Making a successful business exit: when are you ready to leave?

How SMEs in the Netherlands, Belgium, Germany, the United Kingdom and the Nordics get ready for a company sale

EXIT READY | M&A | CAPITAL

INTRODUCTION

The value of a successful exit

Entrepreneurship is more than just running a company. It also means thinking ahead, planning and, ultimately, knowing when it's time to take a step back. A recent survey carried out by Marktlink shows that, in the past year, a quarter of European SME owners have seriously considered leaving their business. This corroborates the growing awareness among entrepreneurs of the need to carefully consider their plans for the future.

Approximately half of respondents are open to the idea of an early exit and 50 per cent have actively thought about succession. At the same time, exit planning seems to be something many entrepreneurs find complex and challenging. A successful sale or takeover requires careful preparation and a well-thought-out strategy, with the financial health of the business as well as the extent of preparation as crucial aspects.

In this white paper, we give an overview of the steps and considerations that are key to a successful exit. We shed light on how entrepreneurs can prepare themselves, on the role of financial stability and on the strategic decisions that enable a smooth transition. These insights help entrepreneurs navigate the process of leaving the business and optimally cash in on their hard work.

Are entrepreneurs concerned with succession?

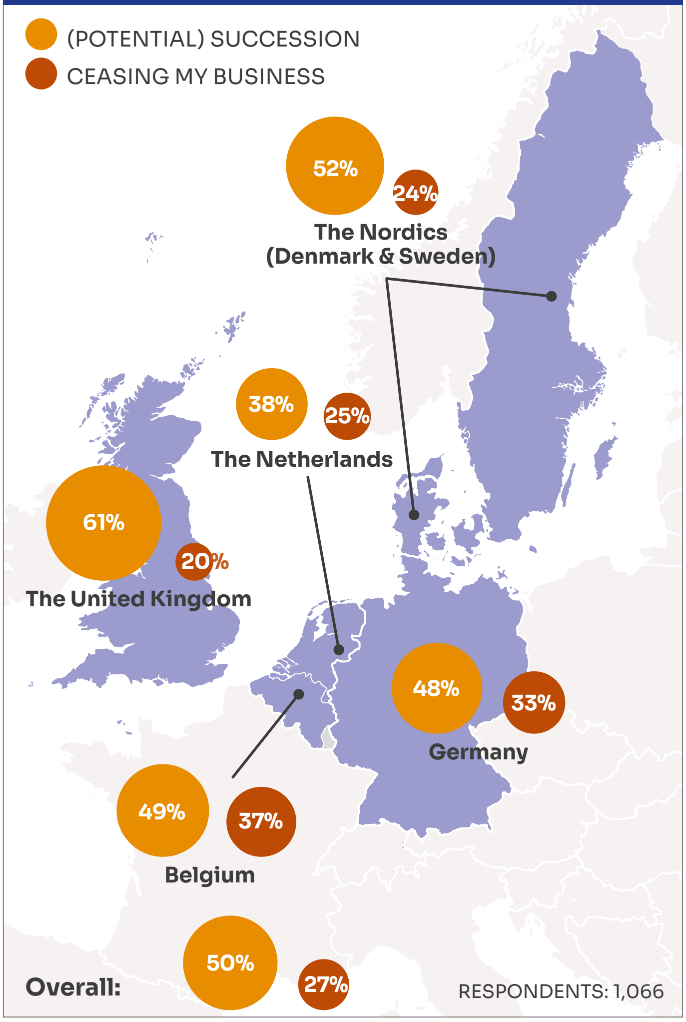
Having a succession plan is an important issue for many entrepreneurs. Recent survey results and insights from our Marktlink experts make clear how entrepreneurs think about the way they should plan their future and which factors influence them as they make decisions surrounding succession and a potential sale of the business.

Our research shows that, in the past 12 months, 50 per cent of entrepreneurs have thought about a potential successor. This demonstrates that succession is definitely on their minds but, at the same time, it seems that many entrepreneurs are not yet working on an exit strategy in any concrete way. No more than 48 per cent are open to an early exit, while 49 per cent say they don't have a clear exit strategy. These figures point to a certain ambivalence: entrepreneurs acknowledge the need for a succession plan but are often not yet actively formulating one.

Steven Meuldermans, the managing partner for Marktlink's Belgian offices, explains: "Entrepreneurs think about the value of their business but not so much about the process to maximise that value even though the right preparation and strategy can lead to an outcome that exceeds expectations."

HALF OF EUROPEAN SME-ENTREPRENEURS THOUGHT ABOUT THEIR SUCCESSION, ONE IN FOUR CONSIDERED STOPPING

In the past twelve months, I've thought about my potential succession/ceasing my business



Something else worth noting is that, in the past year, 27 per cent of entrepreneurs have seriously considered giving up the business. This number suggests that a substantial proportion of entrepreneurs are thinking about a business exit but in many cases haven't taken the step towards concrete action. In addition, 53 per cent of respondents state that leaving the business is not a serious option for them, a situation that could point to emotional or practical obstacles keeping entrepreneurs from making up their minds.

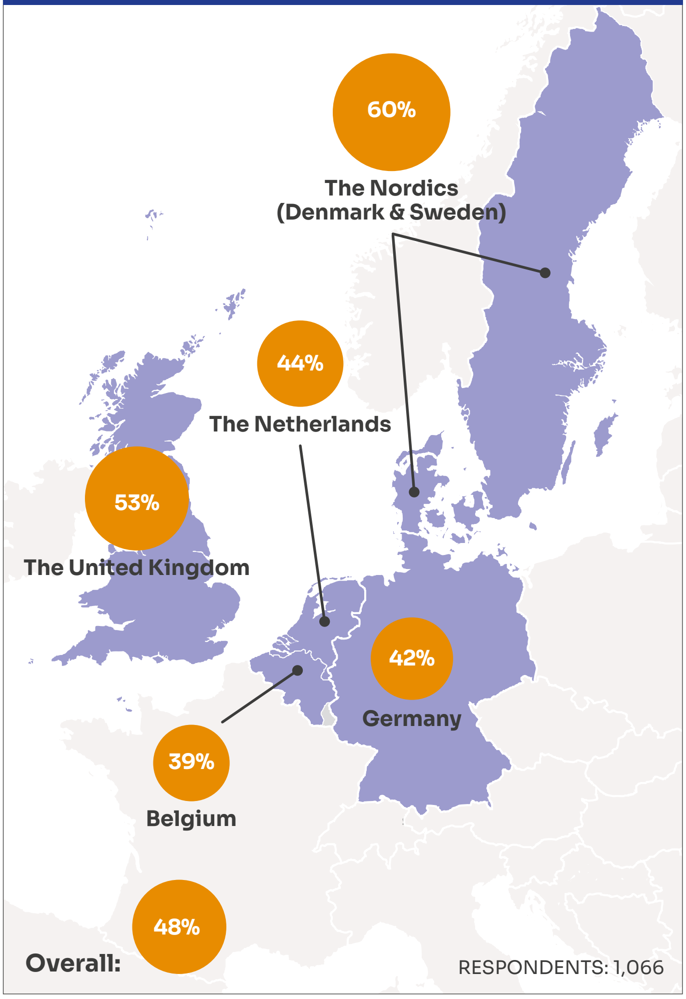
CONSIDERING AN EXIT

The decision to leave a business is never easy and is driven by a number of factors. The most common reason for entrepreneurs to quit stems from a lack of fulfilment and the desire to have more time for personal matters. Specifically, 24 per cent of SME owners indicate that they don't derive much satisfaction from being an entrepreneur, a symptom that could suggest something like a burnout or simply a need for change. The decrease in satisfaction could also be the result of greater challenges such as pressure on margins, red tape, the aftermath of the corona pandemic and geopolitical tensions.

Furthermore, the survey reveals that 52 per cent of entrepreneurs know exactly what their business should fetch to enable an exit. This shows that entrepreneurs certainly have a specific financial goal in mind but that this is not always enough to come to a final decision.

BELGIAN ENTREPRENEURS ARE THE LEAST OPEN TO AN EARLY EXIT FROM THEIR COMPANY

I am open to the possibility of an early exit from my company



Entrepreneurs are faced with both emotional and practical hurdles when they contemplate selling the business. From an emotional perspective, the sale of the company can feel as if they're giving up a large part of their identity. This explains why many entrepreneurs, despite their intention to quit, nevertheless find it difficult to actually say goodbye. From a practical perspective, there's often uncertainty about what exactly will be coming at them during the sales process. Our survey shows that 51 per cent of entrepreneurs are unsure about what exactly the sale of their business involves, making the decision of whether to sell even trickier.

One of the most urgent challenges for family-owned enterprises is the lack of a clear and workable succession plan. Research reveals that only 23 per cent of family businesses have such a plan. This means that the majority are not properly prepared for any future handover. In Germany, for instance, 36 per cent of family companies don't have a concrete succession plan. The lack of a plan can have major consequences for the continuity of the business. Without a suitable successor, the company might not only lose its strategic direction but might also see its value decline significantly. In some cases, the lack of a succession plan could even lead to the bankruptcy of an otherwise viable business.

"Although entrepreneurs are grappling with a number of uncertainties, they know exactly what the actual (or desired) value of the company is. But what's often lacking is a clear plan for the steps that need to be taken to really achieve that value if and when the business is sold. This is where we come into play. With our expertise, we support our clients in realising their goals."

HENNING KÜRBIS, Managing Partner Marktlink Germany

CHAPTER 02

When do you start getting ready?

Our research shows that many SME owners regularly think about a business exit or succession. Sooner or later, every entrepreneur arrives at the point where the company will be sold. The exact moment to start preparing for this can have a considerable effect on the final selling price and any plans for the future.

According to the Marktlink monitor, more than half of entrepreneurs don't know exactly what steps they should take to wind up or sell the business. Only a third have a clear picture of how much a sale should yield to enable a carefree exit. A successful business sale begins with good preparation. This process can take several years so it's wise to start in good time even if there are no immediate plans to sell.

The ideal moment to start preparing for a business sale varies across entrepreneurs and companies. Our seasoned consultants underline →

Step 1: comprehensive business scan

The preparation process begins with a thorough analysis of the company. This entails evaluating its strong points and identifying potential areas for improvement such as operational efficiency, market position or financial stability. The goal is to uncover untapped opportunities to create value.

Step 2: advice and optimisation

The outcome of the business scan is used to formulate detailed recommendations, directed at reinforcing the company's value proposition. Together, we'll implement the necessary improvements, ranging from better financial reporting to restructuring business processes, thus enhancing the company's operational and financial performance and making it more attractive to potential buyers.

Step 3: formulation of future plans

Apart from preparing the company, business owners should also clearly define their own plans for a post-sale future. The greater the alignment between personal goals and the timeline surrounding the sale, the greater the likelihood of a successful outcome.

Step 4: readiness to sell

Once the business has been fully optimised and future plans are clear, the company is ready for sale. At this point, a search begins for the right candidate, the perfect match for the company. It could be a strategic buyer, financial investor or even a management buy-out (MBO) candidate, depending on the wishes and specific characteristics of the enterprise.

the importance of starting to prepare at least one to three years before the planned sale. This leaves enough time to optimise the business and take strategic decisions that can increase its sales value.

DIFFERENCES ACROSS COUNTRIES IN PREPARING TO TRANSFER BUSINESS OWNERSHIP

We surveyed 1,066 SME owners in the Netherlands, Belgium, Germany, the United Kingdom and the Nordics. We asked them about their preparations.

Netherlands

Although Dutch entrepreneurs are relatively happy with their company – 87 per cent say they derive satisfaction from being an entrepreneur – about a third are considering leaving the business. What stands out is that six in ten Dutch entrepreneurs don't have a clear exit strategy. This lack of preparation can lead to substantial problems when the company is up for sale.

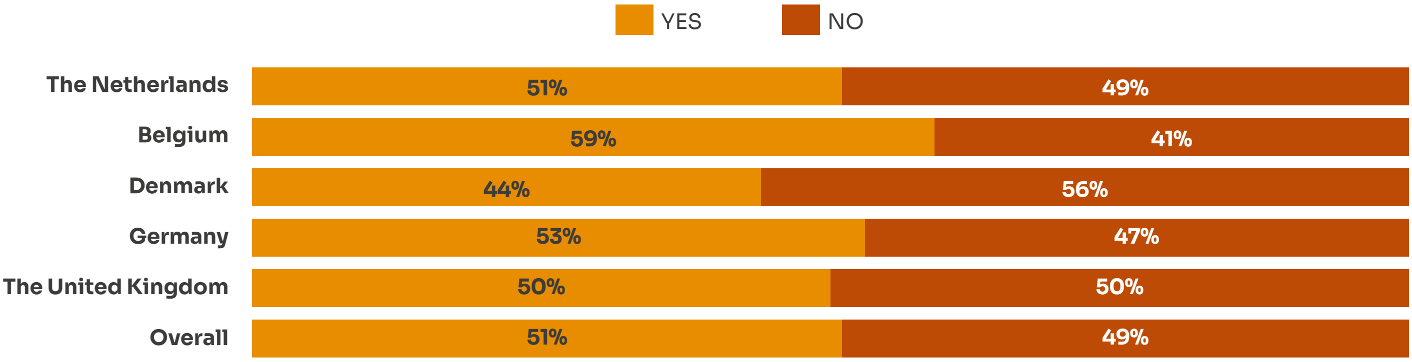
Tom Beltman, a Marktlink partner, emphasises the importance of timely preparation if the sales process is to be successful. His recommendation for entrepreneurs is to seek advice about business valuation and potential buyers. Beltman points out that the reality of an ageing population and changing market dynamics demands a well-thought-out plan for the future.

Tom Beltman, Managing Partner Marktlink Netherlands:

"If you, as an entrepreneur, wait too long to develop an exit strategy, there's a good chance you'll have to carry on working even if you're burnt out by factors like new legislation and regulation, views that conflict with those of younger generations or an inability to keep up with technological developments."

51 PERCENT OF EUROPEAN ENTREPRENEURS HAVE NO CLEAR UNDERSTANDING OF THE CONSEQUENCES OF STOPPING AND/OR SELLING THEIR BUSINESS

I do not have a precise understanding of what needs to be done or what challenges I may face if I decide to stop running my business or sell my company



Belgium

The situation in Belgium is similar, with 59 per cent of Belgian entrepreneurs not having a clear exit strategy and not knowing what they might face when they sell or discontinue their business. Although, in the past 12 months, almost half of respondents have thought about succession and 37 per cent have considered leaving the business, their preparations are often inadequate. Meuldermans says: “Of course, the day-to-day management of a company saps huge amounts of time and energy. Even so, it’s important to always bear in mind the end game. The partial or full transfer of an enterprise is a long process, psychologically and otherwise. It’s therefore prudent to start preparing in good time. Furthermore, it’s always possible that something unexpected will happen so that everything suddenly has to go into overdrive. It’s basically a good idea to be ‘exit ready’ at all times.”

Steven Meuldermans, Managing Partner Marktlink Belgium:

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Germany

The survey reveals that 53 per cent of German entrepreneurs don’t have a clear picture of what needs to happen or what challenges they might face when they sell or discontinue the business. Although 42 per cent of German entrepreneurs are open to a potential sale, many still have to develop the strategy necessary for a successful outcome. This is worrying because demographic changes, such as an ageing population, are playing an ever-growing role in the survival of companies. Given an average age of 53, with a quarter of business owners over the age of 60, it’s essential that entrepreneurs start planning their succession well in advance.

Henning Kürbis, Managing Partner Marktlink Germany:

“The reality of an ageing population and changing market dynamics demands a plan for the future. The approaching grey wave means that entrepreneurs should at the very least think about the transfer of their business well before they start thinking about actually leaving.”

United Kingdom

About 50 per cent of British SME owners don't fully understand the steps needed to get their company ready for sale or the challenges they might run into. Among British SMEs, 42 per cent don't have a clear exit strategy and 42 per cent don't know how much their company should fetch for a business exit.

Joe Moran, a partner at Marktlink's Midland offices, points to the need for careful planning.

Joe Moran, Managing Partner Marktlink Midlands UK:

"Selling isn't easy and calls for many years of careful planning and preparation. Although the market is recovering, entrepreneurs should be prepared for potential tax increases and economic changes that might affect their sale."

Nordics

The willingness among Danish entrepreneurs to sell the business at an early stage is notably high compared with their European counterparts. The survey shows that 60 per cent of Danish entrepreneurs are open to an early exit if conditions are right. This reflects the strong business mentality that characterises Denmark, according to Jesper Dueland, the managing partner for Marktlink's Danish offices.

Jesper Fogh Duelund, Managing Partner Marktlink Denmark:

"Although it's a good thing that relatively few Danish entrepreneurs are thinking about closing their business, it's still essential to have a well-thought-out exit strategy," Dueland stresses. "A sale is hardly ever simple; it requires not only insight into how the company is valued but also a thorough preparation for the challenges that come with it."

Despite the ample willingness to sell, many Danish entrepreneurs lack the knowledge and preparation needed to realise a successful sale. More specifically, 58 per cent of entrepreneurs don't have a clear exit strategy and 44 per cent don't fully understand what's involved in the process of a business sale or transfer. This lack of preparation is worrying, especially considering the complexity of a successful business transfer.

TAKE THE EXIT-READY TEST →

CHAPTER 03

Types of sale and parties

When a business is put up for sale, there are several sales strategies and relevant parties that need to be considered. The selection of a particular sales format depends on personal goals, the owner's vision for the future of the business and the opportunities for further growth.

PRE-EXIT: SELLING AND STAYING IN THE BUSINESS

A pre-exit is a strategy whereby part of the company is sold, while the entrepreneur remains active in the business. This is ideal for entrepreneurs who want to carry on for a few more years but need growth capital or a strategic partner. With a pre-exit, part of the company's value is cashed out, while the entrepreneur continues to work on further growth. A majority of the shares are often sold to an investor and the entrepreneur buys back a minority stake. Together with the investor, the business is made more robust and professional before it's finally sold in its entirety a few years later.

Advantages of a pre-exit:

- → Benefiting immediately from part of the business value.
- → Staying involved in the growth and development of the company.
- → Working together with a partner that contributes additional expertise and capital.

FULL EXIT

With a full exit, all shares are sold in one go and you leave the company altogether. This is an attractive option when you're ready to leave the entire business behind you and enjoy the proceeds of the sale. It's important to be well prepared from the outset because this step is final and control of the company is relinquished. Moran adds: "Entrepreneurs should always start with the end goal in mind. This requires careful planning and consideration, beginning a number of years before the start of the sales process."

MANAGEMENT BUY-OUT (MBO)

An MBO is a sale whereby one or several members of the management team take over the company. This is often a good option if you want to transfer the business to someone who's very familiar with the internal processes and can preserve the company culture. The process of an MBO is more complex than the sale to an external party because it involves personal and business interests. If the process is to proceed smoothly, there must be mutual trust and clear agreements.

MANAGEMENT BUY-IN (MBI)

An MBI, by contrast, is a situation whereby an external party, often an experienced manager or a group of investors, acquires the company. Quite often, this person or group has prior experience in the sector but comes with new insights and ideas. →

An MBI can be attractive if the business needs a fresh impulse or a different strategic direction. However, there's a risk that the new management team is less familiar with the specific business culture and internal processes, which can lead to a longer period of adjustment.

POTENTIAL BUYERS

Now that we've discussed the alternative sales strategies, we'll direct our attention to the potential buyers who might be involved in a business sale, namely strategic buyers, financial buyers and private investors.

1. Strategic buyers

Strategic buyers are companies in the same or related sectors that are looking to reinforce their market position. They're often willing to pay a higher price because of the synergies they can achieve, such as reducing costs or expanding their product range. These buyers usually have a long-term interest in the company they acquire.

2. Financial buyers (private equity)

Financial buyers, such as private equity funds, focus on achieving a return over a specific period by investing in companies with substantial growth potential. They often not only contribute capital but also strategic insights and experience that can help companies optimise their processes and reinforce their market position. Through restructuring and strategic adaptation, they can boost the company's profitability and growth potential. This type of buyer is ideal for entrepreneurs who want to grow quickly and are open to new opportunities and changes.

3. Private investors and family-owned businesses

Private investors, including both individual investors (such as those involved in an MBI or MBO) and family-owned businesses, focus on long-term stability and continuity. Individual investors might be interested in an MBI or MBO, whereby they get personally involved in running the company. Family businesses, which could also be strategic buyers, aim to achieve growth and consolidation within their own sector and can contribute new capital and expertise, allowing the company to grow successully in the long term. This makes them a good match for entrepreneurs who want their business to stay on the same course and continue to grow with new capital.

HOW DO YOU FIND THE RIGHT BUYER?

The choice of a suitable buyer is important for the success of the sale. It's good to know how the various types of buyer might impact your business. The best sales strategy is not a one-size-fits-all solution. The right choice depends on personal and professional ambitions, trends in the market and the future vision for the company.

CHAPTER 04

Getting the business ready for sale

Proper preparation for the sales process can be very worthwhile in the long term. It not only means getting mentally ready but also thoroughly optimising the business to make it attractive to potential buyers. A delay in the sale can act as a brake on investment and innovation, which can impede the growth and development of your business.

It's important to map out your company's weaknesses, risks, strengths, opportunities and threats. An analysis of these factors makes it possible to focus on getting the company ready for sale. Timely optimisation raises the appeal and value of the business and gives more control over the outcome of the sales deal.

ESSENTIAL STEPS TO MAKE YOUR COMPANY ATTRACTIVE TO POTENTIAL BUYERS

A successful sale begins with thorough preparation. A business sale means optimising all aspects of the company, thus creating a strong impression on potential buyers.

1. Optimising financial reporting: make sure financial reports are accurate, complete and up to date. This entails putting together clear and detailed profit and loss accounts, balance sheets and cash flow statements. Potential buyers will use these documents to evaluate the financial health of the business.

2. Attending to legal aspects: take care of all legal matters before the business is put up for sale. This involves verifying business contacts, ownership papers and any ongoing disputes. Make sure legal documents are in order and thus avoid complications during the sales process.

3. Formulating a clear exit strategy: clarify goals and set out the sales path by means of a clear exit strategy.This involves determining any wishes the sale should satisfy, such as the type of buyer and the structure of the sale (e.g. full sale, pre-exit or MBO).

DO'S AND DON'TS

With a business sale, requirements and expectations can vary sharply across countries. We'll give you the key do's and don'ts, based on research carried out by Marktlink. These guidelines will help you to prepare your business for a seamless sales process.

Do's

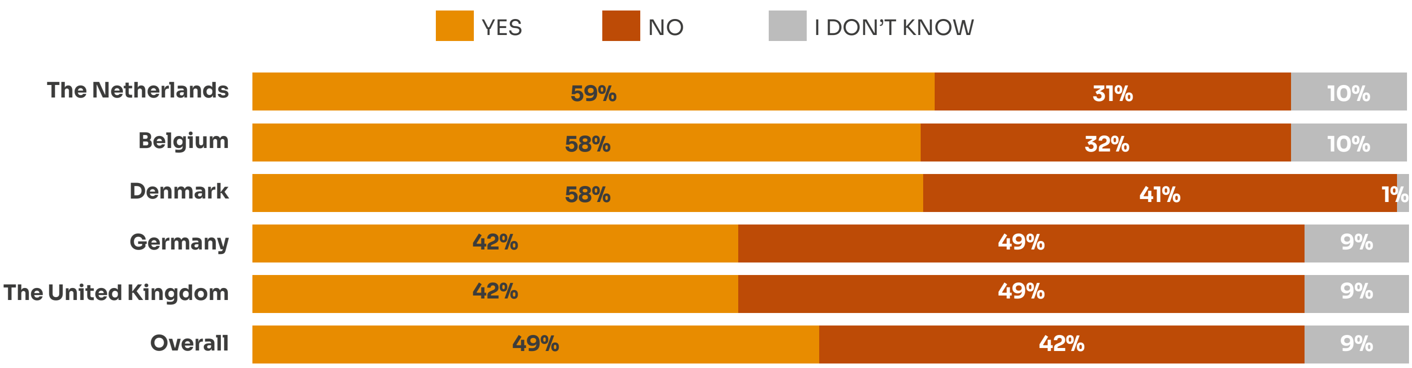
- **Create transparency:** transparency in financial reports and legal documents is essential. It inspires trust with potential buyers and reduces the likelihood of surprises during the sales process.
- **Start in good time:** begin preparations anywhere from one to three years before the planned sale. This gives you time to optimise the value of the business and identify and address any problems.
- **Develop a clear strategy:** formulate clear goals and strategies for the sales process. This helps you to focus and prevents unpleasant surprises.
- **Keep sustainability in mind:** focus on long-term investments and sustainability. More and more buyers find this valuable, especially in markets where ethical business practices take centre stage.

Don'ts

- **Don't procrastinate:** putting things off can lead to delays and greater risks. Make sure everything is well prepared so the process will proceed smoothly.
- **Don't ignore emotional aspects:** in family-owned businesses, especially, emotions can play a role. Don't ignore these because they can disrupt the sales process and cause delays.
- **Don't make unrealistic assumptions:** the sales process can be legally and financially complex. Don't underestimate this and make sure you're well prepared so you can avoid unexpected obstacles.
- **Don't take hasty actions:** don't rush into decisions without a well-thought-through plan and valuation as this can lead to a lower sale price and unfavourable conditions.
- **Don't forget the business culture:** make sure the business culture and long-term vision are clear to potential buyers. This helps attract the right buyer, one that fits in with the company and guarantees continuity.

49 PERCENT OF EUROPEAN ENTREPRENEURS LACK A CLEAR EXIT STRATEGY

As of now, I do not have a clear exit strategy if I decide to stop running my business

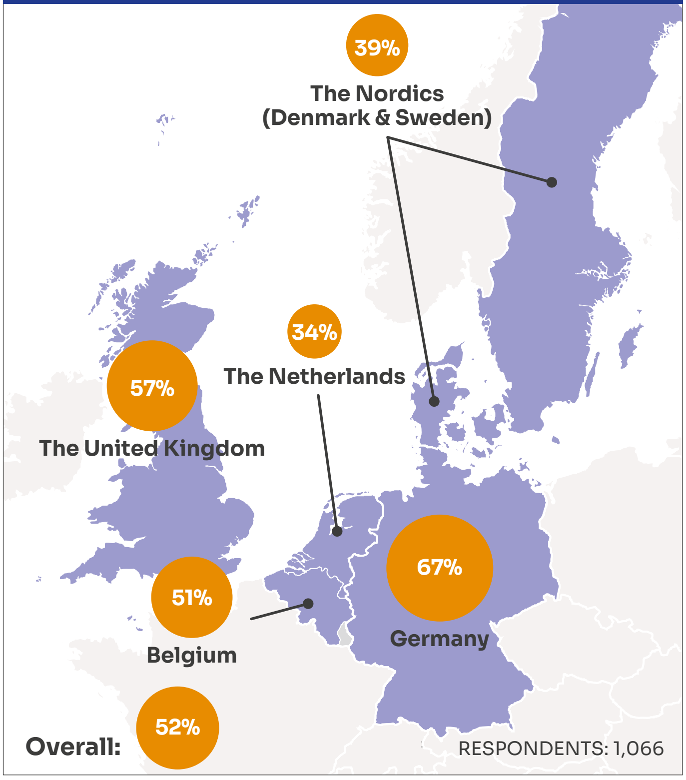


THE IMPORTANCE OF VALUING THE BUSINESS FOR AN EXIT STRATEGY

More and more SME owners are preoccupied with the urgent question of whether the direction followed by their company can be sustained into the future. Although some are ready to adapt their strategies for value creation, a more vigorous approach is needed, particularly in sectors that are vulnerable to global trends such as technological disruption, climate change and demographic change.

HALF OF EUROPEAN ENTREPRENEURS KNOW HOW MUCH THEIR COMPANY NEEDS TO BE WORTH FOR AN (EARLY) EXIT

I know exactly how much my company needs to be worth for me to stop running my business



INTERESTED IN THE VALUE OF YOUR BUSINESS?

The value of a company can be calculated with the multiple method. There's no need to do any complex number-crunching yourself. We recommend using the Marktlink Multiple, a tool based on smart data, in-depth sector knowledge and practical experience that immediately gives valuable insights. An additional option is to plan an exploratory meeting with one of our M&A specialists.

MULTIPLE TEST: CALCULATE THE VALUE OF YOUR BUSINESS →

CHAPTER 05

The importance of a good partner

When you sell a business, you also want to select the right partner to guide you through the sale and its preparation. The complexity of the sales process and the need to act strategically call for expertise, experience and collaboration you can rely on. A good partner can make the difference between a successful transaction and a process full of obstacles and delays.

WHY MARKTLINK?

→ **Market knowledge and network:** a partner like Marktlink has extensive knowledge of the market and a broad network of potential buyers, investors and other relevant parties in Europe. This network can often lead to the right match for your business, a party you might not find yourself.

→ **Professional guidance:** an expert partner helps you develop and implement a detailed sales strategy. With over 300 internal specialists, Marktlink also offers support in legal and financial matters so you can be sure the sale will be handled in a concrete and efficient way.

→ **Objective valuation:** Marktlink helps with the objective valuation of your business by means of advanced valuation methods and market data. This avoids value estimation that's coloured by emotion and ensures you'll get a fair price in line with the market.

→ **Time savings:** the sales process is time-consuming and complex. By engaging an experienced partner, you can benefit from their structured approach and knowledge of the process. This helps you save time and avoid potential pitfalls so you'll enter the process more quickly and more efficiently.

CONTACT

What is your next step?

Do you need help in getting your business exit ready? We are here for you. With unwavering dedication and a genuine passion for what we do, our M&A experts are poised to help you prepare for the course that's best for your company. After an exploratory meeting, we'll be right there with you every step of the way. Feel free to get in touch!

Phone numbers:
NL: **+31 (0) 85 0 400 300**
UK: **+44 (0) 161 706 2401**
DK: + **45 (0) 20 24 52 75**
DE: **+49 (0) 151 24 16 58 33**
BE: **+32 (0) 494 57 36 98**

Email: **info@marktlink.com**
Website: **www.marktlink.com**

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MARKTLINK M&A ADVISORY

Marktlink was founded in the Netherlands in 1996. Since then, the company has grown to become the largest independent M&A house in the high-end SME segment for Northwest Europe. Its international team consists of 300 M&A specialists who support companies in transactions worth between 5 and 250 million euros. With its international network Marktlink brings together buyers, sellers and investors worldwide. And it does so with success, as shown by the 150 transactions successfully completed last year.

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