WEBINAR SERIES: SMART PLANNING, SMOOTH EXIT

Webinar 1: Getting started: timing considerations and choosing the right exit route

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Host:

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Speakers:

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- **Jaime Trujillo**, Transactional Partner, Baker McKenzie, Bogotá, Colombia
- **Juan Pablo Bayter**, Partner, Oaklins Axia, Bogotá, Colombia
- **Juan Fontaine**, Director, Oaklins LarrainVial, Santiago, Chile

Transcript

Peter Gray
Hi everyone, and a very warm welcome to this Oaklins webinar on planning for an exit of your business.

I'm Peter Gray, former president of Oaklins, based here in London, and I'll be hosting today's panel session. We're going to discuss what an exit plan involves, the various exit routes available to you, and how to time your exit to maximize value.

This seminar is the first of two exit planning seminars, with a follow-up session on 27 October.

Before we kick off, just a few brief housekeeping items. This webinar is being recorded, and you'll be sent a recording following the end of this session, which we expect to last around 40 to 45 minutes. Also, please make use of the Q&A facility at the bottom of your screen to ask any questions you have for the panelists.

By way of introduction to Oaklins, for those of you who don't know us already, we're the world's most experienced M&A advisors in the mid-market. We've got fantastic global reach, with representation across some 40 countries around the world, with strong regional presence across Europe, Asia, the US, and of course, Latin America.

That international reach enables us to provide a truly global service to our clients. In terms of sell-side mandates, it enables us to source overseas buyers for our clients, which is vital when you look to maximize value for the sale of your company.

In terms of track record, collectively, we close over 400 deals per year. Over half of those are cross-border transactions.

In addition to selling companies, we advise our clients on how to prepare their businesses for sale, both to maximize value and, just as importantly, to make sure a deal actually happens. That's what we'll be talking about today.

We've got a stellar cast of panelists from Oaklins members across Latin America today, and a special guest from Baker McKenzie to talk about the legal aspects of exit preparation.

Before kicking off a series of questions I'm going to ask the panelists, I'm going to ask each member of the panel to introduce themselves, starting with JP (Juan Pablo).

Juan Pablo Bayter
Thanks, Peter. Hi, everybody. My name is Juan Pablo Bayter. I'm a partner at our offices in Bogotá, and I'm also the chairman of Oaklins International.

Alejandro Dillon
Hello, my name is Alejandro Dillon. I'm former chairman of Oaklins. I'm partner of Banco Valores, the largest wholesale bank in Argentina, and I act as co-head of investment banking, leading the M&A practice.

Jaime Trujillo
Thank you, Peter. Hello, everybody. My name is Jaime Trujillo. I'm a transactional partner at Baker McKenzie, the global law firm with a presence in more than 45 countries around the world, including the major markets in Latin America. We've been in the region for over 70 years.

I'm the former chair of Baker McKenzie Latin America, the former head of the M&A and private equity practice in the region, and I was also the acting global chair of Baker McKenzie for one year.

Peter Gray
Fantastic. And last but not least, Juan.

Juan Fontaine
Thank you, Peter. Hi, I'm Juan Fontaine. I'm director at Oaklins LarrainVial, the Oaklins office here in Chile.

Peter Gray
Brilliant. Thank you, guys.

So, the first question I'm going to ask is for JP. JP, why is it necessary to plan for an exit, and what's actually involved in that process?

Juan Pablo Bayter
Thanks, Peter. As with anything in life, you need proper preparation to achieve your objectives. If you don't put in enough preparation, you're not going to achieve your objectives in selling your business, which are probably to maximize value and achieve what you are expecting for your business after a lifetime dedicated to expanding it.

So, what is actually involved in an exit plan?

You really need to ask yourself different questions.

Probably the first one is, how much do you want for your business? How much do you want to achieve when you sell your business?

It has to be an amount that will cover what you are expecting, but it also has to be an achievable amount. There's no point in starting a sale process expecting three times what the company is actually worth. So you really need to decide how much you are expecting, how much you can get, and then put in place a plan that is going to take you to this valuation.

The next question is, how am I going to get to this plan? How am I going to achieve my target valuation? That involves putting together, as I said, a growth plan, and it will probably have a lot of different aspects.

One of the aspects will be organic growth. You can probably go into new markets, come up with new products, or expand your geographic reach. But you can also make some acquisitions, and then expand your business to reach the size that you really want when you're going to exit.

This can also be done in stages. I remember a really nice transaction that we helped with. It was a company that had a really aggressive expansion plan. They couldn't do it by themselves, and they didn't have enough capital to do it, but it was a fantastic expansion plan.

They asked us to help them put together the whole plan, and then we brought in private equity to put money into the company and start with some acquisitions. They became the leader in the country. It was a fantastic company, and then the shareholders exited at a much higher valuation multiple than they were expecting.

Another quick question is, how does my business need to look when I'm going to exit in order to maximize value?

For instance, the management team is a key question, and we're probably going to discuss this later in more detail. But the management team has to be independent. What is the composition? Do I have a really good commercial director? Is it going to be a focused company or a diversified company?

We were recently selling a really good software company. It was both a product company, with really nice software products, and also a software house, developing solutions for its clients. That was a really tough sale because, for those of you who know the sector, the sector is completely divided. Either you have product companies, or you have software houses.

Every time we went and talked to a software house, they would say, “It's too much product.” Then the product companies would say, “It's too much software house.” So it was a difficult sale. You really need to make those decisions in time.

Another quick question is, when are you going to reach this growth plan?

You need to really anticipate how long it's going to take, and then take into account all the external aspects, such as political uncertainty. For example, in Latin America, it is key probably to sell when you have a pro-business government rather than in a difficult situation.

Then another key question is, who am I selling my company to? You can sell to private equity, you can sell to a strategic buyer, and you can probably also sell to your management team, if that is something that maximizes your value and you also like it.

In a typical sales process, we will probably address or try to reach both strategic buyers and private equity buyers. But they will have different requirements in terms of growth and margins, and you need to achieve those things before you really tackle an exit.

One of the things that you typically hear from entrepreneurs is that they want to sell and then exit the company right away. They want to go and take advantage of the well-earned money and wealth that they created.

But this requires a succession policy that you have to put in place, and that takes a while. You have to put it in place properly, so you need to have your management team there, in place and independent, so that the buyers will probably feel comfortable with you leaving fairly soon after the transaction has completed.

And probably a last point. I know I'm talking about planning and being prepared. That takes a couple of years, three or four, depending on what you want to do. But a quote that Peter likes very much, and I'm going to use it, is, as Mike Tyson once said, “Everyone has a plan until they are punched in the face.”

It is very true also in business. For example, COVID. For some people, COVID meant a complete stop. They wanted to sell, but obviously it wasn't the right time. But for some other industries, like e-commerce, for example, it was the perfect time. They were growing like crazy, and it was a good idea to sell right after COVID, or later.

So do have a plan, do have a detailed plan, but you have to monitor the market, and you have to be ready to take the opportunities or to postpone if you need to.

Peter Gray
Fantastic, thanks, JP. Does anyone have anything to add on that question?

Juan Fontaine
Can I add something, Peter?

Peter Gray
Absolutely.

Juan Fontaine
I think that another way to think about it is what we often call dressing the bride, or “vistiendo la novia” in Spanish, which is, in the end, shaping the company over time so that, at exit, it looks exactly like what buyers are willing to pay a premium for.

And I think that goes beyond growth. It includes building a strong and independent management team, ensuring clean and scalable financials, reducing key man risk, and presenting a clear and compelling equity story.

Because, in the end, the companies that achieve the best outcomes are typically those that have been dressed well in advance, rather than trying to do it in the final month or even weeks before a process.

Jaime Trujillo
Peter, if I can add, and I'm not a tax lawyer, but as they say, nothing is certain but death and taxes.

But fortunately, in today's world, there are legitimate ways of reducing or deferring taxes. To do it properly takes a long time. It should not be done in the middle of a transaction. It should be planned ahead.

There are tax structures that involve reputable, tax-friendly jurisdictions like the US, Spain and Canada. If you don't want to end up paying too much of the proceeds of the deal to the taxman, you must consider tax structuring well ahead.

There are good reasons to do tax structuring regardless of an exit, to take advantage of double taxation treaties and investment protection treaties. So it's something that you should be doing regardless. Do it well in time. Avoid even the perception of impropriety or tax abuse. The earlier you do it, the better the perception is.

Peter Gray
Fantastic. Thanks, Jaime. So, Jaime, while you've got the floor, why don't you answer one of my questions, which you won't be surprised is a legal question.

What are the key areas of legal preparation that an owner of a business has to get right in advance of a sale process? And what do you see are the biggest mistakes that vendors make in advance of a sale, which result in the sale not happening, happening at a lower valuation, or being delayed from a legal perspective?

Jaime Trujillo
Thank you, Peter.

Apart from the tax issues that I just mentioned, and again, I've seen too many deals aborted or delayed because of poor tax planning, leaving that aside, bring in your legal advisors early in the process.

This is not a pitch for my firm in particular, but you need to get experienced M&A counsel on board as early as possible.

Many founders make the mistake of assuming that their in-house counsel or their in-house legal team can manage a transaction. M&A is more and more sophisticated. For good or for bad, our region has embraced the Anglo-Saxon way of doing deals.

That does not necessarily translate well in our jurisdictions. Of course, many buyers will be accustomed to this way of doing deals, so there is a lot to gain from engaging experienced M&A counsel as early as possible in the process.

A point that Juan Pablo mentioned is defining the role of the founder early on.

I've seen many founders staying on for a while after they've transferred control. I've seen them be very unhappy in a role that is very different from what they expected. They're frustrated.

So if a founder is not prepared to stay on for a while, do what Juan Pablo mentioned. Recruit a successor early on, and allow this person to be involved in the business so that the buyer is comfortable with this person managing the company from closing onwards.

A third point is knowing your company well. This not only refers to getting your numbers and your management information systems up to speed, but almost what we call a vendor's due diligence.

Put yourself in the position of a potential buyer, and ask the questions and do the homework that a buyer will inevitably do when acquiring your business. This helps you identify your weak spots and address your weak spots early on. Always have good answers, avoid surprises, and this, of course, builds trust, builds confidence, and ultimately enhances the value of the business.

Things like using a top-notch virtual data room platform. Some founders don't invest as much as they should in having a credible virtual data room where the buyers can have access to information, and in engaging somebody that they trust to manage the flow of information.

The flow of information is key. You cannot lose control of information. But some founders make the mistake of thinking that they can do this alone, which is, in most cases, not possible.

But sometimes they make the opposite mistake, which is broadening the group that is handling the information too much. And we all know it's human nature for employees to try to gain the trust of, or ingratiate themselves with, the buyers, whom they assume will be their new boss.

So there has to be a balance in the control of information. Don't keep your cards too tightly against your chest, but don't expand the group too much.

I think, for the time being, those are some practical tips that I would give our audience in terms of planning for an exit, Peter.

Alejandro Dillon
If I can complement Jaime's very good points, I think he mentioned the role of the founder, and I think it is key.

We work a lot with founders, especially entrepreneurs, and before starting the process, we tell them there are three very important stages.

One is what is called the deal execution period. They have to be prepared either to act as CEO or, as was said, if they hire a CEO, as a sort of chairman or companion to this new CEO.

Then there is the transition period that typically occurs after the takeover. There, in different cases, you have to work with compensation packages, management contracts, option plans and earnouts.

The third one, and I think that is the key one, is the day after. The day after they leave, as Jaime mentioned, we see many frustrations. So, in that sense, I think they typically need to be prepared to be part of the new company in order to make, let's say, a roll-up if the new shareholder wants that, or to start a new business, or play tennis or golf. But they have to prepare beforehand for the day after. I think that's a key element that was mentioned by Jaime.

Peter Gray
Fantastic, thank you, Ale (Alejandro)

So, next question, again for JP. Sorry for picking on you, JP. This will be the last question for you, I promise.

Getting the timing right, how do you ensure that you time the sale of your business to maximize value?

Juan Pablo Bayter
Getting the timing right is probably one of the key value drivers for any business owner. If you get the timing right, you will probably maximize value. But if you get it wrong, then you will probably have to abort, or you can destroy a lot of value. So it's really a key aspect.

But getting it right is an art. It's very difficult to really handle it, and it's easier said than done.

There are some rules, nevertheless. One of the things is to be exit ready. Once you launch a process, you have to be prepared, you have to be ready, so that you can maximize the chances of maximizing your valuation and achieving your objectives. So, you have to be really ready to come to the market.

There are a number of things for which you may not be ready. For example, a classical one is customer concentration. This happens a lot. You get one or two customers that represent 40% or 50% of your sales, and that is something that buyers tend to look at very cautiously. It is a big risk.

I remember we were trying to buy a BPO company, a fantastic company. It was really, really well managed, very good. But the largest customer was almost 70% of the sales.

The owners were private equity, and they knew exactly what they needed to do, but they were so good with this customer that every time they would get more business from other customers, this customer would ask for more and more. So they were trapped there.

In the end, although my client was really, really happy with the company, they decided to pull out for a number of reasons, but this was one of the key reasons. They just couldn't feel comfortable with this.

So, this is one of the key aspects where you have to be ready. There are internal aspects to your company and to the way the company is managed, but there are also external factors, and these are probably as important as the internal factors in terms of timing.

If the M&A market is strong, if your region is strong and people are really looking at it with interest, the region is growing, etc., then it's a good time. If your sector is in favor, then people will tend to be a bit more open and more flexible in terms of your problems, or in terms of understanding the company.

If you want to maximize value, you need to be ready and take advantage of these windows of opportunity.

I remember we sold a construction materials company that was going through a difficult time. It was cash strained, and they couldn't really invest in expanding. But they had a really good product, and the market was really strong at that time. It was the only available opportunity in the country.

In the end, we sold the company for a fantastic value, but it was because of external reasons and not really because of internal reasons. So both are really, really important.

Another aspect is size. You may have a very good company, but if you're small, or if you don't reach the minimum thresholds for international buyers, then you will end up with only local buyers. Sometimes, or usually, international buyers, because of strategic reasons, tend to outbid the local ones.

So you really need to achieve a new size to get much more attention and much more interest.

We were selling a really fantastic company. I know everything I sell is fantastic, but this one was a really good software company with a very unique product, and it was actually present throughout the region.

But for whatever reason, they hadn't reached the minimum threshold. We couldn't really get interest from international buyers, and we ended up in a very small competition. We couldn't really maximize value in the way we would have done if the company had been two or three times bigger.

So size is a key aspect.

Lastly, you really need to take into account all the different aspects. For example, competition. Is somebody coming to the market that is going to really make it very difficult for you? If you have, I don't know, Amazon coming to replace your product, then you probably want to rush the sale, because you may not achieve it once you have the competition in place.

We were selling a financial information company once, and the owner was a very clever guy. Although there weren't any planned law changes, he knew that there were some law changes coming in terms of ABS data and things like that. He knew he was going to struggle once that legislation was in place.

He told us, “I want to sell now,” even though he had a really good growth plan, etc. He said, “I really need to sell now, because otherwise it's not going to happen.” And he was right. We sold the company, there was a lot of interest, and then two or three years down the road, the law change came. So it was a very good decision at that time.

AI is a key aspect at the moment, so you will find that all buyers will look very carefully at this. How is AI going to impact your business? Is it an opportunity for your business, or is it going to kill your business?

You need to take that into account when deciding when you are going to exit. Are you going to wait to take the opportunity and show that you're really taking advantage of AI? Or is it the time to sell now? Because in three, four or five years down the road, you will have a lot of competition.

Valuation bubbles. You have seen, for example, SaaS companies being sold at 10 times revenue a year ago. Now everybody is saying software is being replaced by AI, and valuations have come down dramatically. So even if you were not ready, selling at 10 times would have been much nicer than now at three or four times, which is the standard. So that's something that you need to take into account.

We once sold a company that was operating in oil services, and we sold it really at the peak of oil prices, and the peak of the local currency was also really strong. I remember we closed it on 24 December.

The owner said, “Let's wait until January.” I said, “No, you have to close, you have to close.” We closed it on the 24th.

I think by the 4th or 5th of January, there was a sort of 30% devaluation. We sold it in US dollars, so it meant a 30% devaluation, and the oil prices collapsed.

So he really sold it at the peak time.

The other aspect that you need to take into account is to have a growth story. You have to really show that you are going to grow, and that people are going to come in and experience an expansion.

When you are in a flat environment, because of external reasons or because of your company, that is a very difficult sale. Even if you try to explain, and even if there is a plan, if you haven't shown growth in the last period, it's a very difficult sale.

So that's one of the key things. You really need to wait until you can show that your company is growing.

Peter Gray
Brilliant. Thank you very much, JP.

It's always a very difficult balancing act, getting the timing exactly right. It's not a precise science, is it? There's sometimes a bit of luck involved as well.

But the worst thing I see is when entrepreneurs leave it too late, and all value in their business is destroyed, which I've seen more times than I'd like to remember. I'll give you an example of that.

We were selling, a few years ago, a plastic surgery business. It was the biggest chain of plastic surgeons in the UK. We went out to the market, and we got offers of around $65 million. I think the top offer was about $65 million or $66 million, which was a big double-digit EBITDA multiple. It was way more than the client expected.

We said to the client, “You have to accept this offer. This is an unbelievable offer.”

The client said, “You know what, I'm not going to accept that offer. I'm going to take the business off the market, grow the business to $100 million in value, and then I'm going to come back and get you to sell it.”

Nice round number.

What happened next? You can probably guess it is not good news. It transpired that this particular company had been using defective materials in their highest-volume medical procedure. They were hit by a flood of law claims, and that business went bust within about six months because they didn't have either the insurance cover or the cash to cover those claims.

So, very tragic. That person went from $65 million of value to zero. You think, from $65 million to $100 million, how much better off would that person be? In terms of changes to lifestyle, $65 million to $100 million is not a big difference. Most of us would struggle to spend the income on $65 million. I mean, I'd like to try, but I think that is the case.

Whereas $65 million to zero is a massive change in lifestyle, and that person was in his 60s, so there was no chance of rebuilding that value.

I always like to see entrepreneurs grow their businesses to unicorn status, but sometimes it just makes sense to take the bird in the hand, the offer on the table. It absolutely did in that case. It was a really, really sad case, but I've seen that replicated so many times now.

So I always say to my clients, think very carefully if you've got a good offer on the table before you decide to reject it and continue to roll the dice.

That was all we wanted to say, I think, on that particular question.

Next question is directed to Ale. That question is, what do I need to do to prevent potential deal killers stopping my deal in its tracks, from a preparation perspective?

Alejandro Dillon
Of course, there are a lot of unforeseeable black swans along the road, because this is a very dynamic process and life. As you can see, if we can at least mention a couple of black swans, of course there was COVID at the time, but nowadays, geopolitics, the Ukranian war, the Iran war, and who knows Donald Trump's next challenge that we all have to face.

Having said that, I think one of the key elements is that the founder, the entrepreneur or the CEO knows their own business. They have to prepare their own due diligence process.

As was mentioned by Juan, we always say that the bride has to use the appropriate dress for the wedding in advance. So being prepared in advance is very important. Jaime also mentioned, especially, all the tax and legal issues.

Typically, the M&A process has three different stages. One is the origination, then the execution and the closing.

The origination is more related to all the marketing materials and getting in touch with all the potential buyers. Then you have the execution process, where a selected number of buyers that have signed NDAs and received the deck start the process through the data room. Then they send the NBOs and, finally, they go through the final offers.

At that time, the M&A advisors have to interact with the owner and his team in order to serve the different waves, especially throughout the execution.

The last stage is the closing, where, as Peter mentioned, you have the offers on the table. As Jaime mentioned, you need very good lawyers and tax advisors, because, as he said, the devil is in the details. Like a wedding, until the father delivers the bride into the church, it is possible, but it is not a final closing that the deal happens.

But let's mention a couple of things that can be prepared beforehand. One of them, clearly, is management information. You have to prepare accurate and timely information, not only the financial accounts and the balance sheet, but also KPIs and all the information that is going to be shown in the different stages of due diligence and in the data room.

Let me give you two clear, real-life examples that we faced very recently.

One, we were working with the Oaklins European team. We were hired by a European private equity firm that was looking to grow by acquisitions one of its portfolio companies in the tech industry.

We detected one software company in the Americas that also had a very respected US M&A sell-side advisor. We went through the whole process. Finally, we were selected as the best final offer and entered due diligence.

Unfortunately for all, but especially for us, the EBITDA figure that was shown throughout the deck, the data room and the management presentation, when we did the due diligence, had a 50% difference, because they were putting future sales into the EBITDA that were not on the company's balance sheet.

Unfortunately, the deal was postponed, and as we are talking, 12 months after that, we are trying to relaunch that process.

That was, I would say, a bad experience. But let's talk about a very positive experience.

One Argentine client of ours in the industrial sector, we convinced them, as Jaime mentioned, to do what is called a vendor due diligence.

What is a vendor due diligence? You hire your audit firm, and you make your own due diligence. You prepare to handle it, and you pay for that. It is a reasonable amount of money, but you are prepared when you get into the execution process, and you hand over that vendor due diligence.

In this case, which we hope to close this month, with the vendor due diligence, the European company that was buying different companies around the world was very happily surprised with this vendor due diligence. In Argentina, we have a lot of volatility and macroeconomic problems, and this helped to soften the macro effect on the transaction.

The other subject that you have to prepare is hiring legal advisors and auditors that fit into the process, and most importantly, that have M&A experience.

I always say to my clients, when we have either a buy-side or a sell-side process, “You have your in-company lawyer or the lawyer of the company, and I will ask one question. Does he or she have M&A experience?”

If the answer is no, we say, “We will present you with two, three or four very good law firms that can work with you.” This internal lawyer can be a sort of consigliere to the founder or the shareholder.

It is also very important to hire auditors. We call the typical Big Six companies, and they also have to work in a very proactive team with the financial advisor.

In this sense, it's very important that all the advisors have knowledge of local regulations. And, I would say, as important as local regulations are local cultures.

I think that is a distinct value that Oaklins has around the world, because we are all connected. We work not only throughout the deals, but we also have two conferences and different regions. We are divided by regions. We have task forces that allow us to work jointly.

The other one is the local team or the M&A team. Not only the finance function has to be fulfilled. There has to be a professional CFO. It was mentioned that if you have a founder, they probably hire in advance, at least 12 months beforehand, a professional CEO.

But you have to have a full two-sided M&A team. On one side, you have the M&A advisor, the legal advisor and the audit advisor. On the other hand, you have the shareholder, the CEO and the CFO. Sometimes you include the CTO if it is a tech company, or you have a business development head if it is a large conglomerate.

I can expand, but those are the key areas that you can prepare beforehand for any M&A process.

Peter Gray
Great, thank you, Ale.

I'm going to move on, because time's getting away from us, to the next question, which is: what are the various exit routes available to a business owner, and what are the advantages and disadvantages of all of those various exit routes? Juan, if you could address that question.

Juan Fontaine
Sure, thank you, Peter.

I think a simple way to think about exit routes is that there is no single right answer. In the end, the best route depends on what the shareholders are trying to achieve.

You should ask yourself: is the objective to fully exit the business? Is it to bring in a partner, for example, but remain involved? Or are you trying to maximize valuation, even if that means staying involved for some time after the transaction?

With that in mind, I would frame the discussion around four alternatives.

The first one is a partial exit while retaining control. The second one is a partial exit while becoming a minority shareholder, so selling control. The third one would be the sale of 100% of the company. And the fourth is an IPO.

The first alternative is a partial exit, where the shareholder sells a minority stake but retains control of the company.

Typical buyers in this type of transaction include family offices, growth equity funds, and sometimes strategic partners willing to take a non-controlling position.

This route makes sense when the founder wants to monetize part of the value already created and reduce some personal risk, but wants to continue leading the business. It can be useful when the company needs capital to accelerate growth, for example.

That said, the pool of investors willing to buy a minority position is more limited, since most financial, private equity and strategic buyers usually prefer to acquire control.

Also, this route will typically, not always, but typically, not maximize valuation, because the seller is not capturing the control premium. When you sell control, you get this control premium on the valuation. In this case, because you are retaining control, you are probably not going to maximize valuation. That is not always the case, but I think most of the time it is.

A key point here is that you need to structure a shareholders' agreement. Even if the founder retains control, the relationship with the new investor needs to be clearly regulated, including governance rights, reserved matters, information rights, transfer restrictions, and so on. That's the first option.

The second option, or second route, could be a partial exit, but selling control and retaining a minority stake.

Typically, buyers in this kind of transaction include private equity funds, search funds, which is something we have been seeing a lot here in Chile and Latin America, private equity-backed companies, or strategic buyers that want the founder or shareholder to remain aligned during the next phase.

The main advantage of this structure is that the shareholder can achieve significant liquidity today, while still keeping some exposure to the future upside.

In this route, different from the first one, the valuation is usually more attractive because the buyer is acquiring control, and therefore the seller can capture this control premium that I already mentioned.

The key disadvantage of this kind of transaction is that you are giving up control. You may remain involved as a manager, a board member or a minority shareholder investor, but the new controlling shareholder is the one who is going to make all the main decisions.

That is why, again, the shareholders' agreement becomes critical. It needs to clearly define how and when that remaining minority stake can be sold in the future.

In many cases, the buyer acquires control, but with a predefined path to acquire 100% of the company, through a call-put option, drag-along or any other mechanism.

For example, last year here in Chile, we sold two companies to Visma, the Norwegian software consolidator. They usually acquire a majority stake upfront, so more than 50% upfront at closing, but always with a clear,

defined path to acquire 100% of the company in the next three to four years. So, acquiring a controlling stake upfront, but with a clear path to acquire 100% of the company.

That would be the second alternative.

The third route, or alternative, would be to sell 100% of the company.

Typically, buyers who acquire 100% of companies are strategic, because they like to have synergies and to consolidate. But it can also include private equity funds or private equity-backed companies, especially when there is a strong management team capable of continuing to run the business.

I think the main advantage is that this route provides full, or close to full, liquidity to the shareholders. It can also be the route to maximize valuation, because strategic buyers see clear synergies, and they are willing to pay for those synergies.

But I think with this alternative, you need to do it well, because the company needs to be ready. The less dependent the company is on the founder, the cleaner and more attractive the transaction will be.

If the founder remains critical to the business, I think it's normal for the buyer to request a transition period, so you continue to be involved in some things in the business. Maybe part of the price could be linked to the future performance of the business, through an earn-out, for example.

This is not necessarily negative, but I think it needs to be anticipated and also properly structured.

The fourth alternative is an IPO. I will not go deep into IPOs, because I think that could be a full webinar by itself. But in simple terms, it means listing the company on a stock exchange and allowing public market investors to buy shares in the business.

This route is only available for a certain profile of companies: businesses with meaningful scale, robust governance, strong financial information, sufficient liquidity and a compelling equity story. It is also highly dependent on market conditions.

But the key point is that the IPO is usually not a full exit. It is more often a way to provide partial liquidity to the shareholders, raise capital and strengthen the company's profile to continue growing as a public company.

So, to summarize everything, I think choosing the right exit route comes down to some questions.

First, do you want to exit, or do you want to remain involved? Second, do you want to retain control, or are you willing to give it up? And third, is the company actually ready for the route that you want to pursue?

Because, in the end, valuation is not only about the business itself. I think it is also about how prepared the company is, how transferable it is to the buyer, and how credible the next phase of growth looks without depending on the current shareholders.

That's why exit planning should not start when the shareholder decides to sell. It should start much earlier, by building the company in a way that keeps all exit routes open, I think.

Peter Gray
Fantastic, thanks very much, Juan.

We've got some questions from attendees. Let's pick four or five of them out.

Jaime Trujillo
Just before you go into the questions, I wanted to complement Juan's response with an issue that the type of sale that you decide to pursue also has a direct bearing on the timing, which Juan Pablo was mentioning.

Of course, the more complex the deal becomes, the longer it will take to execute.

Also, and this also has to do with the type of buyer that you choose, whether it's a competitor or a private equity house, it has to do with regulatory approvals.

I think one of the things that our region has in common is that transactions are taking longer, because authorities are more empowered, and particularly competition authorities are more empowered.

So, if you don't want to have to wait a considerable amount of time between signing and closing due to antitrust concerns, then it would make sense for you to choose a private equity buyer who is not necessarily present and is not a competitor.

That may affect valuation, but in the overall context, closing and having certainty of closing and of funds may make up for the effects on valuation.

So, one of the things we do at the very beginning of every transaction is put together a map of the governmental approvals that could hold up the deal, and use that map in order to decide which type of buyer you want to engage.

Audience Q&A

Peter Gray
Fantastic, Jaime, thank you very much for that.

And while you're there, I've got a legal question, which relates to litigation. Someone here has a significant piece of litigation which is currently ongoing. The question is, should I settle that litigation in advance of the sale?

Jaime Trujillo
Okay, the typical answer from a lawyer is: it depends. It depends on the type of litigation.

If, as I suspect, in this case, it's litigation that may affect the value of the company negatively and distract the company's resources, my initial impression would be yes, try to settle that in advance of opening up the sales process.

But there are cases in which litigation could have an upside. In which case, you could consider, for example, some sort of earn-out or deferred payment, where you're already getting what you think the company is worth, but you could get an upside depending on the outcome of that litigation.

So again, if it's litigation that could adversely affect the value of the company, I would try to resolve it first. But otherwise, you could get creative and look at options such as earn-outs or deferred payments.

Peter Gray
Thank you very much.

Next question. Is it more likely that my buyer will be a private equity house or a strategic trade buyer? I'm happy to take that one.

We just don't know, which is why typically, on almost all sale processes, we're going out to both communities, both to private equity and trade, because you just never know who's going to pay the highest price.

Sometimes you think, well, the synergies with competitors are so great that the trade buyers will have to outbid private equity. It's a no-brainer. And lo and behold, you get a US private equity house 20% above everyone else.

So you just never know, which is why, in order to maximize value, you have to make yourself as attractive as possible to both universes of buyers.

What does that mean? It means in the case of private equity, who are perhaps a bit more picky than trade buyers sometimes, they require higher profit margins, for instance. They require a growth story. Typically in the UK, private equity are looking for profits to broadly double in three to four years under their ownership in order for them to get their returns.

So, for lower-growth businesses, that tends to leave trade. But the golden rule that we have is to maximize the buyer universe, so private equity and trade, but particularly overseas trade. Because, certainly in the UK, overseas trade pays a premium to buy UK businesses.

We especially love US buyers because they often pay a big premium, often 10% to 20% higher than UK bidders. But I've seen 50%, even 100%, differential between the top US bidder and the top UK bidder.

So overseas buyers are key to attracting them to any sale process, and that's where Oaklins comes in with its fantastic international presence.

Great question. I need to give a plug to Oaklins.

We're coming up to the hour mark, but just a couple more questions. By the way, I won't be able to get through all the questions, but I'm sure that any of the panelists would be more than happy to answer any questions offline.

But just two more questions, perhaps.

My largest client represents over 50% of my revenues. Does this make me unsellable? Who wants to take that question?

Juan Pablo Bayter
I can try, Peter.

It will probably limit the number of interested parties. It may not completely destroy the transaction, but it will be a very difficult transaction.

It's very risky, as you will understand, for a buyer to have such a concentration. They will probably not have the same relationship as you have with this client. Even if you try to give them comfort, that is going to be a difficult thing to accept.

Usually, the best thing is to be below 30% or 20% for your largest clients. If you have less, it's even better.

So try to avoid the situation I was telling you about before, where you have such a good customer that it gives you so much business that it's very difficult to diversify. But yes, it's a key aspect to have a healthy diversification of clients.

Peter Gray
Brilliant.

Okay, last question. I understand that I need to replace myself as chief executive if I'm going to get a clean exit, but I'm not sure that there's anyone within my existing management team who is sufficiently backable to step up to the plate as replacement CEO. What should I do?

Any answers?

Alejandro Dillon
I can take that, Peter. Well, that is a very tough decision. I think there are two sides of the coin.

The first one that I have already said is that the founder or CEO has to ask himself or herself, what is going to be my role?

This needs to happen beforehand. Throughout the M&A process, if there is a takeover, a transition process, and the day after. I think, internally, he has to ask this question and be very clear with his answers in this respect. Sometimes it's very good to have a coach or a consigliere to help you.

On the other side of the coin, you have to use a headhunter. There are very, very good headhunters. It is very important, not only in the industry that you're in, to hire a new CEO, but also, as has been said here, you have to foresee the dynamics and the different paths that Juan has detailed, whether you want to exit through different channels, either partial sale, majority sale, 100% sale, or an IPO.

So that also will give you the shape of the CEO expertise that you need. My advice is: work on both sides of the coin.

Juan Pablo Bayter
If I may complement very quickly. What we've seen a lot is that if you are the CEO, sometimes you're also the commercial director. Even if you have a commercial director, you tend to manage the key clients.

Sometimes you are also a de facto CFO, and that's something that you really have to address beforehand. You have to really take a good look and put in place a professional independent management team if you want to exit the company.

If you want to exit 100%, that's something you really need to put in place, and well in advance. It cannot be just two months before you start the process. It has to be at least one or two years at best.

Peter Gray
Yeah, totally agree, JP.

Closing

Peter Gray
So guys, it's coming up to the hour mark, so I'm going to wrap things up.

A big thank you to all our panelists, and thank you to everyone who attended the webinar today. Hopefully, there have been some good takeaways.

There's that old adage, fail to prepare, prepare to fail, and it's completely applicable when it comes to selling your business.

So the key message from today is that it's never too early to start preparing for a sale of your business. In fact, you really should have an exit strategy from the day you start the business, in terms of what you're looking to achieve.

Thank you, everyone, and we hope to see you on our next seminar on 27 October, where we're going to be talking about how to maximize the price you achieve for your business, and how to avoid common mistakes during a sale process.