

When Do I Get To Buy My Boat? Succession Planning – The Management Buy Out

by Howard Simmons

Eventually, you will want to transform all or part of the value of your business into cash that you can use for personal purposes such as retirement. Whether you decide on the outright sale of your business for cash or you prefer to transfer ownership through a buyout by family members, managers of your company or other partners, you will need a plan. Experience shows that there is no simple template for setting the succession planning process into effect. No two private or family businesses are the same; no two founders are the same. However, through the years, I have seen many patterns reoccur. From a distance, I have also seen many avoidable mistakes being made. So my advice is, start planning now, or there will be no boat later!

unplanned circumstances

Expect the unexpected. In addition to planning for the normal transition of ownership, the negative impact of illness, disability or death of the business owner must be also addressed in your succession plan.

A key part of succession planning includes providing for the continuity of management, that will address the concerns of employees, and calm any fears customers or suppliers may have on the organizational changes within your company.

succession options

Individual circumstances will determine what is best for you. Your options could be:

- Discontinue and wind down the business
- Family continuity
- Sale of the business to a 3rd party
- Management buyout

management buyout

A management buyout can be a form of a leveraged buyout used to transfer ownership of a company. The majority of management buyout transactions tend to occur in stable, mature companies that have an established track record of generating strong and sustainable cash flows. This is because the deals usually rely on debt structure to finance a significant portion of the purchase price and there is a need to ensure there is no interruption of payment to the retiring owner.

quality of new management

When considering this option, you should not only review the capabilities of the buy-out group, but also pay careful attention to identifying a real leader among them. Transferring power to a group of excellent soldiers without a smart general in place would be big mistake. You need to take an active role in identifying the new business leader. You know that a committee cannot run your business, and that leadership qualities in one individual will sustain future growth.

the process

It may be hard for you to imagine that someone else could have the vision you had to drive the company forward once you are out of the driver's seat. However, you have made a success of an entrepreneurial company and the spirit and values that have been successful to date should endure.

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Look for enthusiasm, energy and instinctive wisdom in your successor. In addition the new CEO must also possess good strategic and decision-making skills to provide leadership in a strong organization. This individual should also have the respect of your employees, otherwise you may face labour issues that could be detrimental to your cash flow.

Depending on your own management style, others within the company may or may not have the desired training or depth of experience to smoothly assume control. Often a founder assumes the majority of the management roles, even though there may be others who have the job title. This is yet another reason to start your planning discussions a number of years before deciding to exit your business, and allow the new management team to mature into their planned roles.

A financial analysis should then be initiated to verify cash flow, sales volume, how much debt the company can sustain, its growth potential and any other factor that could influence price and continuity of operation.

Ownership and power transfer will be a process, generally a gradual process. Your exit may take longer than you are anticipating right now. You will want to set out a transition game plan for a smooth exit. This is where you should involve your lawyer and accountant as they can bring insight to the table. The financial and tax implications to both you personally and to the new owners can be complex and this is the time, before having to deal with issues, that various options need to be explored.

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buyout structures

A common misconception that can postpone the succession planning process is the owner's belief that the owner's successors – in this case management – lack the personal financial resources to purchase the business. The truth is that where the business has a solid history of profitability with strong projected cash flow, adequate debt capacity, a decent market position in a viable market and where the successors are already working in the business in a senior management capacity, it is often possible to structure a succession financing solution that does not require the successors to provide a large cash down payment. There are many buyout structures that you can consider and tailor to your best advantage.

management buyout makes sense

- It provides for new owners who share the same passion as the founder;
- It provides continuity of experienced and competent management;
- It provides for uninterrupted continuity of operation;
- It provides stability for current customers and suppliers;
- It provides a more acceptable proposition for the current staff;
- It is a common accepted business practice.

start planning early

There is no simple 'boilerplate' module for succession planning. But it is a simple matter to start a discussion on your process options. Review your goals, resources and current situation and the resulting impact of alternative actions. This will give you plenty of time to browse www.boats.com.

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