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Business Succession Planning

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Business Continuity

- **Buy/Sell agreement**
- A critical component for businesses with multiple owners, a buy/sell agreement determines who gets the owners' share in the company in the event an owner retires, becomes disabled, or passes away. It helps ensure business continuity, outlines the valuation methodology and buyout terms, and, when funded by life insurance, may provide immediate cash to purchase the owners' share.
- **Key person insurance**
- Key person insurance can help ensure your business continues if an owner or key employee dies. Key person insurance is a life insurance policy that provides cash to the business which can be used by the surviving business owners to maintain the business after the loss of a critical employee.

Business Continuity (cont'd)

- **Executive benefits**
- Successful businesses provide added supplemental benefits to recruit, retain, and reward certain critical employees, many of which can be funded with life insurance.

Preparing the Exit Strategy

- **Assess Your Readiness to Sell the Business**

- Your Legacy: The right time, the right transition.
- Your life after the sale: How long do you stay, and what are you going to do now?
- Identify succession candidates: Internal, external, family, employees

Preparing the Exit Strategy (cont'd)

- **Identify Stakeholders**

- Family Members
- Employees
- Community
- Clients and Customers

Preparing the Exit Strategy (cont'd)

- **Set Objectives**

- Valuation: What is the market, what is your need? Appeal of your industry and your business in it?
- Tax Impact: -To you, key employees, buyers
- Employment status: -Stay on, and for how long?
- Asset Protection Strategies: Planning after the sale

Preparing the Exit Strategy (cont'd)

- **Select Advisors**

- Accounting, asset management and tax advisors
- Valuation professionals
- Legal professionals: Structure of sale, estate planning, employment contracts
- Trustees: If business is trust owned, or transfer prior to sale

Types of Exit Strategies

- Internal Transfer

- Generally, a longer transition and spreads sale revenue over time
- Owner may retain control until transfer completed
- Allows co-owners/key employees to develop responsibility for growth and management
- Seller may realize greater overall income if employment is continued
- Installments may increase as business value increases over time
- Potential for greater business risk over life of transition

Types of Exit Strategies (cont'd)

- Third-Party transfer

- Strategic: Larger companies within the industry who see revenue/efficiency opportunities through acquisition/integration
- Private Equity: Focused on quality/sustainability of earning, sophisticated growth strategies; seeking new platforms and add-ons to existing platforms
- Family Office: Focus on sustainable cash flows with reasonable growth; typically, long duration holds periods and not actively involved in operations

Types of Exit Strategies (cont'd)

- Intergenerational Transfer
 - Often accomplished over a 5–10-year transition period
 - Next gen is a “known entity” and can be developed for effective takeover
 - Income/structure can be like internal transfer
 - Gift taxes on generational gift transfer can be minimized through a Grantor Retained Annuity Trust (GRAT)
 - Maintenance of family culture, legacy and goals

Types of Exit Strategies (cont'd)

- Employee Stock Ownership Plan (ESOP)
 - Rewards employees for active service to the firm
 - Shares ownership with employees, providing an orderly transfer of ownership
 - Can provide needed liquidity for closely held companies with a limited active market for their shares
 - May allow continued seller involvement, if controlling interest is sold over time
 - Can provide continuity of values
 - Can have significant upfront costs for plan design, valuation, regulatory compliance
 - Has ongoing valuation and 3rd party administrative costs, trustee fees

Business Valuation

- A multiple of EBITDA or revenue may be a starting point, but often fails to consider the nuances of the company, industry and availability of competitors in the market
- A thorough, independent appraisal provides realistic expectations
- Expert Designations:
 - Accredited Senior Appraiser (ASA), American Society of Appraisers (www.appraisers.org)
 - Accredited Business Valuation (ABV) by the AICPA (www.aicpa.org)
 - Certified Valuation Analyst (CVA) by Natl. Assoc. of Valuation Analysts (www.nacva.com)
 - Certified Business Appraiser (CBA) offered by Institute of Business Appraisers (IBA), now owned by NACVA (www.nacva.com)

Questions?



For more information

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