

Right steps to a winning exit strategy

Plan a profitable exit from your business, Tim Blue reports.

Talk about business succession and Ian Garrow knows all about it. A former business owner and senior executive, Garrow has successfully stepped his way through the succession and exit process himself to hand on to others, and overseen several more.

At age 56 and semi-retired, he's looking for businesses where owners are seeking to move on, so that he might pass on his wisdom and help the process.

In part, he is driven by the search for a challenge. After a working lifetime, including a stint as a senior executive at ICI, he describes himself as bored with the golf course and looking for new business opportunities.

Garrow, already experienced in company turnarounds, was recruited as chief executive officer by the board of the ASX-listed national fabrics and craft group Leutenegger Ltd and returned it to profitability.

The company is 116 years old, having been started by Jacques Leutenegger, who migrated from Switzerland. His family continued to run the business for three generations before it was bought in 1986 by another family and floated on the stock exchange in 1992.

Garrow's big break came when Leutenegger was acquired by Sydney-based listed investment group HGL in 1997 and he was offered the chance to acquire a half-share in the craft company.

HGL and Garrow made five more acquisitions and built Leutenegger's revenue four-fold to become the market leader in most of the fabric and craft categories in which it operates.

Under a succession plan that saw HGL and Garrow identify his successor, Garrow sold 70 per cent of his shareholding for \$3.2 million in 2004 and last October he cold out completely. HGL now owns 80 per cent of Leutenegger with the new CEO owning 20 per cent.

Six months later and "bored stiff" with life as a seachanger, Harrow has resumed a role as a consultant to HGL subsidiary AMCLA, which sells healthcare items to pharmacies.

Now Barrow is looking for more acquisitions around the country, on behalf of HGL, in various fields.

HGL is primarily interested in brand marketing, import and distribution businesses.

It's latest acquisition, completed last month for \$8 million, is Biante, an importer and distributor of collector model cars. The husband and wife founders pioneered the industry in Australia, and on the death of the husband, the other co-founder agreed to sell yet continue in the business to promote it.

It's a success story not always heard when long-running businesses are up for sale: there is often conflict between the needs of the business and that of the family.

According to Garrow the first thing to do is make the succession of management and ownership a top business priority.

"Get an independent valuator for the business, then ask yourself whether your son- say- is the most appropriate person to take over management, why that might be, and whether you are sure he will want to take over. List who else might run the business, and why; how much of the equity they should hold, and how much they should be paid. Sometimes paying the least possible sum is not the way to go- do

not confuse the roles of owner and manager. The level of equity that your son is given will have an impact on his ability to manage the business."

As the majority stakeholder, he has an interest in ensuring the business is profitable and that it can pay income streams to other stakeholders.

Improving the value of the business will also be important to him as he looks to his own eventual exit.

For this, Garrow says to set up a shareholders' agreement between the siblings, which covers who may sell to whom whenever they want to exit; and might take the form of a first right of refusal.

It might include agreement on a method of how to calculate the value of the business at the time of exit and a dividend policy based on the cash flow and working capital needs of the company, not the shareholders.

"If they see the business as a cash cow to fund their lifestyle, this may put pressure on your son to deliver income year after year by paying out valuable working capital," Garrow says. "In so doing, he will place his assets at risk and himself under stress."

He believes the real challenge for family-owner businesses is how to formulate a succession plan that delivers enough cash to the returning owners upon exit, while ensuring the next generation of the family or non-family management acquire substantial equity in the business as well as rewarding, ongoing management careers. "This is where the HGL Limited investment model really works," he says.

Among the many ways to transfer equity is to sell to your managers, who will have the virtues of existing relationships with customers and suppliers, if not always the required financial capacity.

A new player in the market, Deferred Finance, offers insurance to sellers who accept part-payment of the headline price, with a guarantee to pay the rest over a set-period.

Managing director Jim Lowrie says: "Deferred finance increases the vendor's chance of reaching their price, allowing the buyer to set up a payment agreement instead of relying on paying the full cash price on day one".

-The Australian 20/06/2007

Shrewd investments give HGL solid base for growth.

HGL, formerly Hancock & Gore, is nowhere near as big or as well-known as Warren Buffett's Berkshire Hathaway, but the two groups do have a few things in common.

HGL is happy to hold its investments forever rather than flip them like private equity, as it revealed when it announced its half-year results yesterday.

Chief executive Kevin Eley reported a 154 per cent rise in net profit to \$11.7 million, thanks in part to a \$6.7 million profit on the sale of a stake in MMC Asset Management. He said HGL expected the profit growth to continue in the second half.

HGL holds \$62.5 million in listed securities, including stakes in Hunter Hall, MMC Contrarian, Credit Corp and Calliden, and also owns 12 small unlisted import and distribution businesses, including model-car maker Biante, in its portfolio of unlisted business.

Given that HGL is flagging an increase in the final dividend from the 6.2c a share paid in the first half, the company is trading on a fully franked yield of more than 6 per cent, assuming the full-year payout ends up around 13c a share.

HGL has a \$30 million bank facility (and potentially as much as \$65 million) at its disposal for acquisitions. It would also like to raise more equity as it looks to expand beyond its relatively small \$110 million market capitalisation.

- Australian Financial Review 22/05/2007

From little things, big things grow

A listed company is acquiring small businesses.

By John Collett

Many successful small business owners face a dilemma when it comes time to step down. Their children may not be interested in taking over the business, which leave them with little alternative but to sell. However, that means loyal staff may lose their jobs and the owner has to exit the enterprise they have created and devoted their life to.

But a new option is being provided by HGL Limited, an ASX-listed company which invests in other companies. Part of HGL's business is to buy established and profitable small businesses and hold on to them for the long term. Owners get cash for the business, take a "staged exit" over several years, or continue to be involved with the business.

"We are fussy about the businesses we buy," says HGL's chief executive, Kevin Eley. He says not all business can be handed over successfully. HGL favours import and distribution businesses, as they are simple to understand and have low capital expenditure, but it will acquire other easily understood businesses.

Last month HGL completed the acquisition of Biante, an importer and distributor of collector model cars. HGL acquired the company from the co-founder and the estate of her late husband for \$8 million. The founders pioneered the model car industry in Australia and the co-founder will remain with Biante to promote the business she built with her late husband.

"We are finding increased demand from mature and successful business owners who want to crystallise the value of their business," Eley says.

If necessary, HGL will inject new management and financial skills to take the business to the next level growth.

Ian Garrow is a former senior executive at ICI (now Orica) who was hired by the board of ASX-listed fabric group J Leutenegger to turn the company around. HGL subsequently bought J Leutenegger and offered Garrow 50 per cent equity in the business. The company is 115 years old, having been established by Jacques Leutenegger, who migrated from Switzerland to Brisbane. His family continued to run the business for three generations before it was bought in 1986 by another family and floated on the ASX in 1992.

HGL and Garrow built the revenue four-fold and made five acquisitions to become the market leader in most of the categories in which it operates.

HGL provides financial support and advisory support but does not tell you how to run the business, Garrow says. "We were a very good team and if I needed any advice I would pick up the phone and we would meet," he says.

One of the toughest things as a business owner is to exit the business successfully, he says: "There are so many tyre knickers around that waste your time."

When it came time for Garrow to exit he commissioned an independent valuation of J Leutenegger from a major accounting firm and was paid by HGL on the basis of the valuation. He was offered a staged exit.

He sold 70 per cent of his 50 per cent stake in the company to HGL in 2004 and then sold out completely in October last year.

He is quickly got fed up with retirement and is now acting as a consultant to AMCLA, which is 80 per cent owned by HGL and provides promotional items to pharmacies.

- *Sydney Morning Herald 02/05/2007*