

Important Webinar Notes

- For audio, please use your computer or dial the number listed in your login notification.
- All participants will be in listen-only mode throughout the entire webinar.
- To ask a question during the presentation, please utilize the questions/chat feature in GoToWebinar. Type your question in the text box and click “send to staff.” Questions will be answered at the end of the presentation.
- A copy of the slides will be sent to all participants after the webinar.
- If you are having technical difficulties, please visit: <http://support.citrixonline.com/webinar>
- The webinar will begin promptly at 12:00 p.m. CT.

Thank you for attending!

Embedding Succession Planning Into Business Strategy

Is Your Business Transferable?

WIPFLi^{LLP}
CPAs and Consultants

Explore ● Focus ● Solve

Introduction to Wipfli's Business Transition Group

Wipfli's Business Transition Group (BTG) brings together a team of professionals with unparalleled experience in:

- Corporate Planning
- Strategic Planning
- Succession and Business Transition Planning
- Human Capital Consulting
- M&A Consulting
- Wealth Management
- Tax and Corporate Finance

Located across our national footprint, BTG is exclusively dedicated to helping private businesses build true transferability and perpetuate one of their proudest achievements into the future.

Explore ● Focus ● Solve

Who Is Paul Lally?

- National lead partner of Wipfli's Business Transition Group
- 29 years of experience in working with entrepreneurs
- Chief executive officer and founder of Chapel Bridge Advisors, LLC, a national multi-industry corporate advisory firm
- Co-founder and president of Gladstone Associates, LLC, a national corporate advisory and M&A consulting firm focused exclusively on the independent financial services sector
- Former principal with Arthur Andersen's Private Client Services Practice
- Former managing director with Wachovia's (Wells Fargo) Capital Markets Group
- Served as the senior business advisor to closely held businesses with values between \$5 million and \$500 million on comprehensive business planning matters, including strategic business planning, family succession planning, mergers and acquisitions consulting, and intercompany transfers and/or buyout planning

Private Businesses at a Glance

- There are almost **28 million** privately owned businesses in the United States
- Approximately **80%** of business owners do not have a formal plan for transferring ownership of their companies
- A passion for their business: **92%** of business owners say their business provides a sense of purpose for their lives
- It is estimated that the business represents **up to 90%** of an entrepreneur's income and net worth
- **30%** of private businesses are successful in their first generational transfer (**70% failure rate**); **14%** pass from second to third generation, and **only 4%** make it to the fourth generation

Every private business will eventually transition, either voluntarily or involuntarily



As the saying goes, *“A failure to plan is a plan for failure.”* Most business owners do not like to face the reality that every business must change hands at some point.



Why Is Succession Planning a Dirty Word?

What Is Transition Planning?

As a general definition, transition planning is the “*process*” of deciding when and how you would like the business to be managed or transitioned in order to protect the firm, its employees, its clients and its value against unforeseen events such as premature death or permanent disability.

It also considers to whom you would ultimately want to leave or sell the business and how to fund the transfer or sale.

Transition planning is a game of inches and starts with “Is your business transferable?”

The transition planning decisions that you make now, or elect not to make, will be a major factor in deciding the future of your organization.

Without a written succession plan, wills and trusts become your default business succession documents

The Four Stages of Being an Entrepreneur



Wonder



Blunder



Thunder



Plunder

Understanding the Owner Risk Phases

Risk Averse

Found in mature businesses
Most businesses die during this phase
Income maintenance and value loss

Calculated Risks

Found in growing or growth businesses
Most businesses thrive during this phase
Income and value creation

Pure Risk

Found in start-up and emerging businesses
Most businesses fail during this phase
No income or value

All Business Owners Face Three Inevitable Issues Sooner or Later



“Have I properly planned for the management or perpetuation of my business in the event of an **unforeseen occurrence**, such as death or permanent disability?”

“**How and when will I perpetuate the business** into the future while realizing value for what I have built?”

“How do I **continue to effectively grow** and scale my business to ensure a more viable, stable and profitable firm?”

The Most Important Transferability Questions

Do you have a **lifestyle** or a **business**?

- OR -

Have you built yourself a **job** or a **company**?

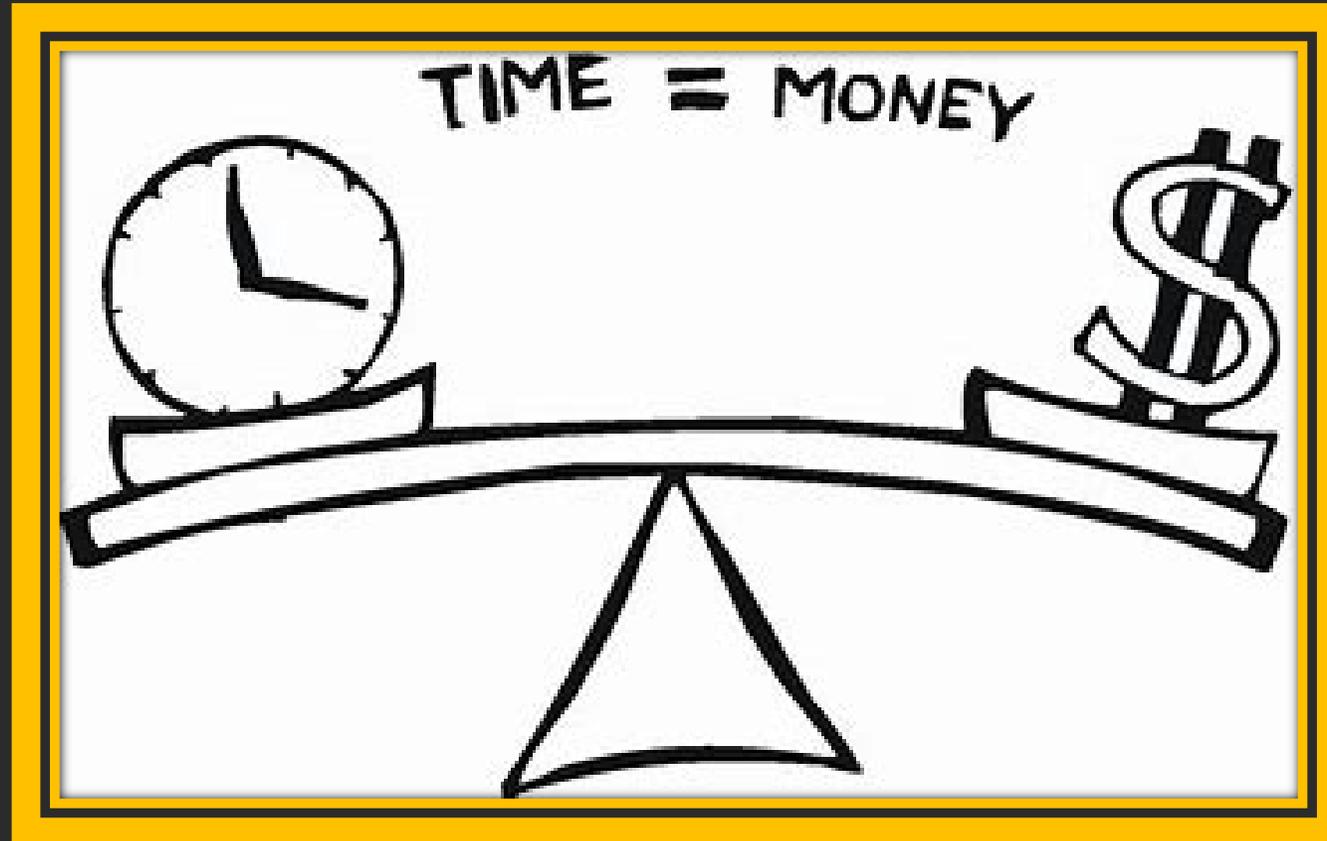
Where Do You Fall?

Four categories of entrepreneurs



- Will never sell or retire
- Five or fewer years away from retirement, no apparent exit plan
- Five or more years until retirement, internal successors in place
- Five or more years until retirement, no internal successor identified

Two Limiting Factors to a Successful Transition



Why the Difference Between Income and Wealth Matter



“Income” and “wealth” have incorrectly become synonymous in American culture.

While the two concepts often go hand in hand, using the terms interchangeably is misleading. America’s most wealthy individuals don’t necessarily draw the highest levels of income.

Income vs. Wealth – Different Definitions

I like to think of *income* as the amount of money someone receives on a regular basis, while *wealth* is the length of time that person (or family) could maintain their current lifestyle without receiving compensation for performing additional work.

Am I Vital to the Business?

Remember that if you are vital to the success of your company in any one of these areas, **you haven't built transferable value.**



1. Next-level management
2. Operating systems demonstrated to increase sustainability of cash flows
3. Professionalized organizational matrix
4. Diversified and loyal customer base
5. Proven growth strategy
6. Recurring revenue that is sustainable and resistant to “commoditization”
7. Good and improving cash flow
8. Demonstrated scalability
9. Competitive advantage
10. Financial foresight and controls
11. Interim succession plan – not just an ownership transition plan
12. Business transparency

Frequent Excuses to Delay Transition Planning



- Not being sure who to call for help or how to start the process
- Worry about being “fair” to all potential successors
- Fear of possibly straining interpersonal relationships
- Concern about how to acknowledge key personnel on the management team and valuable contributors to the business who should be retained but are not in line for ownership
- Difficulty discussing financial matters and personal goals with others (or outsiders) because it is too private, somehow unpleasant or considered taboo
- Owners maybe not wishing to retire
- Struggling to disconnect from the day-to-day urgencies to focus on long-term planning
- The assertion that because successors are “not yet ready” to assume control, nothing can be done
- The entire process seeming too daunting
- The perception that it is a cost to be incurred, with no immediate benefit

How Do You Know You Need a Plan?

The following quiz can help. A negative answer to any of the questions below indicates you need a succession plan:

1. Have you defined your personal goals and vision for the transfer of ownership and management?
2. Is your successor identified and in place?
3. Have you considered the importance of family involvement in leadership and ownership of the company?
4. Are you currently using techniques to maximize value while minimizing taxes?
5. Do you have enough liquidity to avoid the forced sale of your business?
6. Do you have a contingency plan should you become disabled or die?
7. Have you considered alternative corporate structures or share-transfer techniques to help you achieve your succession goals?
8. Are you dependent on your business to meet your retirement cash flow needs?
9. Have you had your business valued recently?

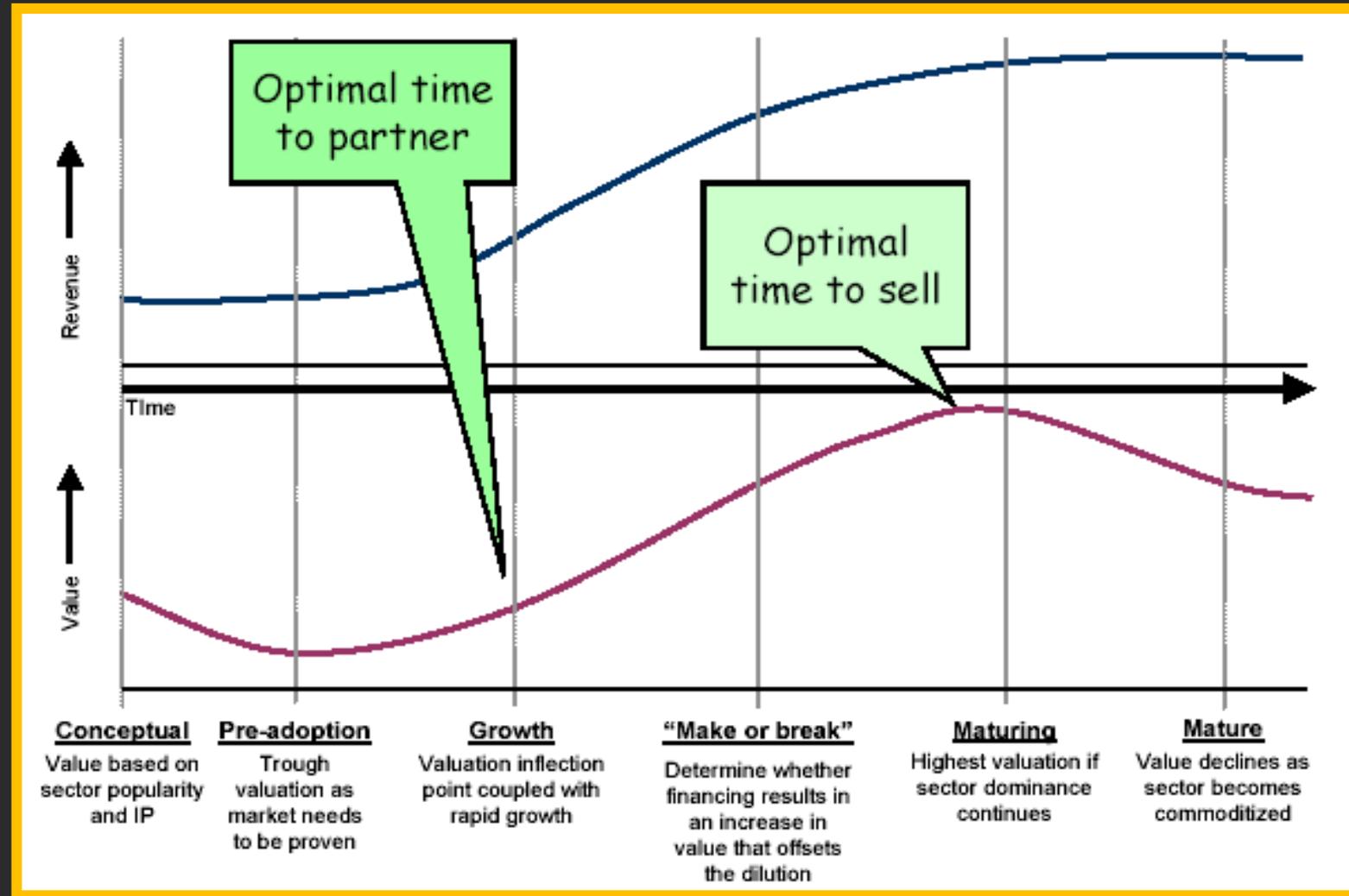
Building Transferable Value – An Art, Not a Science

- The process of deciding to keep or sell starts with considering value
- Different valuation for:
 - Banker
 - IRS agent
 - Buyer
 - Internal
 - External
- All can be justified

Factors affecting valuation

- Is the business viable without you?
 - Management team
 - Capability/intention of next generation
 - Cash flow
 - Industry status
 - Client relationships
 - Long-term demographics
- Unrealistic valuation expectation
- Tax issues – corporate and personal
- Corporate tax status

Timing Is Everything



Addressing the Issues

Personal issues

- Expectations
- Non-financial objectives
- Family considerations
- Personal ongoing involvement
- Time commitment

Corporate issues

- Organizational and operational issues
- Recast financial statements
- Transaction strategic planning
- Employee considerations

Start Now: Time Equals Outcome

Education stage

- Attend seminars
- Get familiar with the process

Readiness stage

- Assemble a team of advisors
- Design a plan to meet your needs post-transition

Execution stage

- Revise the plan every 6-12 months
- Begin “stepping aside”

Completion stage

- Develop “THE GO” strategy
- Focus on implementation and “what ifs”



Keys to Remember About Transition Planning



- ✓ This is a process, not an event
- ✓ While the process generally remains the same, each situation is unique; a cookie cutter approach will not get it done
- ✓ A fly-by-the-seat-of-your-pants approach works only by chance
- ✓ Patience is a virtue: waking at 7 a.m. and completing a succession plan by 4 p.m. is not likely
- ✓ Know what you are getting yourself into

Action Steps

- Recognize the need to plan
- Accept the fact that change is inevitable
- Know what you are getting into
- Determine when, where and how you will leave the business
- Maximize the value of the business
- Treat succession planning as an everyday business activity, not one more item on the firm's "to do" list
- Put together a corporate structure
- Identify your successor (if you decide to transfer rather than sell the business)
- Discover who and what you are beyond the business
- Identify your true passions and "callings"
- Set a course for the second half of life

“Do Nothing” Alternative (*Worst-Case Scenario*)

"Status quo" – You know, that is Latin for “the mess we’re in.”

Ronald Reagan speech in 1991

Everything Starts With a Conversation



Thank You!