Should I stay or should I go?

With scant cheer so far this year now could be the time to start planning your exit strategy, writes **STEVE FOSTER**

2008 WAS CERTAINLY a rollercoaster of a year for many in the property sector. With 2009 still in its infancy and the wounds of credit crunches and banking crises still sore, analysts are predicting that many medium-sized surveying practices will be swallowed up by bigger fish if this downturn persists.

So is now a good time to get off the rollercoaster altogether? What are your options in a market destined towards consolidation? If you are looking to sell your practice, to start a new business or hasten towards early retirement, how can you ensure all goes well for you?

Sell, sell, sell

The decision to sell is always a difficult one to make. The process can be extremely complex and contains many traps for the unwary surveyor. Therefore, the more you can plan the various components of the sale, the greater your chance of securing a good price and the best possible terms.

Having dealt with a number of surveying practices over the years, I've found three exit routes to be very common. These are:

- sale to a rival firm (trade sale) which is keen to purchase your portfolio and assets.
- management buy out – where you groom a number of senior managers or junior partners to take over the reins when you let go.
- cash maximising cessation – if no sale is on the cards, this strategy may enable you to leave most of the reserves in the practice (subject to the business not being seen as an investment company) and liquidate the business on your exit. Your assets in the business are then handled as a capital distribution and attract a lower tax rate.

The choice of route will depend on the motive for the sale and it is wise to be honest with yourself and your advisers so you select the best exit strategy for your situation. Motives differ – for example, is the income from the sale your key driver in this decision? Would you prefer shares in the ongoing business? Do you want a continued involvement in the practice?

Selling in the current climate

You should also consider how the economic climate is currently affecting exit routes. Many surveyors are saying that it is now harder than ever to find buyers for their businesses. The second half of 2008 was certainly quieter for acquisitions, but then an unusually large number of practices tried to sell before Business Asset Taper Relief was scrapped back in April 2008.

That relief's replacement – Entrepreneurs' Business Relief – is not as flexible and places a cap on capital gains tax (CGT) breaks for those looking to sell their businesses. You can now only achieve a 10% CGT rate for the first £1m of the sale, with gains over £1m subject to the normal 18% rate.

The banks

Many management buy-outs typically rely on some form of cash lending and with the banks now being more prudent in their funding strategies, this form of sale is currently proving more difficult. The key here is to be flexible and open to alternative options. For example, some banks are now placing more emphasis on business plans, or linking the release of funds to the delivery of certain agreed business 'milestones'. A number of sales are being part-funded by raising cash through invoice discounting and by conducting share swaps. Businesses are selling but surveyors have to consider alternative means of funding and payment. As well as flexibility, it also pays to have realistic expectations.

Be realistic

Last year, I came across a surveying practice that had received an offer from a large conglomerate. However, the owner of the practice had a sale figure of £1.2m firmly fixed in his mind. As discussions ensued it became apparent that acquisitions above £1m went to the conglomerate's board for approval. Just as his business was presented to the board to consider, the credit crunch deepened and the conglomerate walked away. If the owner of this practice had sought £999,999 for his business, the sale would have gone through. Business is now extremely tough for him and he has been forced to scale down his company and make redundancies.

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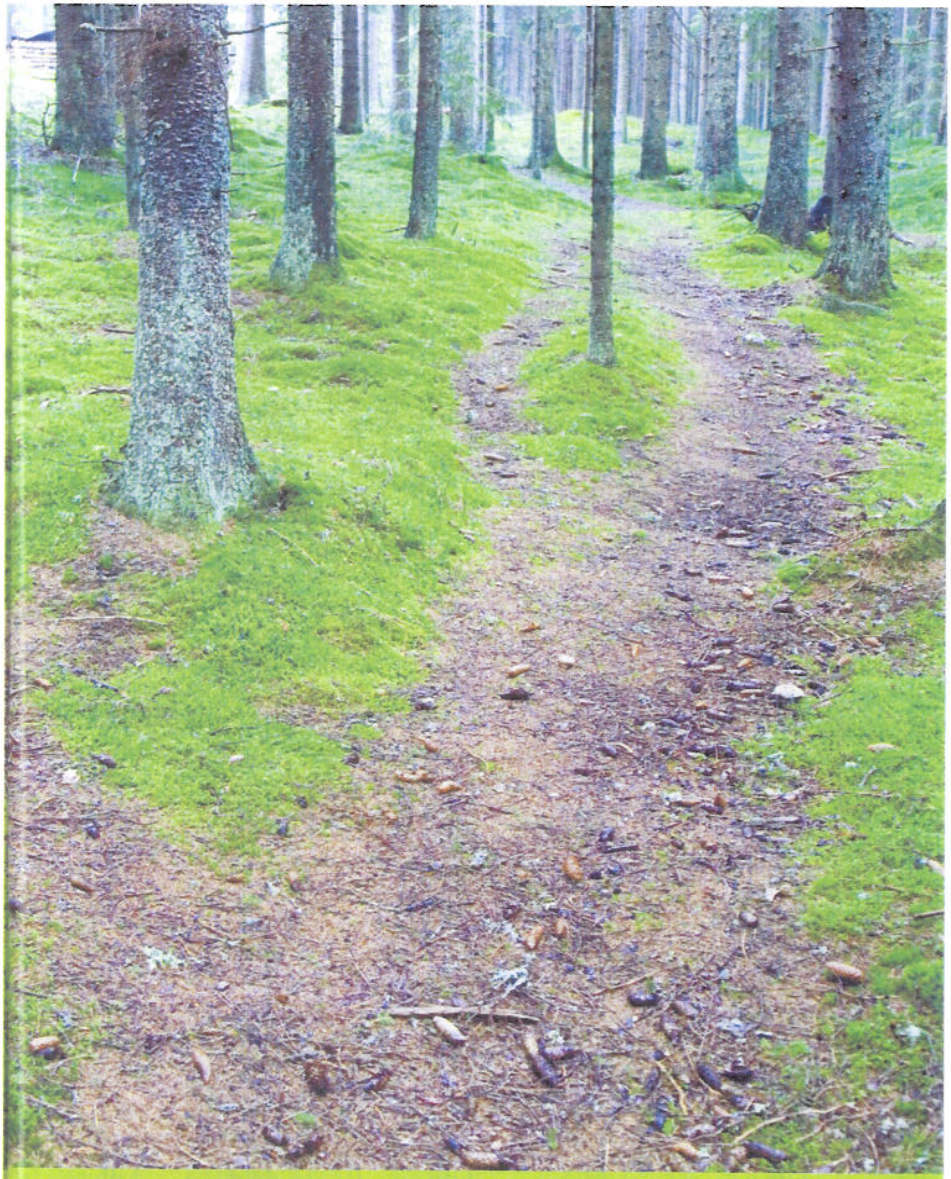

The value of planning

Planning can make a real difference in getting the right deal from your chosen exit route. If you are not desperate to sell now but want to in the future, make sure you use this time to spruce up your practice and to make sure that you are not integral to its ongoing success. Here are my top tips for those surveyors planning ahead. They are designed to help you increase the value and marketability of your practice, minimise the adverse effects in the sales process and ensure your sale encounters the greatest tax efficiency:

Rationalise your practice's structure

- Try and eliminate any complex structures and consider separating companies now that would not be part of the sale.

Maximise your management capability

- Ensure adequate skills remain after you have gone. This may mean recruiting a suitable successor now. You might also consider a handover period with some form of consultancy or employment arrangement.

Formalise contracts

- If you have any understandings or informal contracts currently in place, now's the time to ensure they are formalised so they can be transferred to the new owners.

Lose your litigation

- Conclude any litigation by or against you as quickly as possible.

Plump up your profitability

- The more profitable you are, the more attractive you'll be to a buyer.

Remove any private assets not being used in the business

- Tackle tangible/intangible assets – ensure all assets and intellectual property are properly licensed to the practice.

Tidy up your balance sheet and improve your debt-recovery

- Review the status and value of your property and other fixed assets.

"Many a successful business has started in a downturn... pursue your ambition"

Eggs in one basket?

- Reduce your dependency on key customers or suppliers as they can reduce the marketability of your business – especially if the relationships lie with you rather than the practice as a whole.

Healthy health and safety record

- Ensure your practice possesses all the appropriate licences and complies with all required procedures.

Starting anew

This year may present you with an opportunity to go it alone and form a new practice. Many a successful business has started in a downturn and if you think now is right, then pursue your ambition. To give your business a good chance, try and start with the end in mind. What is the main driver for you in this start-up? Will you want to sell it at a point in the future? Is it a business you want to quickly grow? Is it a business thats main focus is to give you the work/life balance you crave? Whatever your reason plan your business with these objectives right at the heart of it. You'll then invest your time and resources more wisely and take fewer 'detours' along the way. If you struggle with strategic business planning, consider getting help from outside. An objective viewpoint can help give you a clearer route to achieve your ambitions.

Early retirement

Planning is also essential for early retirement, especially if you are going to avoid forfeiting valuable income and paying over the odds in tax. If you want to exit this year, then do speak to specialist tax and financial advisers as soon as possible. They will be able to run through the options available to you in the current climate and in relation to your specific circumstances.

If you are desperate to get out, try and have realistic expectations. If you can hold on, use the time to plan so that you get the best deal.

Steve Foster is a principal at Shipleys LLP, where he advises a diverse portfolio of clients ranging from ambitious start ups to public companies

FURTHER INFORMATION

For advice on setting up in business, visit: **www.rics.org** or call: **+44 (0) 870 333 1600**. For tax advice, visit the HM Revenue & Customs website at: **www.hmrc.gov.uk**