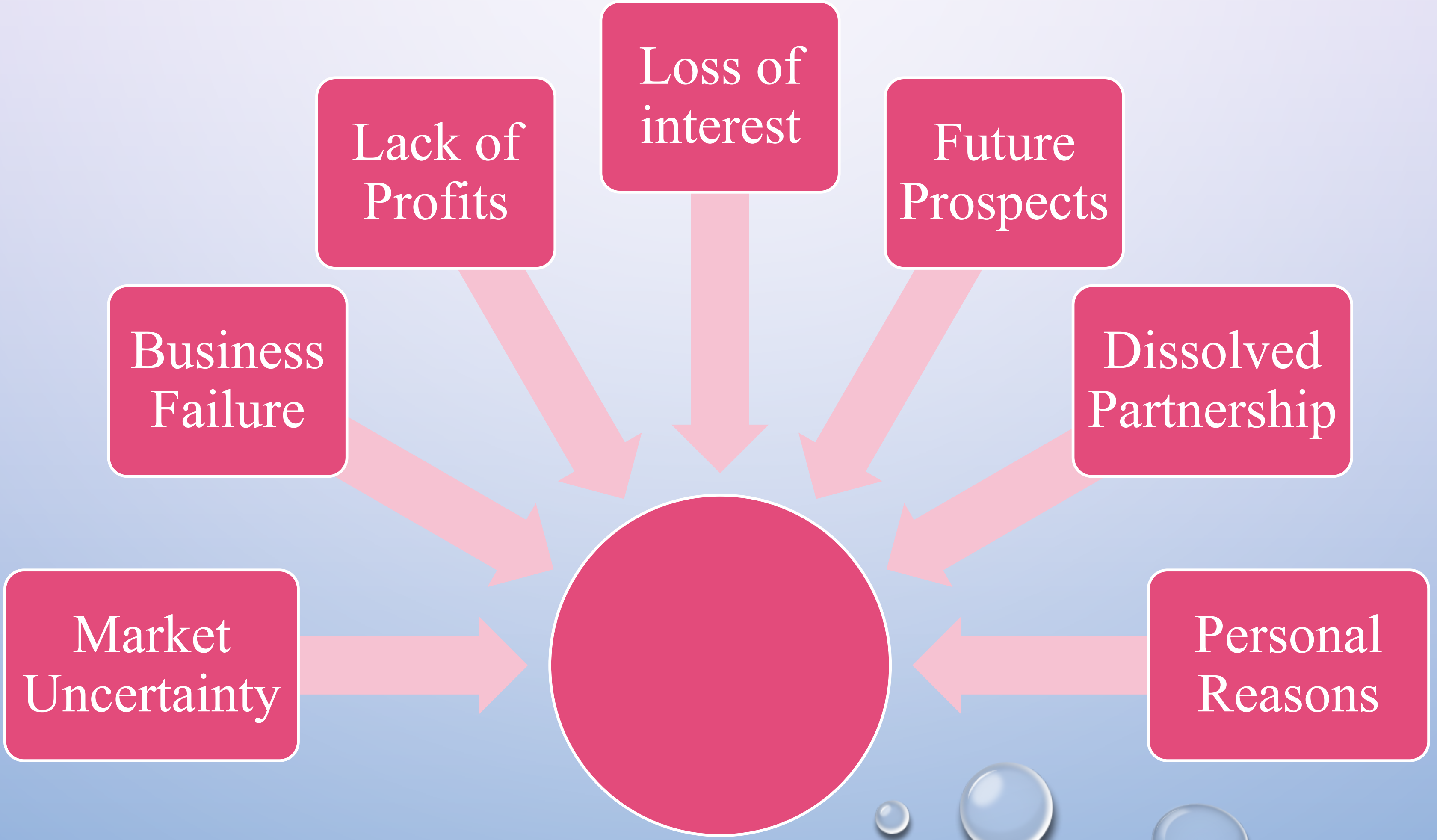
EXIT STRATEGIES

DEFINITION

- Exit strategies are plans executed by business owners, investors, traders, or venture capitalists to liquidate their position in a financial asset upon meeting certain criteria.
- An exit plan is how an investor plans to get out of an investment.

REASONS TO EXIT



1. MARKET UNCERTAINTY

- Owners of successful businesses decide to cash out because of uncertainty about future market developments.
- If you are selling in the luxury segment, in times of financial crisis, your target consumer might have less disposable income to spend on your products.
- Sometimes, changes in business regulations or government policies can adversely affect a business.

2. BUSINESS FAILURE

- If you continue losing money after having tried a variety of approaches to stabilize the business, it may sometimes be best to call it quits.

3. LACK OF PROFITS

- If the business ceases to be profitable, then the entrepreneur has no motivation for continuing with it unless he/she sees profits coming at a later time.

4. LOSS OF INTEREST

- A business may continue to be profitable but may not be of interest to the entrepreneur any longer.
- This may be because the entrepreneur was interested in starting the business but has no great interest in managing mundane day-to-day operations.
- It may also be due to the fact that the business has ultimately taken a shape he had not anticipated in the beginning.

5. FUTURE PROSPECTS

- The business may be doing well in the short run, but the entrepreneur is not sure of its long-term sustainability.
- This is usually for the reason that the entrepreneur is wary of the long-term growth prospects of the industry and he/she fears that there could be a downturn in the industry in the future.

6. DISSOLVED PARTNERSHIP

- If a venture starts as a partnership from which subsequently one partner opts out, usually, the other partners step in and buy his/her share.
- The remaining partners may not feel that they alone are equipped to run the business and may opt to sell even their shares to an interested third party.

7. PERSONAL REASONS

- Entrepreneurs may leave a promising venture due to personal reasons. Unexpected illness, death in the family, divorce, etc. are reasons that might prompt entrepreneurs to leave a thriving business.
- These are the reasons that become more important than profit maximization and success of the venture.

EXIT STRATEGIES

- Types
  - Mergers and Acquisitions
  - Sale to a friendly buyer
  - Make it cash cow
  - Liquidation and close
  - IPO

1. MAKE IT A CASH COW

- If you are in a stable, secure marketplace, with a business that has a steady revenue stream, pay off investors, find someone you trust to run it for you, while you use the remaining cash to develop your next great idea.
- You retain ownership and enjoy the annuity.
- But cash cows seem to need constant feeding to stay healthy.

Implication: “Cash cows seem to need constant feeding to stay healthy"

Even though the business is mature and profitable:

- It still needs attention, resources, and management.
- Without ongoing care, like updating products, managing competition, or adapting to small market shifts, even a cash cow can decline over time.

2. INITIAL PUBLIC OFFERING (IPO)

- An IPO involves offering a private company’s shares to the public in a new stock issuance, effectively transitioning the business into a publicly traded company.

Implications:

- **Positive:**
  - Can raise significant capital for expansion.
  - Offers high valuation potential and liquidity for founders and early investors.
  - Increases brand visibility and credibility.
- **Challenges:**
  - Requires strict regulatory compliance and transparency (SEBI, SEC, etc.).
  - Loss of full control due to public shareholder involvement.
  - High costs and time-consuming listing process.

3. MERGERS AND ACQUISITIONS

- A merger or acquisition is a strong exit plan option for any company with the business for sale, and a particularly attractive option for startups and entrepreneurs.

- The business is sold to another company who may want to increase their geographical footprint, eliminate competition, or acquire talent, infrastructure or product.

Implications:

- **Positive:**
  - Quick and potentially lucrative exit.
  - Access to wider distribution, resources, and strategic partnerships for the business.
  - Ideal for ventures with unique technology, market share, or customer base.
- **Challenges:**
  - Risk of cultural mismatch and layoffs post-merger.
  - Negotiations can be complex and may not reflect true business value.

4. LIQUIDATION

- Liquidation is an exit strategy whereby a business is closed down and all assets sold off.

- Any cash earned must go toward paying off debts and shareholders.

Implications of liquidation:

1. Last resort strategy - Liquidation is typically seen as a **final or emergency exit,** often used when:

- The business is no longer profitable,
- Recovery is unlikely, or
- No buyer is interested in acquisition.

2. Minimal returns

- Founders and investors may **not recover their full investments.**
- After debts are paid**, little or no capital** may remain for distribution.

3. Loss of business legacy

- The business **ceases to exist**.
- There's no continuation of brand, operations, or employee roles.

4. Credit & legal consequences

- Creditors may pursue legal action if not fully repaid.
- Can affect the **reputation** of the entrepreneur if not managed professionally.

5. SALE TO A FRIENDLY BUYER

- Instead of selling to an unknown competitor, sometimes business is passed on to friends, family, employees or managers that you know well.
- Such a friendly sale is also a good exit strategy for the entrepreneur.

Implication of a friendly sale:

1. Maintains legacy & culture

- The founder ensures the core values, mission, and company culture are preserved.
- Trusted individuals are likely to honor the founder's vision.

2. Emotional satisfaction

- There's personal comfort in handing over the business to someone known and trusted.
- Helps reduce stress or guilt associated with exiting the business.

3. Smooth transition

- Knowledge transfer is often easier.
- Employees, suppliers, and customers may experience less disruption.