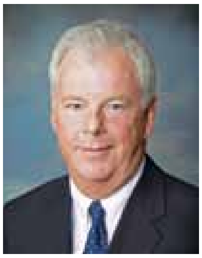

PLANNING –
The Key to a Successful Exit Strategy

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There are a number of reasons why petroleum marketers and convenience store operators desire to sell their companies. These include retirement, desire for financial diversification, concern about future capital requirements, concern about future industry trends and/or financial distress. But whatever the reasons for a sale, it is pretty certain that the sale transaction itself will be the largest financial event of a marketer's life. Because you can only sell your business once and there is so much at stake, we believe the best way to ensure an excellent outcome is to plan your exit well in advance.

Most marketers desiring to exit the business elect to sell their companies outright to third parties. Ultimately, that may be the way you decide to go, but we think it is prudent to understand all of the options available. So the first step is to identify the range of options available and develop an understanding of the complexities and challenges of each.

The most important aspect of any exit plan is valuation. When contemplating an exit, a valuation is never as simple as an appraisal because, in nearly every case, your assets or equity will need to be transferred to a new owner. This requires understanding value from a buyer's perspective since, ultimately, an exit will involve a transaction or a series of transactions. Proper strategic planning involves an analysis of your business on an asset-by-asset basis to determine the value of each asset and to determine which, if any, assets should be sold in advance of a primary transaction to improve the overall marketability of the company. During this analysis, you also want to look at all of the various sale strategies that can be employed and the expected outcomes of each. Once you have a plan in place that focuses on achieving value, you can operate your company in a manner that builds value in expectation of an eventual exit.

When doing a valuation of your existing assets, you should look at financial performance during the most recent trailing 12 months and during the last three years, and you should look at various projected performance scenarios that test the value based on future events. You also need to review the condition of your assets from a deferred maintenance perspective, look at leases with purchase options and renewals, and analyze each of your dealer accounts. Once completed, you can put in place a program to expend funds and take actions that improve or protect value.

When developing an exit plan, you should also consider your strategic operating plan. During this analysis, consider the strengths and weaknesses of your company and any opportunities and threats to your business. There may be ways to improve unit-level cash flow through additional investment, such as an enhanced foodservice offering or re-imaging older assets, for example. A thorough cost-benefit analysis of each possible project should be performed to determine which investments would produce the greatest return on investment and add the most value in a sale transaction or if any new projects make sense within your exit timeline.

Another advantage to planning an exit is the ability to employ sophisticated tax-planning strategies. As sellers quickly learn, the threshold for a decision to complete a transaction is not necessarily how much you sell the company for but, rather, how much you get to keep after taxes. While tax deferral opportunities have declined in the last decade or so, there are still ways to defer taxes, and the more time devoted to tax planning, the more options you have available. Because many business sales are done as part of retirement, tax planning often includes estate planning as well.

Exit planning should also include an analysis of your balance sheet to look for assets that would not be sold in a transaction to make sure that you are valuing those assets properly and that you have a plan for liquidity for those assets. From an asset perspective, this includes office buildings, excess real estate, life insurance policies (both whole life and term) and other assets that are more personal in nature. On the liability side, it includes looking at bank covenants dealing with prepayment, covenants in your jobber agreements requiring rights of first refusal or rights of first offer, liabilities you assumed when doing earlier transactions and other obligations to your creditors. Once your balance sheet is properly analyzed, you can take actions to preserve value in assets, work to limit liabilities and make sure that future obligations are structured in such a way that your exit options are not unreasonably restricted.

Buyers in a transaction will expect certain indemnifications from sellers. Indemnifications cover a wide range of representations and warranties sellers are asked to provide. The most significant warranty for petroleum marketing firms relates to environmental issues. During exit planning, you should look at the environmental issues from the buyer's perspective. These include the current condition of your assets, incidents for past releases, the age of equipment and the condition of your files and records. During this process, you should look at all of the alternatives for risk transfer and the various types of insurance available to help

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minimize the risk of environmental exposure for both buyers and sellers. Once you have this information in hand, you begin to craft an environmental indemnity strategy and take the actions necessary to deal with any outstanding issues.

In summary, a transaction to exit the business is likely to be the largest financial transaction most marketers will ever do. The probability of having a successful transaction and achieving maximum value is greatly increased if a transaction plan is developed and executed prior to taking a company to market. While it is possible to do some planning on your own, it is probably best to work with investment banking and financial advisory professionals to build the models, test the assumptions, outline your options and develop a plan that can be implemented whenever you are ready.

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Prioritize and Plan. With the hard work you've done identifying your successes, blamelessly looking at failures, and being brutally honest about the competition and your own strengths, you're now ready for prioritization and planning. There are many ways to tackle prioritization, but the main thing is that your whole team must be in agreement and unified about the plan — the items and the priority order. Each piece of the plan must be specific and measurable. In fact, the SMART goal acronym is a great test to be sure that each step of your game plan is:

Specific
Measurable
Attainable
Realistic
Timely

As you develop the steps and plan, including measures, accountabilities and timelines, also try to identify potential roadblocks or hurdles. Let's face it — everyone starts out the year with great plans, but life happens. If we can think through the possible roadblocks, we'll be more prepared when they come. And they will come!

And now, back to my story of the marketer who analyzed strengths and made a great move. Realizing they had loyal customers and great delivery efficiency, they decided to expand their products beyond the typical petro offerings. The result? A huge increase in profits! How did they do it? By asking key customers what else they bought, compiling lists and figuring out what they could do well and be profitable.

Personally, I think the next 12 months are going to be really exciting. While there will still be the aftershocks rumbling through the economy, we've already made it through the big one. Now is the time to look to the future and build the company you want. That's what I've been helping companies do for the past few years in my Hidden Profits Coaching. It's been really exciting to see companies come to grips with their strengths, their lessons learned, their changing marketplace and competitors. If you'd like to explore the profit and cash you might be missing, I'd love to hear from you.

In the meantime, how about taking action by going to your calendar right now and scheduling the day for your leadership team planning meeting? Action equals success!

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Final Thought

Risk management is all about spotting a potential danger and proactively handling damage control. A seldom-spotted risk is losing key employees after losing an active owner. A stay bonus contingency arrangement — put in place before your business becomes vulnerable — can provide your operation with the finances necessary to help retain key employees.

A Stay Bonus Plan takes to heart the advice of Australian tennis pro Rod Laver: "The time your game is most vulnerable is when you're ahead; never let up."

This article is intended to provide general recommendations regarding risk prevention. It is not intended to include all steps or processes necessary to adequately protect you, your business or your customers. The risk management practices described above are for illustration purposes only. You should always consult your personal attorney and insurance advisor for advice unique to you and your business.

Small Business Committee,
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Oklahoma
Keith Davis ($200)
Hoby Hammer ($200)
Vance McSpadden ($350)
Haskell Smith ($300)
Joe Stephenson ($200)
Doyce Taylor ($200)

Oregon
Sam Byrnes ($200)
Jason Powell ($325)
Paul Romain ($200)
John Shirtcliff ($200)
Ronald Tyree ($200)

South Carolina
Roy Adams ($200)
Sidney Boyd Jr. ($200)
William Curtis Sr ($200)
Mike Fields ($350)
Charles Howard Jr ($200)
Chad Ingram ($200)
Richard LaValla ($263)
Clarence McCully ($225)
Boyd McLeod III ($300)
Stephen Spinks ($200)
Pierce Stockman III ($200)

Tennessee
David Adcox ($200)
Ryan Broyles ($250)
Jonathan Edwards ($275)
Tom Ferguson ($300)
Mark McBride ($300)
Donald Rogers ($250)

Utah
David Bell ($200)
John Hill ($325)
Gene Inglesby ($300)
Craig Kellerstrass ($200)

Virginia
Sherri Cabrera ($200)
David Walrond ($225)

Wisconsin
Matthew Hauser ($200)