



Succession Planning

Planning for a profitable and painless exit from your business

Your Hosts today

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Local knowledge.

National Connections.

Global Reach.

-
- Business structure & set up
 - Business valuations
 - Due diligence
 - Accounting, tax, compliance assistance
 - Strategic Planning Workshops



Disclaimer

This presentation has been prepared by Stephen Bushell and Gary Nugent and is current as at 26 September 2019.

Material in this presentation is a summary only and should not be considered a comprehensive statement on any matter nor relied upon as such.

Any examples used in this presentation are purely for illustration only.

“Succession planning is a process for identifying and developing new leaders who can replace leaders and owners when they want to leave, sell or retire”

It's our goal today to

To assist you to explore your options,
confidently navigate the potential pitfalls
and create a clear action plan for the
implementation of a succession plan.

We are covering:

1. What succession plan is and why every business owner needs one
2. The Decision Tree
3. Internal succession options
4. External succession options
5. Essential steps included in a strong plan
6. Major challenges and how to overcome them
7. Navigating the tax and structure implications
8. Understanding business valuation guidelines
9. Creating an action plan to move forward

An invitation...

for a complimentary Succession Planning Discussion



<http://bit.ly/DFKANZSuccession>

Quick Polls first.....



“What is a succession plan and why does every business owner needs one?”

The Stats and Facts...

- DFK ANZ Wavelength Survey 2018 - 56.7% of responders don't have a succession plan
- Intergenerational wealth transfer over the next 10-15 years will be the largest in history
- Estimated to be >\$3 trillion
- Baby boomers = 25% of population, 50% of wealth
- SMSF's in Australia – 2019-\$2.7t across 584,000 SMSF's, 2040–est.\$9.0t (**Source:** Australian Tax Office)
- Biggest reason for succession planning failure – lack of communication





Why do I need it?

- *We all need to look to the future and build a business towards a logical transition*
- *Things change rapidly, not just the business we are in but the demand upon us personally*
- *Are we building a business or simply working another job*
- *Growth will require staffing at some point and these people will look to the owners for a growth plan that might involve succession*
- *We need to know how much we are relying upon our business to fund our retirement or wealth planning*
- *Do we know what our business are really worth?*

The Decision Tree

Who are you planning to sell/pass your business to?

Option 1: Internal

- 
- A. Transition to family members
 - B. Management buyout

Option 2: External

- 
- A. External or trade sale

Succession options

Internal *(sell to management or pass to next generation)*

- *‘Seats on the bus and right people in the seats’*
- *Current performance, potential performance, readiness and timing*
- *Family members involved in the business*
- *Is the existing structure the right one going forward?*
- *How will the current owners be compensated?*



Family handover?

Some question to consider:

- *How much do Mum and dad want from the business?*
- *How much does Mum & Dad need from the business?*
- *Which children are suitable to be involved in the business (education/ experience/age)*
- *How are the non-involved children to be compensated?*
- *Estate planning fairness?*
- *Is the current structure suitable for a family handover?*

Management Buyout?

Some question to consider:

- *Do the current managers have the financial capacity to buy out the owners?*
- *Considering Vendor finance, bank debt, cash or a combination?*
- *Are there any skill gaps that need to be addressed?*
- *What impact will the new owner on the clients/ customers/market?*
- *Is the current structure suitable for a management buyout?*

Succession options

External *(sell to an external party coming into the business)*

- *'External may be required to fill gaps in the plan*
- *Import additional skills needed*
- *Recruit for growth and expansion*
- *Identify need, recruit to fit and build the team*



External Sale

Are you ready?

- *Do you have the right systems in place?*
- *Does your business run without you?*
- *Do you have strong financial reporting?*
- *Will your business withstand a due diligence check?*
- *Is the current structure suitable for an external sale?*
- *Have you considered the tax implications, capital gains tax?*
- *Is the timing of the sale important?*

“The simple steps needed to
develop a strong plan”

5 Steps to Succession Planning Success

Step 1 *Establish the timeline*

Step 2 *Define improvements required*

Step 3 *Determine the value of the business*

Step 4 *Explore tax implications of transaction*

Step 5 *Document the milestones*

Consider: *What external assistance do you need to facilitate the process?*

“Major challenges you will face and
how to overcome them”

Your Sanity Check

- *Mum and Dad not prepared to move on/let go*
- *An inability to look at the business from the outside in, thus overlooking weaknesses that others see*
- *Unrealistic expectation of the business value*
- *The impact of losing the owners on the business goodwill*
- *Is this business future proof to deal with disruption?*
- *Adult conversations with key players e.g. children that may or may not have the talent or skills to takeover*
- *The financial outcomes for both sides – buyer and seller?*

“Navigating the tax and structure implications”

Navigating tax & structure implications

- *Not all business structures are well suited to implementing a succession plan*
- *Which ones work and when?*
 - *Sole Trader*
 - *Partnership*
 - *Family Trust/Discretionary Trust*
 - *Unit Trust*
 - *Company - Private (Pty) or Listed (Limited)*

Navigating tax & structure implications

Explore

- *What can I do now to help me later?*
- *Ensure all tax outcomes are considered to ensure no surprises during the process*
- *Consider what assets are being transferred, to who and when*
- *Change of control considerations and timing*
- *Can estate planning assist with succession planning, ie. timings*

“Understanding core business
valuation guidelines”

Understanding core business valuation guidelines

- *Capitalisation of Future Maintainable Earnings*
- *Discounted Cash Flow*
- *Net Tangible Assets/Net Asset Backing*
- *Rule of Thumb/Industry Norm*
- *Cost to create/Entry Cost Valuation*

Please see Business Valuation Methods PDF Guide for more detail

Understanding core business valuation guidelines

- *Consider industry accepted methods of valuation and are they applicable in every case*
- *What consideration, if any, will be paid and when*
- *Application of any discounts on valuation*
- *What needs to be done to effect the valuation*
- *Who will fund the transfer of business and how*
- *Inter-generational succession plans*
- *Core assets vs surplus assets, consider restructuring earlier than succession event*

“Creating an action plan to move forward”

Creating an action plan to move forward

- 1. Identify the desired outcome and timings*
- 2. Review current people resources*
- 3. Do we have the right people in the right positions?*
- 4. Review current business structure*
- 5. Share the succession plan with key people*
- 6. Formulate milestones to measure progress*
- 7. Begin the execution process*
- 8. Monitor progress and check milestones*
- 9. Allow for delays and external factors*
- 10. Do you have a back up plan?*

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Questions?



How else can DFK ANZ help?

- *Strategic Planning Workshops*
- *Business structure and set up*
- *Business valuations*
- *Due diligence*
- *Accounting, tax, compliance assistance*
- *External, non-executive director services*
- *Regular mentoring meetings*



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THANK YOU

for attending our Webinar

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