Succession Planning

HANDOUT WITH ANSWERS

Introduction

Ed Hastreiter, CPA and Owner of EWH Small Business Accounting

4 Options on Who Will Take the Business Over

1. **Sell it to Family Members**
2. **Sell it to Employees**
3. **Sell it to an Outside Third Party**
4. **Milking the "Cash Cow"**

How Can the Buyout Be Structured?

Stock Purchase

Asset Purchase

Deferred Compensation Plans

Cross Sell Agreements with Life Insurance

Tax Impact of Each Method

What is My Business Worth?

Multiple of EBITA

Multiple of revenue

Asset Valuation-liquidation

Preparing the business for sale

Appraisals and valuation methods

Options on Who Will Take the Business Over

Sell it to Family Members

Preparation is a lifelong learning process –starts at the dinner table

Develop work habits
Develop attitude towards the business
Value and Relationships take place in childhood
Should work outside the firm
Should hold many different jobs in the business when joining

Do you have one or more family member that qualifies?

Leadership skills
Gain the respect of other employees
Ability to maintain or grow the business
Entrepreneurial skills
Ambition and drive

Problems of competition between Employees and Family Members

Overlooked employees could leave
Need one person who will be CEO and will the others (employees) will accept him/her as a leader

She/he could decide after a period of time it is not what they want

Current owner needs a Plan to mentor the family members for leadership

Family members need to gain trust before making changes

Should learn why and how things are done
Will feel they know better ways of doing it?

Original family members business role after sale?

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Options on Who Will Take the Business Over

Sell it to Employees

Start planning 5 to 10 years prior to expected Retirement

Do you have one or more employees that qualify?

- Leadership Skills
- Gain the Respect of other Employees
- Ability to Maintain or Grow the Business
- Entrepreneurial Skills
- Ambition and Drive

Problems of competition between employees

- Overlooked Employees Could Leave
- Need on person who will be CEO and will the other Employees accept him/her as leader

Employee or employees after period of time might decide it is not for them

Current owner needs a plan to mentor the employee or employees that could take over the business.

Larger companies will build a continual Succession Plan with younger employees

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Options on Who Will Take the Business Over

Sell It to an Outside Third Party

Search for a qualified buyer, up to 5 years prior to expected retirement

Will the buyer want you to stay on for a period of time?

Is the buyer financially sound?

Will the buyer take on all the current employees?

Will the employees stay on after the buyout?

Is the outside buyer a good culture fit?

Will the buyer take over your existing location(s) etc. or just merge it onto their existing operation?

Do you own the building the business operates in and will they take it over?

Outside third party needs to gain the employees trust before making a lot of changes

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4 Options on Who Will Take the Business Over

4. Milking the "Cash Cow"

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How Can the Buyout Be Structured?

Stock Purchase

Straight stock sale

Trust- Sellers are trustee of stock

Retain 20% ownership for capital gain treatment

Asset Purchase

Deferred Compensation Plans

Cross Sell Agreements with Life Insurance

Tax Impact of Each Method

The Advantages and Disadvantages of Each Option

Financially

Legally

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What is My Business Worth?

Multiple of EBITA (Earnings Before Interest, Taxes and Amortization)

Multiple of revenue

Asset Valuation-liquidation

Preparing the business for sale

Appraisals and valuation methods

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