate, it's going to help during the deal too."

3 **Don't take your eye off the ball.** O'Donnell recommends CEOs schedule at least 50% of their time to the deal. Too often, owners get distracted by a transaction and then see see a downturn in sales or other adverse consequences — which can have a serious effect on valuation.

"If you've done right by your hiring, you need to lean on your C-suite during a transaction. The business of doing a deal becomes a full-time job," says Jack Gelman, a Vistage Chair in New York. "I've seen many situations where owners have taken their eye off the ball — their trailing revenue suffers, and it's reflected in the purchase price. Some buyers even get scared away."

4 "**Structure is crucial.** Have regular disciplined check-ins with your management team. The urgency of the deal is important, but it can quickly overcome the operational issues of the business. You need to delegate as much as you can. Slowly bring key members into the process."

5 **Stay away from secrets.** "If you're going to share that you're going through a transaction with your employees, depending on how open your organization is, my advice would be to keep people informed," says Dando. "If you try to keep a secret, it adds another layer of complexity. I strongly encourage you to have a contingency plan in that case, because it will leak. Even when people sign NDAs, it always leaks. Think about whether you want to be on the front end telling people, or the back end reacting."

"No deal and no promise is done until there's actually ink on the paper."

6 **Don't count your chickens before they hatch.** "No deal and no promise is done until there's actually ink on the paper. There are so many things that can go wrong up to the transaction being completed," says Gelman.

7 **Temper your expectations**. When thinking about valuation, remember that "you don't get paid on sweat equity," notes Ken Proctor, a Vistage Chair in Houston, Texas. "Sure, you built this business, and that sounds really nice. But it's not worth anything. I would have appreciated somebody telling me that at the beginning of the process."

8 **Look your buyer in the eye.** "The single biggest thing an owner has to do is sit across the table from the person he's selling the company to," says Akin. "Get all of the decision makers together and hash it out. Both sides need to spend time with each other to establish a comfort level and ease any concerns. Constant communication is absolutely key."

Get Support at Home

"Be real with your family about how hard a process this will be. There are seasons when you are busier than others, and this process may go on for a year or more. You need people to support you in that. If you don't have that support, it can be very difficult," notes Dando.

"I am a firm believer that if you have problems at home, it can bleed into your work and vice versa," agrees Proctor. "I mix business and home because there's no such thing as work-life balance. It's integration. It's all life."

Build a Strong Deal Team

"Make sure you have a good deal team," notes Andrews. This will likely include a finance team (some combination of an accountant, CFO, and/or wealth manager), legal representation, an M&A advisor, and a board of advisors or directors.

Selecting the right professionals requires an understanding of a company's objectives for the transaction and each member of the deal team's responsibilities.

In addition to traditional members of the deal team, a CEO coach plays a crucial role in helping sellers balance multiple demands and roles. "There's so much anticipation from the CEO before a transaction. Most of them are going through this experience for the first time. The opportunity for CEOs to make extremely expensive mistakes is huge if they don't have the right kinds of advice," says Tom Leonard, a Vistage Chair in Seattle, WA.

A CEO coach can help mitigate these risks. "The role of a CEO coach plays is vastly different than a deal negotiator, advisor, lawyer, or accountant. The coach doesn't have skin in the game, so he can provide an objective sounding board to business owners to make better decisions when circumstances are confusing. This leads the CEO to greater confident in their decision making," says Leonard.

"Everyone needs to be accountable to someone."

Coaches may give you feedback no one else has the guts to share. "Sometimes [coaches] tell owners what they don't want to hear," says Steve McFarland, a Vistage Chair in Indianapolis, Indiana. "As they're going through the process, we help them through the challenges. We always ask them, 'are you sure you want to do that?' and we're always honest. Most of the time they find value because they know that they are going to get the complete truth. Everyone needs to be accountable to someone."

"Business owners have a mask on when they're talking to their employees, colleagues, even family," says McFarland. "When they talk to a [coach], they take off the mask and reveal many of the challenges that exist in their life. Sometimes they really need to talk to someone who will tell them things that no one else will."

Asks Proctor, "Who do you have in your life that gives you agenda-free advice? A coach is not judgmental — their only agenda is to get you to the next level."

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Jordan Spivack is the manager of Axial's partnerships. His group is dedicated solely to the owners and operators of private middle-market companies. On a daily basis, Jordan works closely with CEOs and introduces them to some of the most relevant bankers, advisors, or capital providers on the Axial network.

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