Exit Planning (Owners Corporation)

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How do you get out of the business when you want or need to? You have spent many years building your business and the most common point a business owner will forget is an exit strategy.

You should plan your strategy as soon as you start the business. We are all getting older and health issues or changed personal circumstances sometimes highlight the lack of planning which may devalue the businesses goodwill. Unfortunately not all businesses have goodwill and I have seen over the years in particular, the retail sector, many businesses that have provided employment to an owner have been forced to close down due to no buyers in that sector.

Fortunately, at this point in time Owners Corporation is a 'shining light' in a depressed business market and we need to look at a long term exit strategy to maximize business values.

It is generally understood the large sector of baby boomers nearing retirement will create an oversupply in the market. Therefore, many good businesses when they hit the market in a variety of sectors, often for the first time, may end up without buyers as the number of businesses being sold will exceed buyers.

When a purchaser is evaluating an acquisition opportunity they will consider many factors. Some of those considerations will include the following;

- Business history and name
- Last three years profit
- Future maintainable earnings
- Staff and experience
- Sales pipeline, stability of earnings and clients
- Profit
- Plant and equipment
- Leases of office and plant & equipment

The market value method (multiple of management fees) or multiple EBIT has been used historically to determine goodwill of a business. The use of Market Value method has reduced over the years to just a few industries like the professions, mortgage brokers, rent rolls and body corporate. In more recent times change has been forced on some sectors, legislation changes (i.e. financial planners) and industry changes (i.e. telephone resellers), however Owners Corporation has remained constant. As cost pressures continues to build with wages, rent etc. it is uncertain whether or not this formula will continue.

The demand for portfolios under 5000 lots is still very strong however, with unrealistic expectations of some vendors looking to sell Purchasers are taking longer to make decisions influenced by international financial markets and increasing difficulty with obtaining finance.

If you are looking for a sale to provide for your retirement then a long term plan should be an important part of your business strategy. It can take a long time to sell and exit a business.

Having some flexibility is the key when it comes to selling any business. Long term leases may not suit a buyer, paying out a car or equipment leases will cost you when making a sale, in particular, if the buyer does not want that equipment. You also need to be aware of staff annual leave entitlements and long service leave liabilities.

Depending upon the structure you are selling can have tax implications and a clean balance sheet is critical for a company. Having personal assets in your company structure can result in difficulties from a sales point of view.

Why Use a Broker ?

Over the years I have wondered why some owners have not realised the true potential of their business with a quick and hasty sale to someone they know rather than testing the market. I know some people who have lost tens of thousands of dollars more than a broker’s fees would cost. As a broker it's my role to know the market, the values, the pluses and negatives of a business, who is buying, who has capacity to pay a little more to take on a portfolio or business.

From experience in selling owners corporation businesses over the years I know proper planning is vital and could mean the difference between a good decision and a bad decision financially.