Exit Strategy

A B.C.-based entrepreneur reveals how to turn a business sale into a succession plan

By Barry Carlson

Photographed by Daniel St. Louis/KlixPix

WHO Barry Carlson, founder
WHAT Parasun Technologies
WHERE New Westminster, B.C.
COMPANY PROFILE Digital Internet services provider for small market cable television operators
ANNUAL SALES $12 million
FOUNDED 1997
SOLD 2007
STAFF Started with four, grew to more than 100
SALE PRICE $15 million
TRANSITION TIMEFRAME Four years from start to finish
DIVISION 12 shareholders. Carlson and his partner jointly held 50%
VALUATION Conducted an internal analysis to arrive at a value, but not a third-party evaluation

Deciding to sell the company was the result of having too many shareholders. With 12 shareholders you either start generating dividends or plan an exit. If we went the dividend route, then several of the smaller shareholders might only end up with a dividend portion to pay for a nice dinner a month. So it didn't make sense as a long-term investment.

It was also looking like the business was about to peak—we could see another three or four years of a good rate of growth. But you sell when the selling is good, not when you want to.

The biggest risk was not selling. You know, you can go for years in a bad economy and be unable to sell for anything worthwhile. So we'd been keeping our eyes open, and all the pieces fell into place.

The process we went through was simple. First we decided who was going to sell it for us. We chose Basil Peters, founder of Strategic Exits Corp., who had experience in the cable industry. He agreed selling was a good idea and so we had him join Parasun's board.

Selling the company was a team effort by Peters, and also David Raffa, a lawyer and long-time member of the board. We engaged them together to find us a buyer.

Once we decided on the team, we got the board organized so everybody on it was anxiously awaiting a liquidity event, whereby the investors cash out all of their shares. Then we sat down with senior management and made sure they were in line. I replaced myself as CEO with the head of sales and marketing, which turned out to be a brilliant choice, because he understood the industry and knew how to build a team to grow the business quickly. We made sure that his compensation package was heavily weighted in favour of a sale, specifically in the form of stock options that vested 100% if the business was sold.

Executing a sale comes down to three things. The first is finding the right buyer. The second is having management ready—and compensated—to see the transition through if the buyer wants them to. The third is having the company cleaned up. We spent two years building a due diligence book, which consisted of copies of all pertinent sales and purchase contracts, historical financial information, individual employment contracts, trademark and patent documentation, and tax returns for every jurisdiction in which we did business. Basically, the due diligence book provides proof of everything the company has ever done. It's a lot of paper. When the right buyer came along with the right offer we had everything they'd need to know about the company in the book.

It's typical in smaller companies to have a lot of baggage kicking around your shareholding structure and balance sheet that makes it hard to sell, such as a loan from a shareholder that was supposed to be converted to equity but it hasn't actually been papered; or an option to purchase shares that was part of a deal that never happened and hasn't been cancelled. These things muddy the waters.

I've been through many major transactions in my career, and some haven't gone nearly as well as they could have. But I think we got this one right. This was the cleanest sale I'd ever been through, which I was grateful for.

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The biggest hurdle was our messy shareholding structure. We got the articles of the company fixed up so when we decided to sell no one shareholder could hold it up. We instituted a "drag along" clause stipulating that if 50% of the company plus one wanted to sell, then everybody sells. If you don't have that in place, a shareholder with 2% of the company can blow the deal.

Once the sale was complete, I took the cheque, resigned from the board, and wished everybody good luck. My post-sale plan was to retire. We closed the deal the same week I turned 60. I put some cash in the bank and planned to sit back and take a hard look at what I was going to do next. I was thinking there might be a lot of golf but I failed miserably at that. Now, I sit on the boards of three young technology companies, and two of them are starting to get some serious traction.

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