

Okeili&co.

Pragmatic Advisors

The Region's Leading Advisor on Family Business

**DIVESTING YOUR FAMILY BUSINESS –
OPPORTUNITIES & CHALLENGES!**



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“Family Business Owners Should Only Consider Selling Their Company When They Are At Or Near The End Of Their Business Careers”. This mainstream statement is not essentially true for most family business owners. While the emotional element persistently overwhelms, many family business owners do undermine the opportunities that can arise from a partial or full sale of their business. In some cases, failing to listen to the mind can take a heavier toll over the emotional commitment to keeping the business. The bottom line is that family business owners should always contemplate an early exit of their family business – whether it makes sense or not is another story – by simply detaching emotions from their decision making equation. Hence, the key question to be answered is “When does an early divestiture really make sense?”

OPPORTUNITIES WORTH CONSIDERING

There are indeed quiet some state of affairs where an early divestiture of a family business remains a winning bet. Below are four scenarios, which quickly surface and are not the only ones:

CASHING OUT TO CASH IN

- Resource allocation for a family business with a multi-business unit portfolio is the framework for allocating capital, talent and resources across the different units.

A fit allocation strategy should take into consideration seeding new businesses, building up promising ones, taking resources away from burdened ones and finally divesting those units that

no longer fit in the target portfolio – what is referred to as the non-core units. Family owners usually have a vast majority of their personal wealth concentrated in the portfolio. By undertaking equity spin-offs in the non-core units, owners can reduce their concentration of wealth in the business and celebrate a nice liquidity event. Subsequently, portion of their sale proceeds can then be channeled to new business endeavors or other promising units following a proactive resource allocation strategy

TAKING YOUR BUSINESS TO A DIFFERENT GROWTH LEVEL

- In other cases, family business owners have taken the growth and performance of their business to limits and need a much bigger platform for ambitious scaling. Partnering up with a cash-in component not only reduces the family concentration of wealth in the business, but can also realign the business for aggressive growth. The same strategy can be exploited as a mode of entry into key markets

REALIZING THAT SUSTAINABILITY IS ON THE LINE

- The case of no successor remains very frustrating for a family business owner, especially if the latter is facing an illness, simply aspires early retirement or for instance has developed a new passion to produce and sell organic cupcakes. Injecting new blood in the business by a Captain of Industry taking over management, can definitely promote the business sustainability without having to abandon the long-hailed legacy

FORESEEING AN INDUSTRY SHIFT THROUGH A TECHNOLOGICAL CHANGE

- Technology can literally create a paradigm shift for a company or an entire industry. A family business facing a technological shift in the industry is set on track for an imminent nosedive. That was evident and brutal with the music, photography, newspaper publishing and gaming industries along few others. A winning strategy with a quick turnaround, is to partner up with a strategic player that can leverage such new technology to continue serving the family business loyal customer base

CHALLENGES WORTH NOTING

Standing in the family business owners' shoes, the reality is that their business represents a lifetime of arduous work. Yet adopting flexibility for an early divestiture can certainly contribute to an improved exit. With that said, there are quite few challenges down the divestiture road, which can be summed up in five questions:

- Which business unit and how much to divest?

- What housekeeping checklist should be carried out?
- Who is the ideal partner, strategic visa-vie financial partners or simply taking it public?
- What is the right price / terms recipe to celebrate the marriage?
- What is the correct legal structure to facilitate this sale - divorcing sole proprietorships and establishments?

HOW CAN OKEILI & CO. HELP?

Starting at developing a shared vision with the family business owner, Okeili & Co team channels energy and efforts towards validating the future of the family business. This step involves understanding which business units to nurture, prune or divest taking into account a hybrid of evaluated core competencies against industry conduct and performance. Once a validation strategy is set in place, the team supported by a legal advisor establishes the correct legal structure that is ready to incorporate new partners. Our sell-side team then jumps on board to organize the internal house, develop the story, augment family preparedness to avoid surprises, identify and crosshair synergetic partners and last but not least take all critical measures to protect value during the sales process.



For more information on Okeili&co Next-Generation advisory efforts, please write us to engage@okeili.com

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