

Banking on an Exit Strategy

By Mackie Gober

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Remember.....EVERY BUSINESS WILL HAVE AN EXIT STRATEGY!.....You can BANK ON IT!

Every owner of every business *will* have an exit strategy!

The forward-thinking banker should realize that a banking relationship is not forever. Even if the best efforts are successful in fending off competition, at some point, the continuity of the client's business will be at risk. If unprepared, the relationship manager may find himself/herself scrambling after-the-fact to salvage the spoils of what otherwise might have been a mutually beneficial transition.

Do you want the fate of your accounts to be decided by someone else? "No!" Are you prepared for your best corporate customer to be sold and funds wired to pay off your loan, with the remaining proceeds to be transferred to an out-of-market fund? "Probably not!"

Business textbooks tell us that corporations have an infinite life. However, the founders of those businesses are mortal. Sooner or later, the owner(s)

must pass the torch to another person or entity. Although most family-owned businesses are formed with the expectation of perpetuating the company within the family, in reality, few make it past the second generation.

Anticipating the likelihood of a business sale requires action, not reaction. Asking the following four questions will increase the likelihood of strengthening your client relationship and improving the prospect of retaining the account after a change of ownership.

1. Why should you care if a business is sold?

All salespersons know that it is easier to keep an account than to get a new one. And, for cross-selling, your existing customers are your best prospects.

Often, bankers see the sale of a business as the final chapter of an engagement and thus avoid the "E-Word" (exit), as if ignoring the topic will make it go away. However, the prospective liquidity and leverage from an exit event actually can open multiple new business windows:

• Banking opportunities from the seller:

- Deposit services
- Money management
- Trust/estate planning
- Wealth diversification
- New venture lending

• Banking services for the buyer:

- Purchase financing
- Equipment leasing
- Cash management
- Key-man life insurance
- Retirement planning

2. What are the signs of ownership transition?

Just like human beings, businesses have personalities. These identifiers shift as owners become distracted or anxious about improved performance. To be in a better position to anticipate your client's needs, keep your eye on these surrounding circumstances:

• Challenges:

- No apparent successor
- Health problems
- Slowing internal growth rate and margins
- Heavier dependency on external capital

• Opportunities:

- Industry consolidation
- Emerging senior management
- Rising price/earnings multiples
- Satisfied owner expectations
- Life-style changes

3. When and how do you introduce the "exit strategy" topic to your customer?

Most corporate banking relationships involve an annual review. This meeting provides for a chronological update of the performance and expectations of all parties. Although not an agenda item for every review, an exit strategy conversation could be warranted, and perhaps appreciated, if one or more of the above "challenges" or "opportunities" are observed. Your expression of confidence, capacity, and willingness to discuss a transition plan could improve communication and increase the likelihood of your bank being involved as developments unfold.

• Here are some questions to begin the owner dialogue:

- Is the company continuing to meet your personal targets?
- Do you have a sense for the value of your business?
- Where would you like to see your company in the next few years?

4. What's next?

After receiving an indication that your client would like to begin discussion of
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the future for his/her company, a few initial steps are common to all exit strategy processes:

- Emphasize that developing and executing a sound plan could take several months to a few years, depending on numerous economic and family variables.
- Often, more than one buyer should be considered, not just the first suitor that shows interest. Encourage your client to keep an open mind to all possibilities.
- Suggest that a trusted consultant/advisor be introduced to the dialogue. Many business owners prefer a team manager or “quarterback” to analyze the options and move the seller to the “goal line.” Although investment bankers traditionally have filled this niche, introducing your client to an appropriate resource is a function of size, experience, reputation, access, and chemistry.
- Stay involved, but don’t micro-manage the process. ■