

# Exit Routes

an examination of  
owner managed businesses and  
the relationships between  
ownership, growth and exit routes

**Cambridge University Research Report**  
based on discussions with  
owner managed businesses



# Important Notice

This work has been undertaken as part of a student educational project and the material should be viewed in this context.

The work does not constitute professional advice and no warranties are made regarding the information presented.

The authors, Judge Business School and its Faculty do not accept any liability for the consequences of any actions taken as a result of the work or any recommendations made or inferred.

---

## **Exit Routes**

Interrelationships between  
ownership, growth paths and exit routes for  
privately owned businesses  
Page 2

# Contents

1.	Foreword.....	4
2.	Executive Summary .....	5
3.	Introduction & Methodology .....	7
4.	The Case Studies .....	9
5.	Results – Ownership.....	13
6.	Results – Growth.....	14
7.	Results – Exit Routes.....	15
8.	Results - Relationships.....	16
9.	Conclusion.....	18

---

## Exit Routes

Interrelationships between  
ownership, growth paths and exit routes for  
privately owned businesses  
Page 3

# 1. Foreword

I have been very pleased to have been able to provide support to Cambridge's Judge Business School as part of this research project. The aim of the work has been to examine influences on the choice of ultimate exit route for private businesses. The project called for considerable access to seasoned business people with responsibility for some very successful privately owned businesses. As such, the exercise has represented a fantastic chance for all involved to gain a deeper understanding of drivers and motivating factors for the owners of these businesses.

My own business is as an independent advisor to shareholders looking to sell or acquire a substantial enterprise. Of course, I have absorbed the findings of this report with enthusiasm – it has represented a great opportunity for me to gain further insight into the thinking of the people I work with. Whatever your exact area of business, I trust you will read the report with as much interest as I have.



Mark Robson  
ph: 0788 181 6038

---

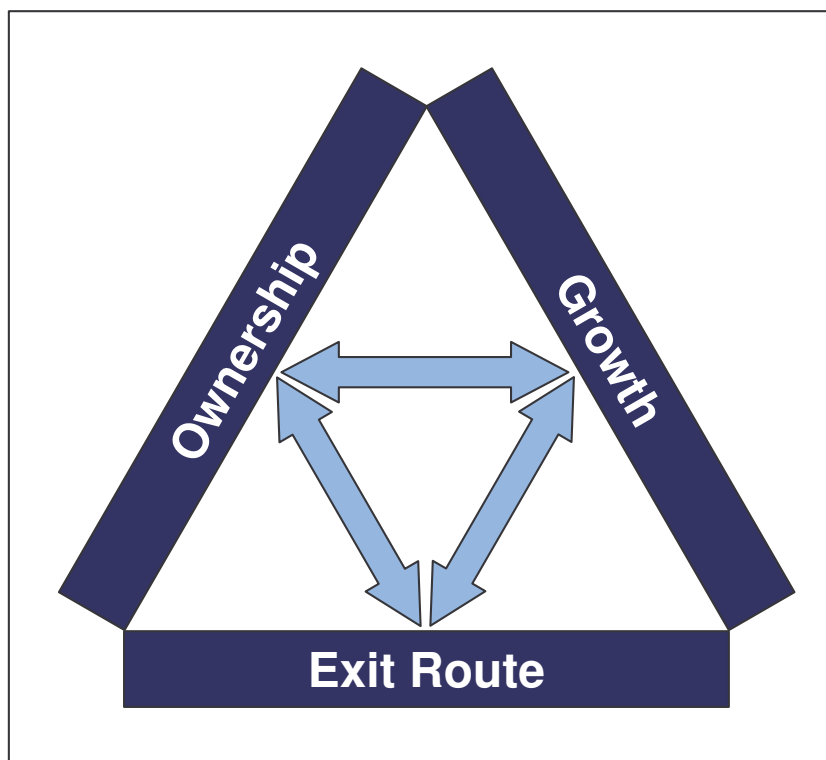
## Exit Routes

Interrelationships between ownership, growth paths and exit routes for privately owned businesses  
Page 4

## 2. Executive Summary

This research project called for us to interview owner managed businesses and question them as to their likely sale or exit route. Simultaneously we investigated:

- Ownership structure – the exact nature of their ownership structure;
- Growth – how they viewed the growth prospects and potential for their business.



The purpose of the research was to examine how the choice of exit route might be influenced by a company's ownership structure and its growth path.

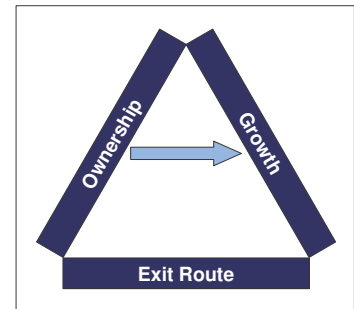
---

### Exit Routes

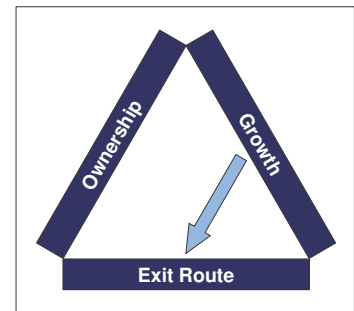
Interrelationships between ownership, growth paths and exit routes for privately owned businesses  
Page 5

Our research found evidence of linkages between the three factors above. In particular we found indications that the strongest relationships may occur between:

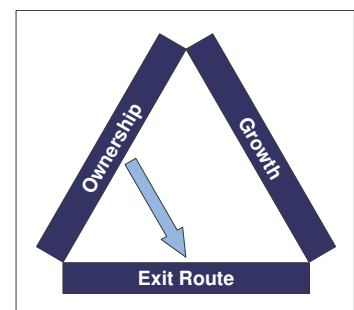
- Ownership structure and growth - companies owned by private individuals are more likely to aim for rapid growth. Family owned companies tend to seek long-term, sustainable growth.



- Ownership structure and exit route - companies owned by private individuals are more likely to sell their business if they see that a premium price is being offered. Family owned companies tend to favour succession that sees the business passed to other younger family members.



- Growth and exit route – companies with rapid growth appear to have a wider range of options available. Static companies with static growth are unlikely to receive a premium offer unless a purchaser sees a real opportunity to improve performance.



---

### Exit Routes

Interrelationships between ownership, growth paths and exit routes for privately owned businesses  
Page 6

## 3. Introduction & Methodology

This project investigated the influence of ownership structure, together with the stage of development and growth, on the likely sale route envisaged by privately owned businesses. Our methodology involved:

- Using the “FAME” company database to identify some of the largest privately owned companies around Cambridge, UK; those with pre-tax profit between £1-3 million.
- Contacting 65 of these companies to request an interview.
- Conducting structured interviews with the owners or managing directors of eight of these companies.

Structured interviews were between ½ and one hour in duration and consisted of approximately 25 questions (see appendix) covering the following areas:

- Perceived market share and performance against peers;
- Stage of growth and development;
- Extent and quality of company systems and processes, as perceived by the businesses;
- Size and concentration of customer base;
- Financial performance;
- Ambition – the desire of key individuals within each company to continue to participate in the business’s development.

Because contacts and interviews were made only over a 1-2 week period, coinciding with a school break, many owners or senior executives were unavailable for interview. Based on feedback from the companies contacted, if interviews had been conducted over a longer period (say six weeks) we believe that another 20 or so companies would have been willing to participate.

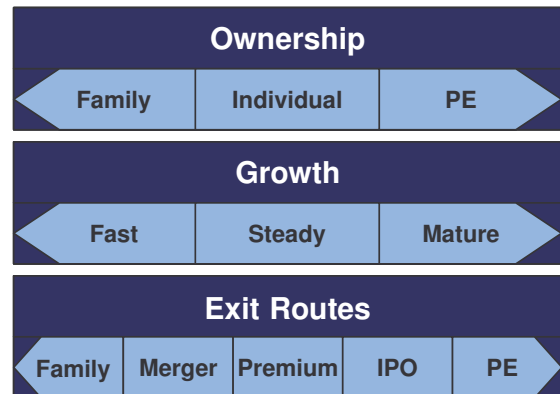
---

### Exit Routes

Interrelationships between ownership, growth paths and exit routes for privately owned businesses  
Page 7

As a result of our research we found that we were readily able to:

- Define businesses according to the exact nature of their ownership structure;
- Characterise each company according to its stage of growth;
- Identify the likely future sale route as articulated by the businesses themselves.



Furthermore, by considering what business owners told us about their ownership, growth potential and choice of exit route we were also able to draw preliminary conclusions regarding the likely relationships between these three factors.

---

### Exit Routes

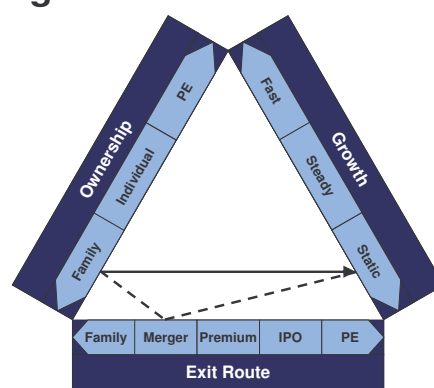
Interrelationships between ownership, growth paths and exit routes for privately owned businesses  
Page 8

## 4. The Case Studies

Four of the companies contacted were interviewed in greater depth than others and the resulting “Case Studies” illustrate some of the main findings of our research, as summarised in section 8. The four case studies, with names removed to protect confidentiality, are outlined below.

### Company W - Ownership Affecting Growth

- Sector – biological research.
- Ownership – family.
- Growth – static.
- Future plans – strategic merger.



Company W claims a 35% market share. It is one of the top three players in its market, which together control 75% of the market. Growth in the sector is currently limited by a reduction in US government funding for research. Company W’s customer base is highly concentrated, with 75% of its turnover arising from its top five customers. Company W’s turnover is around £8 million with gross margins around 40% and pre-tax profit of around £1 million. Company W carries no debt.

The owner of Company W is insistent that any future sale will only be considered on the basis of synergies with a new owner and their ability to contribute to growth. Given Company W’s strong market position, the owners envisage that any exit will take the form of a strategic merger with another major player.

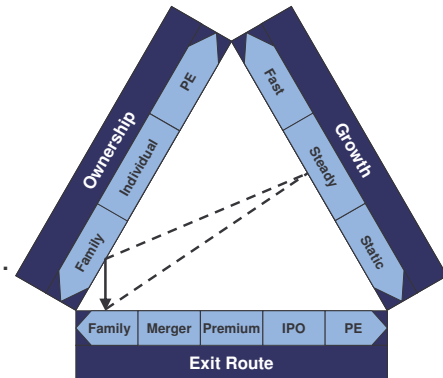
This case study illustrates how family ownership can drive a business to preserve its legacy and concentrate on steady organic growth within its market, with sale a remote possibility.

#### Exit Routes

Interrelationships between ownership, growth paths and exit routes for privately owned businesses  
Page 9

## Company X - Ownership Affecting Exit Route

- Sector – autotrade.
- Ownership – family.
- Growth – steady.
- Future plans – family succession.



According to Company X, it has a small but growing market share in a shrinking market.

Company X recently acquired an underperforming competitor quickly enabling it to increase its number of branches by approximately one third.

Company X's customer base is wide spread, with less than 2% of its business conducted with its largest five customers.

With its acquisition, Company X's turnover has grown from £25 million to £35 million. With further organic growth, turnover is now exceeding £40 million. Profitability is also moving upwards. According to Company X, this trend illustrates how the business is outperforming its competition.

Company X is predominantly owned by an 82% shareholder. Previously this individual had sold two other businesses after receiving lucrative offers at a point where he felt growth opportunities were limited. Now Company X's owner is nearing retirement but he is more focussed on providing succession to other family members.

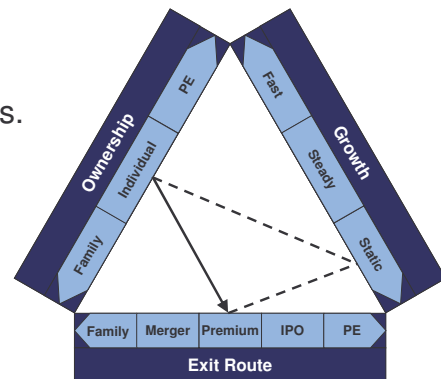
This case demonstrates how family owned businesses can be more intent on providing opportunities for other family members. For Company X's owner, sale is not an option because he is "sitting on a zero debt, low risk, cash in hand business seeking to pounce on the next project that comes around the corner".

### Exit Routes

Interrelationships between ownership, growth paths and exit routes for privately owned businesses  
Page 10

## Company Y - Ownership Affecting Exit Route

- Sector – telecommunications.
- Ownership – unrelated individuals.
- Growth – static.
- Future plans – premium.



Company Y reports an approximate 5% share in the static telecommunications market.

The company has achieved rapid growth by assisting BT plc with its broadband internet rollout.

Company Y has a concentrated customer base. It has 10-15 customers with the top five accounting for 65% of turnover.

Pre-tax profit is running at around £3 million with no debt.

Company Y has four equal shareholders who report that they are generally content with the performance and the structure of their business. Objectives for the shareholders include improving profitability and expanding the customer base. Although there is no intention to sell the company, the shareholders would consider selling if they saw a purchaser prepared to offer a premium price.

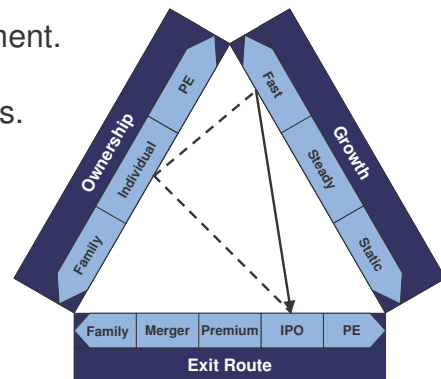
This case illustrates how a business owned by a group of entrepreneurial individuals is driven to improve the performance of their investment. Without any sentimental desire to pass the business to family members, these individuals are likely to be receptive to a buyer that will offer to purchase their shares at an attractive valuation.

### Exit Routes

Interrelationships between ownership, growth paths and exit routes for privately owned businesses  
Page 11

## Company Z - Growth Affecting Exit Route

- Sector – communications equipment.
- Ownership – unrelated individuals.
- Growth – fast.
- Future plans – IPO.



According to company Z, this business commands a worldwide market share of more than 20% and rising.

This Cambridge start up acquired its assets four years ago and claims it has enjoyed a growth rate of 50% per annum since.

Company Z reports a very strong financial position with growing turnover (around £50 million) and margins. Initial debt raised to fund the business and purchase its assets was cleared within 12-18 months of start up.

Two major shareholders are looking to float the company on the London stock exchange within the next 12 months.

Company Z demonstrates the case of a fast growing recent start up tightly held by a few individual investors. The owners, none of whom have direct management responsibilities, are looking to make a capital gain on their original investment rather than establish a long-term legacy. From the owners' perspective, undertaking an IPO will allow the individuals to reduce the amount of their personal wealth that is tied up in the business and free them to find their next investment opportunity.

### Exit Routes

Interrelationships between ownership, growth paths and exit routes for privately owned businesses  
Page 12

## 5. Results – Ownership

As part of the research process we were able to identify the ownership structure for each of the companies we interviewed. We saw a wide variety of structures and were able to classify them into three main groups:

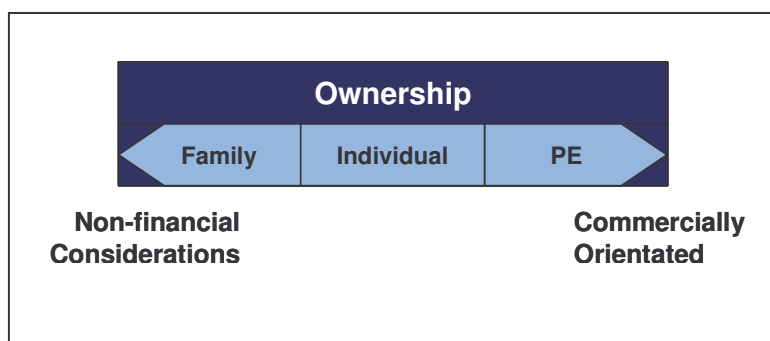
- Family;
- Individuals;
- Private Equity.

For half of the companies interviewed ownership was divided amongst family members; with variations as to whether each company was owned by different generations or the same generation. The owners of family companies expressed a strong desire for their businesses to endure within the family for the foreseeable future, suggesting that family members have a high level of attachment to their businesses, seeing them as more than just sources of short-term profit.

The second group of firms were each owned by a number of individuals, with several people having an approximately equal say in the future of each business. The individuals involved seemed to see these companies as financial investments, pushing for maximum return on their money with less regard for the identity of the long-term owner.

One company was owned by a private equity firm. We were told that the private equity firm aims to invest in the company only until it is profitable enough to be sold.

The results of our research into ownership structure indicate that businesses can be viewed as lying along a continuum, with some owners almost purely interested in financial return and other owners factoring in other non-financial considerations.



### Exit Routes

Interrelationships between ownership, growth paths and exit routes for privately owned businesses  
Page 13

## 6. Results – Growth

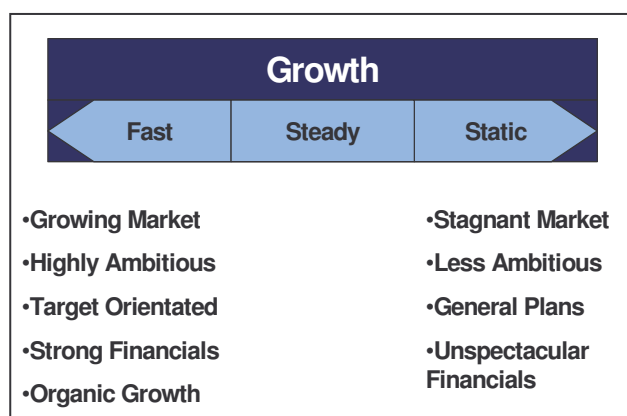
In considering a company's growth we examined past changes in profit and sales. We also questioned owners as to current market share as well as their ambitions for each company, in an attempt to gauge possible future growth. This enabled us to classify the growth of companies as:

- Fast;
- Steady;
- Static.

Under this classification system, two companies were classified as "fast growth". These businesses believed that growth had been well above market average for the last few years, that they were conducting business in growing market sectors and that they had clearly defined goals and ambitions for future development.

The next group of companies were classified as "steady growth". These companies had experienced consistent but unspectacular growth in a variety of differently performing markets, some of which were in decline. Additionally these companies seemed to have less ambitious targets.

Two firms appeared to be in stagnant markets and were classified as "static". One of the markets stagnated due to a shift in technology. The other market stagnated because of a reduction in government spending, an external shock which the company had no control over and could only react to.



### Exit Routes

Interrelationships between ownership, growth paths and exit routes for privately owned businesses  
Page 14

## 7. Results – Exit Routes

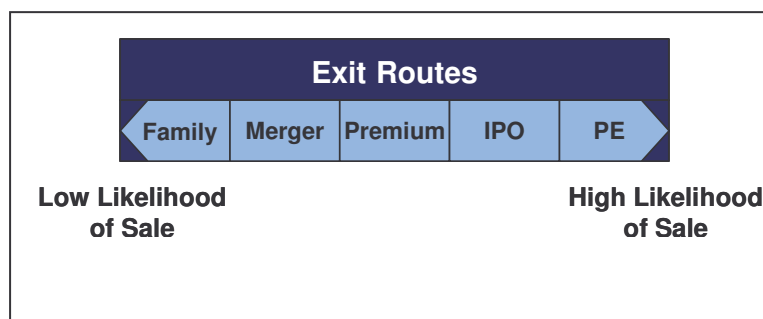
All the firms we spoke to had an expectedly firm position on their future plans for the business. Whilst some held set goals and future targets, others were content simply to wait for opportunities to present themselves. Again several categories were identified:

- Premium offer - an offer regarded by the owner as over and above market valuation;
- Strategic merger – an amalgamation of two firms predicated on anticipated synergies;
- IPO - initial public offering or listing on a recognised stock exchange;
- Family succession;
- Private equity – likely trade sale initiated by a private equity backer.

Only one firm maintained that it would be willing to entertain any premium offer with no concerns for the business after sale. Two other companies said they would listen to premium offers but agreed that any transaction needed to be for the good of the business. The strategic requirement imposed appeared to reduce the willingness to sell.

Two companies stated that they were actively considering IPOs. On this basis, relative to other companies interviewed, these businesses exhibited an above average willingness to sell.

Two businesses stated that the owners' interests lie in keeping the company intact. This desire to preserve a family legacy has been demonstrated by the owners' regular refusal of a persistent potential buyer. Here we observed a clear unwillingness to sell.



### Exit Routes

Interrelationships between ownership, growth paths and exit routes for privately owned businesses  
Page 15

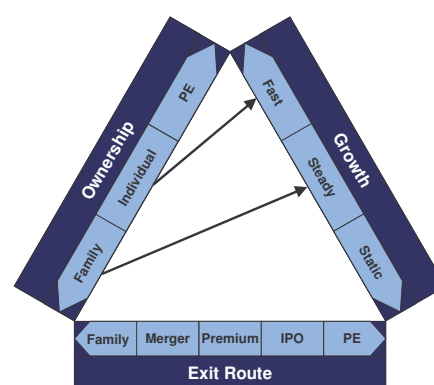
## 8. Results - Relationships

As well as being able to characterise companies according to ownership structure, growth path and likely future exit route, we were also able to observe indications of relationships between the three factors. These links are illustrated by the case studies outlined in section 4.

### Ownership Affecting Growth

The companies owned by a group of individuals appear to be driven to achieve strong growth, resulting from their desire to profit from their investment.

The family owned companies interviewed seem to be more intent on preserving their current growth path rather than increasing profitability over the short term. This may be because family owned businesses view the company as a long-term investment, possibly spanning generations of the family. Unrelated individuals seem to strive for maximum possible growth in their businesses, viewing their enterprise as a shorter-term activity designed to yield a capital gain.



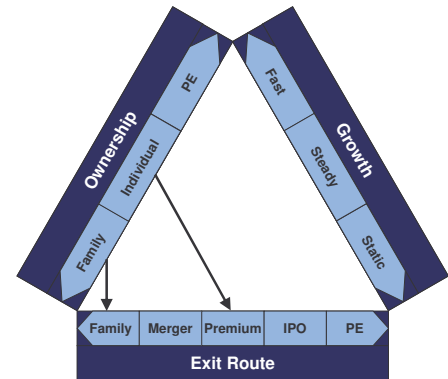
#### Exit Routes

Interrelationships between ownership, growth paths and exit routes for privately owned businesses  
Page 16

## Ownership Affecting Exit Route

From direct discussion with business owners it appears that companies controlled by individuals are more open to premium offers. Family owned firms appear more interested in succession and the identity of any future owner.

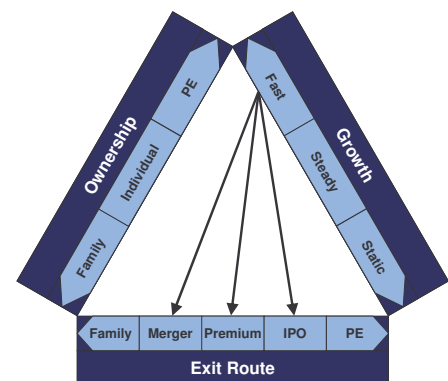
Of the businesses we spoke to, family owners appear to be more involved in day to day management whereas individual entrepreneurs, seeing the company as an investment, seem to play a more passive role.



## Growth Affecting Exit Route

Our research indicates that companies enjoying strong growth appear to have a wide range of exit options available to them. Whilst some may look to float, others might seek a synergistic merger. Alternatively, if a quickly growing company feels it has progressed as far as it can it may be responsive to a premium offer.

It seems that static companies with steady or static growth will only receive a premium offer if the purchaser sees the opportunity to dramatically improve performance.



---

### Exit Routes

## 9. Conclusion

To conclude, we have been able to characterise companies as to their ownership structure, growth path and likely exit route. As part of this process we have found some categories of owner driving for higher financial returns than others, some businesses reporting stronger growth than others, and some businesses reporting that they are more likely to change hands than others.

What has been most interesting has been to consider the possible relationships between ownership, growth and exit route. As part of this we have seen likely links between:

- Ownership and growth – businesses with the most commercially oriented ownership structures are those most likely to drive for strong growth.
- Ownership and exit route – businesses with the most commercially oriented ownership structures are most likely to gravitate towards earlier exits that provide the highest return on investment.
- Growth and exit route – businesses enjoying the fastest growth rates are likely to enjoy the widest choice of possible exit route.

And to possible implications for business owners? Without further research we can't be definitive, but we think our research may point to at least two considerations for the owner thinking of exiting at some point in the future:

- Be clear in your ambitions. If your business is governed by a disparate group of shareholders, pure commercial considerations may not prevail. If your priority is to make a return on investment, examine your ownership structure. It may need revisiting to make sure it can deliver to your long term aims.

---

### Exit Routes

Interrelationships between ownership, growth paths and exit routes for privately owned businesses  
Page 18

- Be realistic about the business and your exit route. Don't think you can necessarily IPO if you're a family owned business that has enjoyed modest growth over a long period. The growth rate your business has enjoyed and the growth rate it will enjoy in the future are likely to be key influences on your options for exit.



Jonathan Hopkins & Angus Reynolds  
Judge Business School, Cambridge University  
Management Studies Tripos 2005-2006

---

**Exit Routes**

Interrelationships between  
ownership, growth paths and exit routes for  
privately owned businesses  
Page 19

# Appendix – Questionnaire

## Market

- What is your approximate % market share compared to your main competitors? Is this rising or declining?
- Is the market growing and if so are there any opportunities for expansion?
- Is there much M&A activity taking place in the market at the moment?

## Growth and Development

- What have been the main milestones your company has passed/accomplishments the business has had over the last 2-3 years?
- How has the business grown or declined over the last 2-3 years and what has been the main reason for this change?
- Who are the key shareholders?
- Roughly how is the ownership split between the shareholders?
- Beyond the owners of the business, how many senior managers do you have and what are their responsibilities?

## Systems and Processes

- How would you rate the quality of your accounting and business systems on a scale of 1-10?
- What 'off the shelf' packages do you use and what do you use them for?
- On a scale of 1-10, how transparent and universal are your procedures?

## Customers

- Approximately how many customers do you do business with each year?
- If you listed your five largest customers what proportion of your turnover would each account for (roughly)?
- What is your customer retention rate?

---

### Exit Routes

Interrelationships between ownership, growth paths and exit routes for privately owned businesses  
Page 20

- On a scale of 1-10 with 10 being the most flexible, how flexible are you contractual relations with your customers?

### **Financial**

- What are the approximate turnover, pre-tax profit and gross margin figures for the business? (a range is fine for the gross margin e.g. 25-35%)
- Are any of the above changing and if so by how much (% rate of change) and why?
- Approximately how much debt does the business carry and how does this compare historically?

### **Ambition**

- What are your goals as a company?
- What main changes would you want to make to the business?
- How long do you think it would take to make these changes and for their impact to flow through?
- For how many years do you think you will stay involved in the business?

### **Future Plans**

- How many approaches (formal and informal) do you tend to get in an average year?
- Of these approaches, how many are seriously considered?
- Have you put a management succession plan in place?
- Do you have any plans to sell and if so any thoughts on timing?
- If the business were to be sold, what do you think would be the most likely route, taking advantage of an unsolicited approach or formally putting the business up for sale when you felt the time was right?
- What do you think the likelihood of the business being sold within the next 3-5 years is (% probability)?

---

#### **Exit Routes**

Interrelationships between ownership, growth paths and exit routes for privately owned businesses  
Page 21