THE VALĒRE GROUP
STRATEGIC VALUE CREATION

MOST EXIT STRATEGIES FAIL: How to Avoid Becoming Part of the Statistics of Failure

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Study after study has shown that most family owned businesses are unsuccessful in their implementation of transitions, whether through a sale or succession, in that owners fail to satisfy their objectives[1]. Yet, succession planning is a growing issue for family businesses due to demographics --- post WWII entrepreneurs have reached an age when they must decide how to pass on the wealth secured primarily in their privately owned businesses. Why do most exit strategies fail to produce the anticipated and desired results? Why is it that successful entrepreneurs, who created the world's greatest wealth, fail the final exam?

Based on my experience of working with hundreds of owners over the past two decades, I have developed a simple, practical 4-step process that avoids the major pitfalls of most exit strategies and, concurrently, focuses owners and managers on protecting and enhancing the wealth that has been created in their businesses. But first, some thoughts about the two words that comprise the term '*exit strategy*'.

I prefer to use the word "*transition*" instead of exit and the reason is that one of the ultimate objectives for owners is to convert the wealth they have created in their family owned businesses to cash --- liquidity. I have witnessed far too may owners falling into the trap of thinking that they have to sell their business in order to cash out, and by selling, being forced to exit. The fact is that owners can potentially *cash in* without *selling out* and exiting, merely transitioning.

As to *strategy,* often the exit strategies I have seen are more of a wish list (e.g., *when I'm 60 – 65 years old I will sell this business to my big competitor;* or, *turn it over to my son/daughter).* I believe it is impractical to attempt to create the perfect exit strategy. Mainly because we cannot predict what life-changing events might occur that will alter our view and objectives and potentially create a need to transition. Nor can we predict how the macro financial dynamics will affect the amount of wealth and opportunity for liquidity in the business. As an example, during the latter half of 2006 and first half of 2007, we have witnessed the hottest merger and acquisition market of all time, giving rise to higher valuations and thereby opportunities for owners. Therefore, strategies, in order to work, in order to be sustainable, must be flexible, adaptable and dynamic. The key to a successful *transition strategy* is to be prepared for **whenever** the opportunity or need arises.

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[1] Raymond Institute/Mass Mutual, American Family Business Survey, and PriceWaterhouseCoopers LLP, "Whose Business Is It Anyway? Smart Strategies for Ownership Succession"

The 4-Step Process

Step 1: Explore All Transition Options

Far too often, entrepreneurs reject an option based on incomplete information. As an example, one of the current trends that has fed the hottest merger and acquisition market of all time is the fact that billions of dollars --- yes, **billions** --- have been raised by private equity groups. Many of these groups are focusing on investing in and acquiring family owned businesses. Yet, I have witnessed many owners of successful, profitable businesses reject out-of-hand the opportunity presented by such a transaction. What are the advantages of such a transaction? The opportunity to convert a portion of the wealth in the business to cash; allow the owner to continue to manage the business while maintaining a share of ownership; utilize the resources of the equity group to substantially grow the business, and thereby its value; and, the potential of a second bite of the apple that could equal or exceed the initial transaction. In order to create a sustainable strategy that prepares the business for whenever the timing is appropriate, owners should consider the ramifications of all the various options --- a 100% sale to a corporate buyer; a partial sale to a corporate buyer; a private market recapitalization with an equity group (either a majority or minority transaction); an employee stock option plan (ESOP); an internal recapitalization; an initial public offering (IPO); succession to a family member; or succession to a manager.

Step 2: Think Beyond the Financials

For buyers and investors, the '*true value*' of a business goes beyond the financial performance. However, entrepreneurs often focus only on financial performance when concerned about the business' value. This is why multiples, in and by themselves, can be fallacious in estimating what wealth has been created in the family owned business. Other elements of value exist --- e.g., markets served, customer base, intellectual property, proprietary processes, corporate culture, and depth of management. These elements are valued differently based on the strategy and perspective of the potential buyer/investor. In order to protect and enhance the wealth created in the business, these elements must be identified and incorporated as part of the transition strategy.

Step 3: Create a Blueprint, and Use It

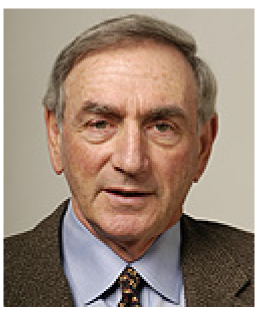
Create a plan, a blueprint, which integrates value (wealth) maximization as part of the day-to-day management of the business. The blueprint, in order to function, must be unique to each circumstance based on ownership's objectives, available resources, capabilities and values. And, it requires continued monitoring. If a significant portion of ownership's total net worth is represented by the wealth tied up in the business, it is the owner's responsibility to know at any point in time the answer to the question --- ***Can you convert the wealth in your business to cash on your terms?***

Step 4: Access the Appropriate Expertise

As part of the planning process, access impartial expertise on transition issues and planning to work in conjunction with your trusted advisors such as your CPA and attorney. *Expertise* refers to experience in operations management, familiarity and understanding of entrepreneurs and family owned businesses, practical merger and acquisition experience and an understanding of the current investment environment.

Impartial means the ability to provide objective, independent counsel that is not financially tied to a specific transaction.

In the end, we will all exit our businesses one day, it is just a matter of when and how much control will we have over the process. To be in control, one must plan; to be successful, one must have a dynamic plan in place. The above 4-step process is practical and can be integrated into the day-to-day management of the business to protect and enhance the wealth on behalf of the owners.



Don Matso

For more than 20 years, Don Matso has worked with a broad range of companies and has helped owners achieve successful transitions and personal wealth. Using his special expertise in what he calls "*Strategic Value Creation*", he guides family business owners in maximizing their company's wealth before they reach a key transitional event such as a merger or a sale.

Don's skill in improving profitability, performance and market value has been developed over years through his experience in key management and operational positions --- such as building a business from a concept to millions in revenue, culminating in a sale; in operations and senior management roles in the corporate world; and, in managing a mergers and acquisition advisory service for a division of SmithBarney/Citigroup.

Today, his firm, The Valēre Group, brings his experience to business owners who realize there will be a crucial transitional event in their future but are not sure of how to be positioned for that eventuality.

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