

ASSEMBLING A MULTIDISCIPLINARY TEAM FOR BUSINESS SUCCESSION PLANNING



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How to identify if your clients are candidates to sell their businesses?

Five key indicators that a business owner is a candidate for selling their business:

- 1) Age**
- 2) Fatigue**
- 3) Money**
- 4) Future**
- 5) Partners**



It all begins with knowing the
number?

“Magic Number” Please?

Let's look at an often too common scenario:

- Business Broker: “Mr. Seller, I have reviewed your financial statements and operations together with a thorough analysis of the industry in which you operate and have calculated what your business is worth and what my client is prepared to offer: \$1 million.”
- Mr. Seller: “You have got to be kidding, I don't care if you are a CPA, CBV, business valuator or whatever, my company is worth over \$5 million. My wife and I have calculated through a financial planner that we need \$5 million to retire, so the company has to be worth at least that much.”
- A client might have good revenue and even good after-tax cash-flow, but that does not in itself translate to the value which the client has determined is needed from the sale of the company.

Example how to increase value

- If your client's company has an income of \$5 million, it can be assumed to be worth between \$12.5 million and \$38.5 million.
- For this example, let's say the company is worth \$12.5 million. The client has two options to reinvest \$5 million for one year to either double income to \$10 million, or reduce risk by 25 per cent.
- Which option do you think yields the greatest one-year return on investment to increase the value of this company?

Example how to increase value

- The income increase from the first option would bring the business value to \$25 million, a 250% ROI.
- The risk reduction in the second option would bring the value up to \$33.5 million, a 420% ROI.
- Obviously, the second option yields \$8.5 million in greater ROI.

Why Option 2?

- Business owners and their advisors can expect the corporate risk to range between 3% and 30%
- Realistically the high-end corporate risk can be infinite but in most commercial transactions, if it is higher than 30 %, your client does not have a business.
- So the expected multiplier on income would be between 2.5x and 7.7x earnings, not considering growth assumptions.

“To whom should my client sell their business?”

- family members (whether active or passive in the business);
- key managers/senior employees of the business;
- third party purchaser.

THE MULTIDISCIPLINARY APPROACH

Exit Planning is a multidisciplinary process presenting business owners with a comprehensive and strategic approach to the orderly transition of the management and ownership of their companies.

An effective exit plan focuses on all of the important business, personal, financial, tax, estate planning, and wealth-management issues involved in exiting a privately owned business.

THE MULTIDISCIPLINARY APPROACH

Closely held business owners must not only account for the preservation of family wealth—through estate, gift tax, retirement, insurance and investment planning—they also need to deal with a host of additional issues directly related to the enduring success of business operations, such as:

- Addressing compensation planning for successors and key executives (to ensure they stay in the event of transfer)
- Building a long-term business strategy
- Understanding the fair market value of closely held stock
- Developing a formalized “grooming” program for successors
- Evaluating corporate finance and entity structure options
- Designing and implementing shareholder agreements
- Utilizing tax-effective ownership-transfer techniques



Assembling a Multidisciplinary Team for Business Succession Planning

An exit planning advisor must have the following capabilities. Expertise in:


- Retirement planning
- Business valuation
- Compensation planning
- Corporate finance
- Corporate structuring
- Estate and gift tax planning
- Income tax planning
- Life and disability insurance planning
- Stock transfer techniques

General business skills:

- Goal articulation and business strategy development
- Management development
- Managing interpersonal relationships, particularly family dynamics
- Corporate governance

Other desired perquisites of a good exit planning advisor:

- Substantial experience
- Integrity
- Empathy
- Creativity
- Communication skills

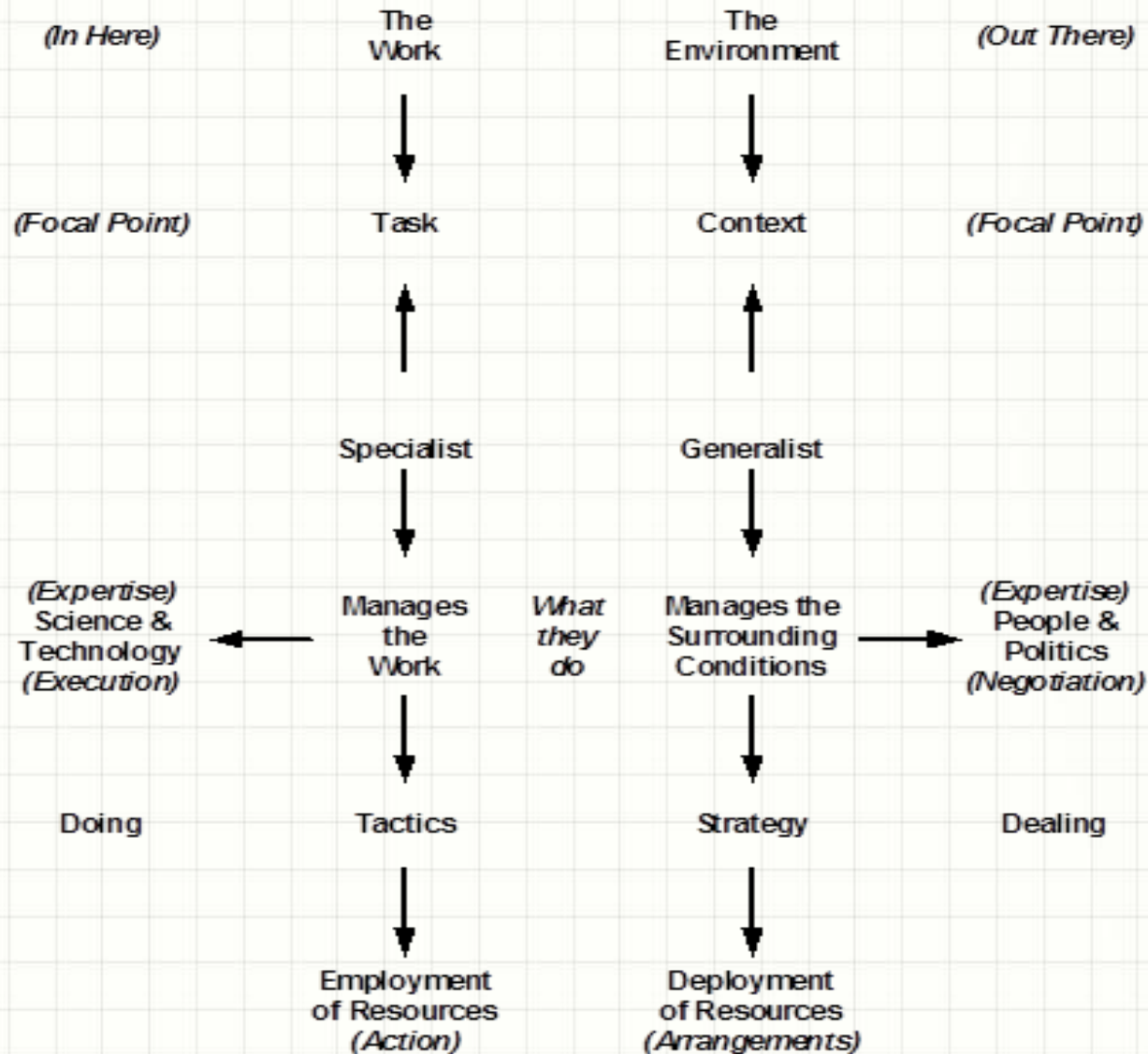


The Generalist

Vs.

The Specialist


























Generalists and Specialists: Unravelling the Mystery



The Multidisciplinary Team

- **Investment Banker**
- **Attorney**
- **Financial Planner**
- **Insurance Professional**
- **CPA**

The Multidisciplinary Team

	CPA	Financial Advisor/ Insurance Professional	Legal Advisor	Investment Banker
Identify Owner's Personal Objectives				
Evaluate Business/Determine Current Value				
Develop Personal Financial Plan and Retirement Needs Analysis				
Develop Exit Strategy and Plan				
Improve Business Performance				
Review Estate Plan				
Develop Capital Gains and Estate Tax Minimization Plans				
Review Insurance Needs				
Develop Investment Plan for Sale Proceeds				
Execute Exit Strategy				
Assist Owner with Post-Exit Issues				

Examples of Successful Succession Planning

- Ike does it right (family members succession transition)
- Richard makes employees happy (key managers/senior employees of the business succession transition)
- John banks sell and cuts ties to goes off to enjoy his new stage of life (third party purchaser)

Questions or Comments?



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