

Memphis Business Journal

Friday, April 16, 2010

Exit strategies:

Contractors must prepare for business departure

Memphis Business Journal - by [Sarah Christine Bolton](#)

If you want to figure out the meat and potatoes of what a company is about, look at its exit strategy, says H. Montgomery Martin, owner and CEO of **Montgomery Martin Contractors LLC**.

Martin is one construction business owner who does have an exit strategy in place. But according to some financial planners, many construction companies don't.

John Slater is a partner with **Focus LLC**, an investment banking services company that works with emerging growth and middle market businesses. Slater works with companies on mergers, acquisitions, transition planning and business valuation, but says his company doesn't create many exit strategies for construction business owners.

"They are not really sold on the idea of an exit strategy the way many other businesses are," Slater says.

Martin couldn't say if many of his peers in the construction industry have exit strategies.

"I would guess that they often have more of a vague exit strategy than something hard and fast," he says.

The very nature of the construction business may make it difficult for business owners to pin down the most appropriate exit strategy, even though financial planning is vital especially during uncertain times.

Slater sees two different types of construction companies: large, global companies and smaller companies often centered around one owner or family. Regardless of the size of the company, owners usually have a few options when planning an exit strategy. They can pass it on to a child or other family member, sell it to their employees, or search for an outside buyer.

If owners decide to search for an outside buyer, one of the most important factors is whether or not a potential buyer thinks they can run a successful business beyond the current owner.

"The smaller firms can be very successful, but it's not as likely an outsider would want to purchase a company like that," Slater says.

Buyers will be interested in a company, Slater says, if it has enterprise value beyond just asset worth. A company has enterprise value if it has survivability beyond the current owner.

"Your name and reputation are part of an exit strategy," Martin says. "The succeeding owners may want to maintain the name because of the reputation and what it says to clients and future clients."

Construction business owners should start thinking about an exit strategy, even if they haven't up until now. Slater says things will get worse before they get better, especially for the commercial industry.

"The residential construction industry has gone through a depression," Slater says. "A lot of companies have been wiped out. On the commercial side, things haven't progressed as much as the residential."

He says projections indicate the commercial industry will bottom out by 2012.

FMI, a Raleigh, N.C.-based management consultant and investment banking provider for the construction industry, published a report in second quarter 2009 that projected residential construction will decline 1% in 2010, while nonresidential construction will sharply decline 17% in 2010.

Martin has an exit strategy that would take effect under two scenarios: retirement or death.

"I've named the successive owners," he says. "They are the people that run the company right now."

In light of the turbulent financial times over the past few years, Martin's exit strategy is still the same, but his retirement timeline has shifted in response to the recession.

"Like everyone else I talk to, it's later than it was a few years ago," he says.

Allen Wagner, president and senior estimator for **Wagner General Contractors**, originally started his business in August 2001. He's no stranger to hard times. Barely a month after going into business, the events of Sept. 11, 2001 sent the nation into chaos. Wagner credits his faith and the tight-knit group of employees, several of which are family members, to keeping the company together. He also is acutely



ALAN HOWELL | MBJ
H. Montgomery Martin, at the site of the new Kroc Center at The Fairgrounds, has developed a clear exit strategy for his construction business.

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aware of the importance of planning for the future.

Wagner has three teenage children, but doesn't intend on passing the business to them.

"My kids might not care anything about construction," Wagner says. "I'm not going to force them into something."

He initially planned to sell the business to an outside buyer, but when he asked his employees what they thought, he realized they thought of the business as more than just a job. Now, Wagner plans to sell his business to his employees, but only the assets.

"I didn't want a valuation done on my business, because I don't want to know," Wagner says. "Attorneys don't understand my mindset. I'm not out to get as much money as I can from selling the business."

It can be hard to let go as an owner, Wagner says, and not be in control of how the business will be run.

In order for his exit strategy to be effective, Martin knows he will have to get out of the way at some point.

"Employees and management have got to be given more authority and more decision-making power," he says. "Planning an exit strategy is all about people development."

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