



BUSINESS EXIT & SUCCESSION OUTLOOK

SME OWNERS SET TO EXIT BUSINESS

Approximately 32% of all Irish Small & Medium Enterprises (SMEs) and their owners are likely to exit the business within the next five years, according to research carried out by Ipsos MRBI on behalf of AIB.



Catherine Moroney

Head of Business
Banking - Market, AIB

SMEs are the backbone of the Irish economy and in every village, town and city throughout Ireland they play key role in job creation and sustaining many other local SMEs. The Ipsos MRBI research sheds light on a number of challenges and opportunities facing Irish SMEs in the near future. The Research which covered 1,000 SMEs operating across a range of sectors throughout Ireland, also shows that 69% of the owners who intend to exit will be retiring with as many as 3 in 4 of these in business for 20 years or longer.

A further 23% of those planning to exit the business say they intend to wind down their businesses as they were finding it increasingly harder to make it work, while 10% say they are exiting because the timing is likely to be right if they are to achieve the best valuation for their business. Just 3%, meanwhile, intend to exit to set up a new business.

The research, which also included in-depth interviews with the owners of SMEs from a cross section of industry sectors, shows that the most likely exit mechanism for 34% of SMEs and their owners is an outright trade sale. This was followed by closure (31%), family succession (14%), a management buy-out (9%), a partial sale (6%) and a management buy-in (2%).

A life-stage analysis of those SMEs surveyed showed that 59% are stable and mature businesses while more than twice as many - 24% - are growing when compared to the 10% of companies that are scaling back. Another 3%, meanwhile, are rapidly expanding while just 2% said that the

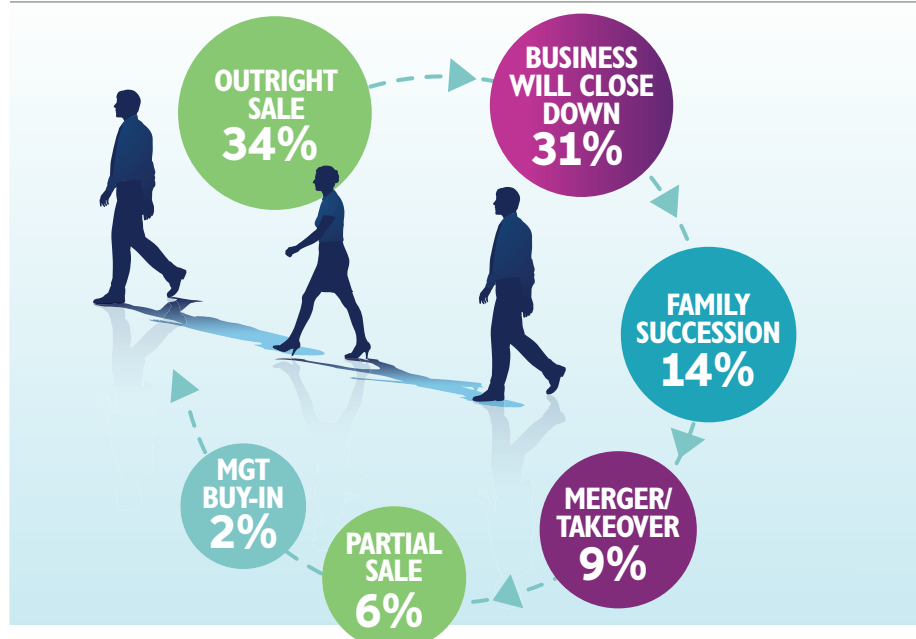
business was experiencing difficulties with a similar level indicating that they were in the start-up phase.

A sectoral analysis of the SMEs that are planning to exit the business within the next five years shows that 42% of those operating in the hospitality and leisure sector planned to do so while 34% of those operating in the retail sector are also planning an exit. They were followed by the services sector (33%), manufacturing (26%) and health (26%).

When it came to the likely exit approach to be taken by SME owners across the different sectors, 59% of companies operating in the hospitality & leisure expected to do so by way of an outright sale. This compares to 29% of SMEs in retail and 25% of SMEs in the services sector.

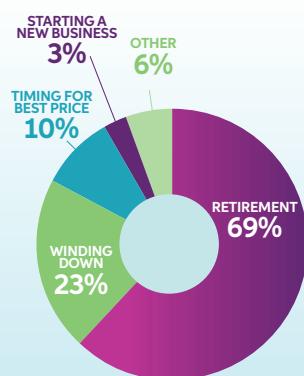
Even though the majority of SMEs that took part in the research were owner-managed or family-owned businesses, family succession

MOST LIKELY APPROACHES TO EXIT THE BUSINESS



Source: IPSOS MRBI 2018

REASONS WHY PLANNING TO EXIT

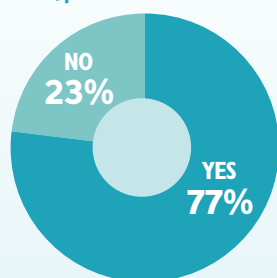


Source: Ipsos MRBI 2018

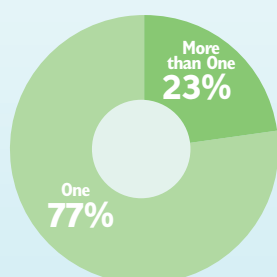
BUSINESS OWNERSHIP OVERVIEW

MOST SMEs FOCUSED / INVESTED IN JUST ONE BUSINESS

Does person managing the business own/part-own the business?



Does person managing the business own more than one business?



39% OF IRISH SMEs OWNER MANAGED / FAMILY OWNED

Source: Ipsos MRBI 2018

planning does not appear to loom large on their agenda. Just 19% of retailers, for example, cited family succession as a possible exit strategy. This decreased to just 12% of SMEs operating in the health sector and 8% in the services, manufacturing and hospitality & leisure sectors.

The research also shows that 14% of SMEs operating in the health sector are likely to sell or merge their business. A similar figure for SMEs in the hospitality & leisure sector was also reported while this dropped to 13% in retail and 7% in the services sector. Just 2% of SMEs in the

manufacturing sector envisaged this as an option.

The Ipsos MRBI research shows that overall 66% of SMEs are optimistic about the prospects for their businesses over the next five years.

When it came to the looming prospect of Brexit, however, 59% of those SMEs surveyed expressed they are somewhat or extremely concerned about it, largely because 77% of them have an export dimension to their business.

"One of highlights of the research is that two thirds of SMEs surveyed are actually growing rather than scaling back. These companies are expanding, investing, creating jobs and all of this is positive for the economy," Catherine says.

"It's also good for the likes of family-owned businesses or those with more complex shareholding structures in place because if they are growing, they can start to think about alternative sources of finance to help them grow and gives them the opportunity to think about bringing in other shareholders that can help them grow even more.

"Sometimes in businesses that are growing, when margins are high and other competitors come into the same sector, owners have to start thinking about the next phase for their business if they want to keep it as a value-enhancing business for their family. This can be a big challenge and very often the visionary entrepreneurs are the ones who realise that there are other people out there who can do this and allow them get on with doing new things and helping to grow the business," she says.

Somewhat surprisingly, of the SMEs contemplating an exit over the next five years, 31% of owners say they will close the business down.

"To see a business close means their owners have embraced a completely different mindset to an owner who wants to maximise the value of the company and the time and effort they put into building the company. I would always say to owners who are thinking about closing or winding down their business that they should not let any value in it slip away and that they should consider selling all or part of it, because there is a possibility they can extract some wealth out of it. Even if they think that nobody wants to buy the

business, they should look at all the options and talk to an advisor like an accountant, tax planner or a corporate finance specialist. The advisor might even know of someone who the business is worth more to than it is to the owner. They could be in the sector already and they may want to buy the company's customers – assuming their contracts are locked in. Or, if the company is part of a supply chain, they may want to be part of that market as it could add value to what they are already doing, leaving them in a stronger position to extract more out of it than the owner could.

With 50% of SMEs in existence for over 20 years, it may not be obvious to all owners that they do have a lot of value and goodwill locked up in the business. "Most companies that have been around for 20 years or more will have a track record and have some value in them that the owners may not realise. That's why it's important to talk to an advisor," she says.

While every sector has its own unique characteristics, "for businesses that have been around this long, it's less about the sector and more about the size of the business, it's positioning within that sector and whether or not there is enough value in it to make it attractive to others, whether it's a competitor or a management buy-out/buy-in," Catherine adds.

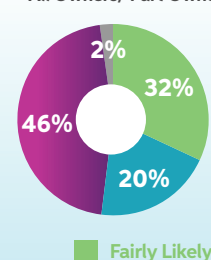
"If you have a family succession plan, then it's about putting in place the structures for it to work not just for the family but also the parent who is exiting the business," she says.

"This could also determine the type of sale or handover that an owner goes for. If they are in a very attractive sector and are running the business really well, they may have a couple of buyers and, again, this is where advisors can really help. Owners can then try and optimise the price by carefully selecting two or three possible buyers and create a more competitive scenario.

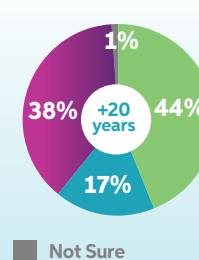
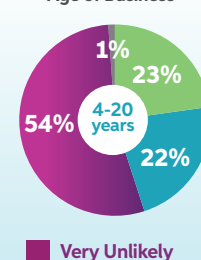
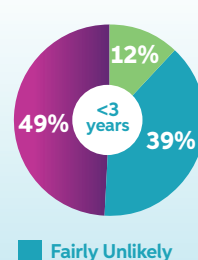
"For any owner thinking of exiting the business- whether it's a family-owned business or an owner-managed one, it's paramount that they start the process early and that they take advice from a trusted advisor," she says. ■

LIKELIHOOD OF CONSIDERING EXITING IN NEXT 5 YEARS

All Owners/ Part Owners



Age of Business



Source: Ipsos MRBI 2018

PLANNING THE EXIT

While selling a business can be rewarding, the vendors need to carefully consider all their options and start the planning process as early as possible.

In the lifecycle of any business, there are two key milestones: setting up the business and all that it entails and, at some stage in the future, exiting the business whether it is by way of a straight trade sale, a merger; passing it on to a family member or, in some cases, winding it down.

These milestones come with many emotional and financial implications for the vendor and the whole process can be fraught with significant difficulties if the right decisions are not made at the right time. Getting it right, however, can make a significant difference to the company's long-term prospects and the future financial welfare of its owner:

"Selling your business can be a very rewarding way of cashing in on all the hard work and effort you have put into developing and growing it but it also involves a process which can take time and should be planned properly and well in advance," says **Alan Mahon**, Director, AIB Corporate Finance, a division of the bank which specialises in providing companies, both large and small, with advice on buying and selling businesses, equity fundraising, debt advisory as well as management buy-outs and buy-ins.

"It is never a good idea to just decide on the stroke of midnight that you are going to sell your business and turn around the next day and try and do it. It's all about valuation maximisation. There are things that you should be doing well in advance of a sale to ensure that you actually do maximise its value," he says.

The decision by an owner to sell their business, or in some cases, close it down, can have life-changing ramifications, he adds, and the triggers can vary.

"Sometimes it's as simple as an owner wanting to retire and cash in their chips. A sale can also be triggered by someone who gets an approach from a third party and then they can either decide that they are happy with the price and take it from there.

Once a business owner has decided to sell, there are many other considerations they must weigh up, some of which can be very emotive and, sometimes, disconnected from the views of a potential buyer, says Alan.

"The biggest stumbling block - and it is consistent throughout most business sales - is that people will have formed a view in their heads around the value of their business and what they believe it's worth. Unfortunately, it's not that simple. The reality is the value is determined by what a buyer in the market will pay for that business. Often, we will see that a business will not sell for the wrong reasons or that the owner goes down a track only then to realise that their business is not worth as much as they thought. Again, this is

SHAPE OF IRISH SME MARKET



Source: Ipsos MRBI 2018

why it's important that they engage with experienced and trusted advisors who have experience in buying and selling companies. It's also important that they themselves understand what exactly it is within their company that is valuable and why. And if they can be realistic, then that's a good starting point," says Alan.



Catherine Moroney

Head of Business Banking - Market, AIB.

When it comes to passing on a family-businesses to the next generation - which can also add another layer of emotive flashpoints - a pragmatic and realistic approach is also advisable, says **Catherine Moroney**, Head of Business Banking, AIB.

"Family-owned businesses are different from companies where you have several shareholders or a single shareholder owning the business. There is a completely different dynamic at play. When we talk to family-owned businesses, we often ask them what are they going to do next? In some cases, they simply haven't given it any thought while in others they may have left it too late in the lifecycle of the business. Some will say that they won't be exiting the business as they have nobody to pass it on to. Others simply don't want to declare their hand just yet.

"The one piece of advice I would urge all family businesses to consider, irrespective of their plans or lack of plans, is a family charter and a good



Alan Mahon

Director,
AIB Corporate
Finance.

lawyer or combination of a lawyer and accountant can help with this. A family charter is a good way of kick-starting the conversation within a family about the future of the business and who is responsible for what and how it is going to work for everyone going forward," says Catherine.

"It's not about picking a favourite son or daughter to run the business, it's about deciding the best course of action for the business and its future. From the outset, everyone that is party to it is very clear about what is expected of them and any role assigned to them," she says.

"Important things like deciding who is running the business and who will be the ultimate decision maker overall can be covered by a family charter. The reality is that somebody must run the business and sometimes that person doesn't have to come from within the family. And if you do bring somebody in from outside the family, what do you do to incentivise that person? Do you give them, say, 5% of the equity over a period of years so you can hold on to them? The family charter can also look to tap into the skill sets different family members possess and assign them responsibility for different functions within the business," says Catherine.

"Family-businesses share many of the same issues as those that are owner-managed or have several shareholders. How does the owner plan financially for his or her retirement? How do they plan for taxation and pensions upon leaving the business? And what are the implications of bringing in external equity into a family business to help it grow are all important considerations," Catherine adds.

"One of the questions is how soon should a business start this level of planning? My answer is always the same - as soon as you see value accruing," the business," she says.

While choosing the right legal, tax and accountancy advisers is of paramount importance for SMEs, so too is the right banking partner:

"In AIB we have the full suite of products and services for both buyers and sellers. Apart from the obvious daily business banking, senior debt and working capital requirements companies have, we also offer products like invoice discounting, mezzanine finance, asset finance and leasing.

"Then, in terms of an owner's wealth management, AIB's Private Banking and whole wealth management services side are there to advise customers that are selling their business. Obviously, having your own tax advice is critical and one of the first things a banker will say to you is make sure you've got the proper tax advice," she adds. ■

PROVIDING FOR FINANCIAL SECURITY

SME owners considering a sale of their business need to consider the financial implications early on in the process.



Ronan MacEvilly
Financial Planning Specialist, Customer Financial Planning, AIB.

Unfortunately, however, a lot of people leave it too late and they then realise that they should have taken advice on things like pensions and life assurance much earlier in the business cycle and some start to panic. And when you are in panic mode, it's never a good time to be selling a business," Ronan says.

"When somebody comes to the bank looking for advice, we would look at the business, examine whether or not they are trading well, what kind of profits they make and whether or not the owner could benefit from some form of retirement planning, particularly in relation to their pension which is an extraordinarily tax-efficient way of turning business wealth into personal wealth at the stroke of a pen," he says.

"But it's also frightening that there are company directors and owners in their 50s who have no retirement assets whatsoever. They tell us that their business or their home is their pension. The key danger about this is that the asset, whether it's a business or a property – may not be saleable at the time they want to retire or, if they fell ill, there is a danger that the business could fail. It's not as simple as putting an ad in the paper, advertising your business for sale

"A lot of company owners tend not to distinguish between themselves and the business because they are so caught up in the day-to-day running of the business in the first place."

and somebody is going to buy it straight away. It's quite a complex legal process and to do it properly, probably takes several years of planning," says Ronan.

"We would always suggest that they diversify a little and try to change their train of thought. A lot of company owners tend not to distinguish between themselves and the business because they are so caught up in the day-to-day running of the business in the first place. While that is understandable, as they come close to retirement age it's important that they have made provisions for it and that if they are also selling their business, they need to plan for all possible outcomes."

Apart from adequate pension planning, Ronan says that SME owner should also consider things like Section

72 life policies and capital gains retirement relief.

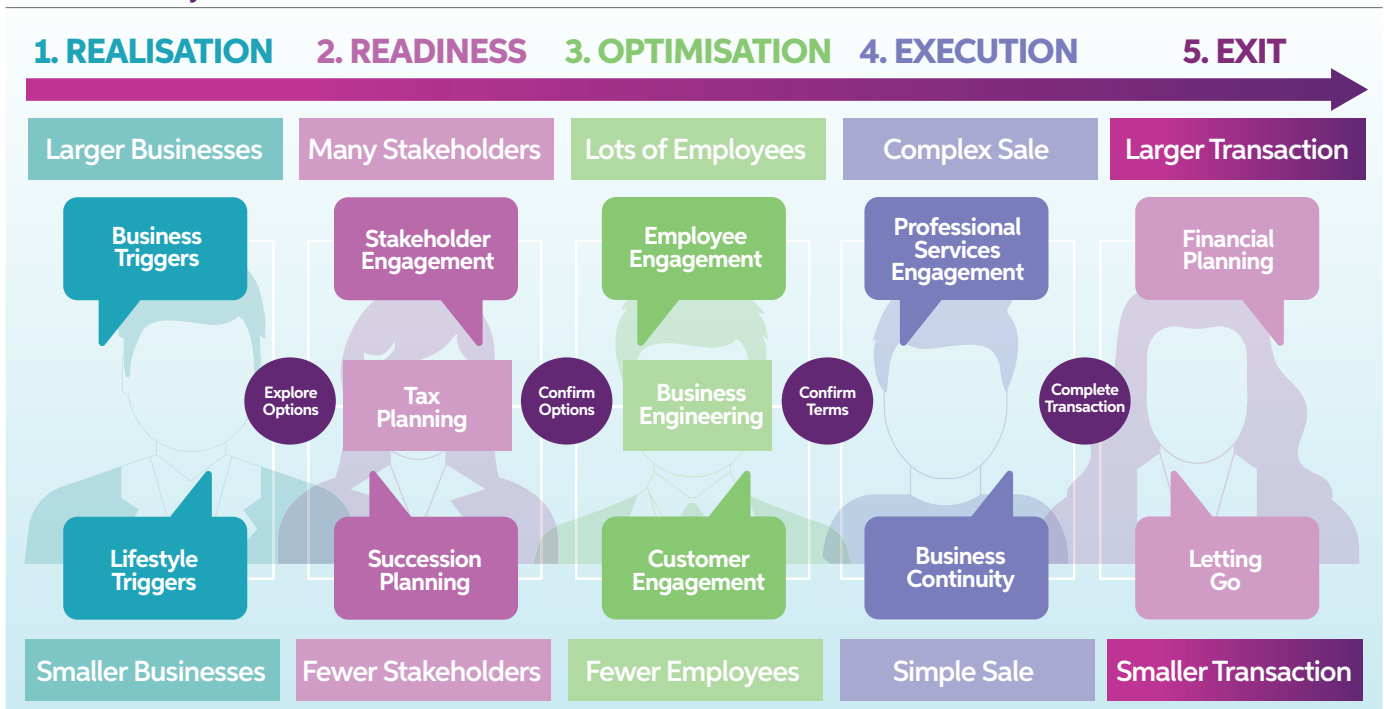
Section 72 insurance is a Revenue-approved life insurance policy, the proceeds of which are tax-free if used to settle an inheritance tax bill that the siblings of a business owner might incur if they inherit a business worth in excess of the threshold of €320,000.

Capital gains tax retirement relief is a relief from capital gains tax (CGT) available to individuals who dispose of all or part of qualifying assets of their business- up to a maximum of €750,000- including things like property, goodwill, farming land or family shares. CGT retirement relief can potentially reduce a CGT tax bill on the sale of such assets to between zero and 10%.

"If an owner was to sell the business without this relief, they can expect to pay capital gains tax and there's a huge difference between 33%, 10% and 0%," he adds.

"It's also important that if you are selling a business and thinking of retiring, you should always consult expert advisers. Often, SMEs are reluctant to seek good advice because there is a cost to it. However, anybody who has gone down this route will always say that it was money very well spent," concludes Ronan. ■

BUSINESS EXIT JOURNEY - THE FIVE STAGES



Source: Ipsos MRBI 2018

CASE STUDY:

**MAIREAD MACKLE,
HOMECARE
INDEPENDENT LIVING
(HCIL).**

For healthcare entrepreneur Mairead Mackle, the journey from building a business to selling a majority stake and then reacquiring control has provided some valuable insights.

Since its foundation by Mairead Mackle in 1995, Homecare Independent Living (HCIL) has grown into one of the leading private community healthcare providers in Ireland. Its 1,200 staff deliver more than 6,000 calls every day to clients living independently in their own homes, provide 2,200 beds every night for vulnerable families or those at risk of homelessness and independently manage more than 900 properties in Ireland for temporary and supported accommodation.

Mairead admits that she hadn't considered selling all or part of the business until she was approached in 2011 by Allied Healthcare, which was looking to establish a presence in the Irish healthcare market.

The initial agreement was for the sale of a 50% stake in the business. However, at a relatively advanced stage of the negotiations Allied Healthcare said it wanted to acquire 50.1% of HCIL.

"At that point we were left with the decision to either proceed on the new terms or pull out of the deal, having already conducted due-diligence and many other aspects of the process," recalls Mairead. "So, we set up a light-touch shareholders agreement where we would each have two representatives on the board."

At that time Allied Healthcare was listed in the US, but shortly afterwards the business was taken private when it was sold to Saga Healthcare, which then listed on the London Stock Exchange. In 2015 Allied Healthcare was sold to German venture capital firm Aurelius and it later changed ownership again when it was acquired by Health Care Resourcing Group.

"This was a challenging time with different people coming and going from the board," says Mairead. "We could have sold the whole business, but we were keen to retain some control. If the business had been set up with a view to selling it down the line it would have been different, but that was never the plan."

At the end of last year, HCIL completed



"Aurelius realised that social care is a particularly challenging industry and had set up a company voluntary arrangement for the business in the UK, which we saw as an opportunity to buy back the rest of HCIL."

a management buyout of the stake in the business held by Allied Healthcare, marking the end of a process that had been in motion for more than two years.

"Aurelius realised that social care is a particularly challenging industry and had set up a company voluntary arrangement for the business in the UK, which we saw as an opportunity to buy back the rest of HCIL," says Mairead. "We didn't want yet another different company coming in and besides which, we had been successful in developing the business without the input of our equity partner, which was only interested in the bottom line."

Although details of the management share buy-back were not revealed at the time she says that the stake in the business was acquired for 35% of what it was sold for.

HCIL had banked with First Trust for more than a decade so it was an obvious decision to ask the bank to finance the MBO. "Once the terms were agreed – after a great deal of tough negotiation – the actual deal was completed within two weeks. We could have approached other banks but First Trust

knew the business well and they had done the background work. It did a great job in terms of helping us get the deal over the line."

From start to finish, the whole process was a big learning curve for Mairead and she readily admits that she would never sell a majority stake in the business again.

"Any future investor in this or our other businesses would not be allowed to acquire more than a 30% share," she says.

"A properly incentivised management team could grow the business under majority ownership, but there is no incentive for a founder working under those terms."

One of the factors that has enabled HCIL to continue to grow, even in challenging circumstances, has been the strength of the management team, who have been with the company all the way through the process from the initial sale through to the buy-back of the company.

The role of external advisors has also been critical to the success of the business, particularly in their support of the management buyout.

"The original shareholder agreement had been put in place for five years with an option that if the business was to be sold, we had to be given first refusal," explains Mairead. "We were also able to ensure that our share of the business could not be taken from us on spurious grounds."

Future plans for the company now include the creation of 200 new roles across Ireland in 2019 in its domiciliary, housing and support businesses in functions like health care assistants and community management as well as finance, HR, marketing, communications, administration, recruitment, housing, maintenance and support.

She says the company also recently opened a new office in Dubai, where Royal Homecare Dubai will initially offer a range of professional nurse-led services. The company has moved a team of experts to Dubai and over the next 12 months they will further develop and expand the HCIL offering in the UAE.

In addition to creating iCare Digital - a progressive solution focused on improving the delivery of social care for the future – Mairead also has growth plans for design-led manufacturing company Fabraco, which develops portable space solutions for use in the private and public sectors. ■

CASE STUDY:

DAVID MORAN,
OXYGEN CARE.

Passing on the family business to the next generation requires careful planning, according to the family-owned business, Oxygen Care which was set up in 1972.

Oxygen Care is a leading supplier of medical equipment, offering clinical support and after-sales product support to hospitals, medical facilities, community care centres and private patients throughout Ireland.

The company supplies and services a range of products in the areas of anaesthesia, monitoring, clinical information management systems, ventilation, ultrasound, infant care, emergency care equipment including defibrillators, suction and oxygen and respiratory therapy, including nebulisers.

Oxygen Care was a founding member of the Irish Medical and Surgical Trade Association (IMSTA), which represents the medical technology supply industry in Ireland and is a corporate member of the Biomedical & Clinical Engineering Association of Ireland (BEAI).

The company was established in 1972 by Paddy Moran, who had been working for a UK-based medical equipment company for a number of years.

He was joined at the outset by his son, David. At that time the business was selling baby incubators with Paddy handling sales and David – who was previously a medical representative with a pharmaceutical company – assumed responsibility for repairs.

David explains that his father had banked with Provincial Bank of Ireland (one of the three banks along with Royal Bank of Ireland and Munster & Leinster Bank that came together to create Allied Irish Banks in 1966) since the mid-1930s.

“When he decided to go into business for himself, he spoke to his local branch manager, Charlie Watson, and within half an hour he had agreed a deal to provide the overdraft facility we needed to set up the company.”

Oxygen Care expanded steadily over the following decades and Paddy remained involved until just before his death in 1993, by which time David had taken over as managing director.

Two of David’s three children - Etáin and Maurice – now work for the company. Etáin has worked in different marketing roles for some years in Ireland and abroad before joining the business while Maurice joined straight from



David Moran
pictured with son Maurice
and daughter Etáin.

“We also made a point of discussing the company accounts and the direction of the business with the children once a year from when they were in their mid-teens, so they acquired a keen understanding of the business.”

college, although both had worked for the business during school and college holidays.

“We also made a point of discussing the company accounts and the direction of the business with the children once a year from when they were in their mid-teens, so they acquired a keen understanding of the business,” recalls David.

When David reached 60, he decided it was time to put the structures in place to support the handover of the business to the next generation. The first step was to tell the company management, who were non-family, that Etáin and Maurice would be assuming more active roles in the management of the business.

“About three years ago we engaged external management consultants to look at the company from top to bottom with the knowledge that I would become chairman of the board, our general manager Karl Goulding would become managing director and a non-executive director would also join the board,” says David.

The consultants were quick to note that Oxygen Care was a company that would benefit from a review of its existing structures. It had evolved over a long period of time, but with increased

regulatory obligations it was necessary to re-evaluate and, in some cases, recalibrate a lot of its structures and this proved to be a lengthy process.

“This significant cultural change is a lengthy process and comes with its own challenges,” explains David.

“You need to approach this type of exercise with a multi-year plan. We are fortunate to have highly valued and dedicated staff who shares our family ethos and values.”

He says making a point of keeping his contacts in AIB informed about the company’s plans from the outset was crucial because it meant important financial decisions could be made early in the process.

AIB has played a crucial role in the succession process, identifying that Etáin and Maurice would need to acquire new skills and the bank connected them with DCU’s Centre for Family Business. This Centre supports Irish family businesses through research, events, publications and a peer-to-peer mentoring programme enabling family business leaders to engage and share personal experience and learnings.

Etáin has also recently attended the AIB Women in Enterprise Growth Academy Programme and highly values the opportunity to have done so. Maurice, meanwhile, has started his MSC pathway with a Diploma in High Performance Sales & Business Development at UCD Michael Smurfit Graduate Business School.

David explains that he has now handed over most of his day-to-day responsibilities to the senior management team and that while he is still asked for his opinion on certain issues that arise, he is careful to get involved only when asked. In 2018 he reduced his time in the office from five to four days a week and will soon be reducing that to three days a week.

“I enjoy this level of involvement and plan to spend three days a week in the office for at least the next few years because I have a lot of experience to pass on,” he says. “I am sure there are many issues they no longer come to me with, which means I don’t have the stresses that come with being hands-on.”

His advice to other heads of family businesses considering how to pass responsibility on to the next generation is simple.

“For this to work you have to empower people to assume greater responsibility and avoid any temptation to second-guess their decisions,” he concludes. ■