



ASHFORDS

Forging Ahead:

Succession Planning:

for both planned and unplanned exits...
know your end-game and make a plan.

Hosted by

Tim Kay, Senior Risk Advisor

Tim Szonyi, Senior Business Advisor

Who we are...



Tim Kay

Senior Advisor - Risk

Ashfords Wealth Advisory

Industry Sector Expertise

- Multi National Manufacturing
- Medical
- Banking and Finance
- Transportation

Experience

- Corporate and General Insurance Broking
- Individual Personal Risk Advice
- Business Succession Advice



Tim Szonyi

Senior Advisor

Ashfords Accounting & Advisory

Industry Sector Expertise

- Consumer Goods
- Grocery & Specialty Retail and Hospitality
- Service based business (professional, industrial, on-line)
- Manufacturing

Experience

- Tier 1 Management Consultant (McKinsey & Co.)
- CEO and Commercial Director Roles
- Board / Non-Exec Director Roles



Who is Ashfords

The current landscape

Planning and optimizing for exit

Solutions

What next

Who is Ashfords?

A full service Advisory firm; providing integrated Partner support to deliver sustainable client growth

- Legal
- Grants
- Funding
- Banking & Finance
- Import and Export
- Global Partnership Network (AGN)

6
Partner
Network

1
Business
Advisory

- Crisis Management & Turnaround
- Company Strategy
- Value Creation & Business Exit
- Business Valuation & Sales
- Board of Advice or CFO Programs
- Business Diagnostic & Review

- Company Digital Strategy
- Systems Workflow Automation
- Financial & Accounting systems Digitalisation, Automation & Workflow
- Online Dashboard Reporting

5
Digital

Powered by
 ASHFORDS

2
Accounting

- Financial Framework Design & Delivery
- Strategic Compliance & Tax Planning
- Technical Accounting & Execution Planning, & Cashflow Forecasting
- Company Compliance & Reporting

4
Wealth
& Super

3
Audit

- Personal Wealth Management & Estate Planning
- SMSF investment and management
- Tailored Investment Portfolio
- Personal & Business Insurance
- Comprehensive Estate Planning
- Portfolio Performance & Adjustment

- Designed Risk Profiling
- Audit Automation & Cyber Security
- Governance Strategy
- Company Oversight and Assurance
- Audit Software and Application
- Annual Audit & Compliance Review



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Ashfords SME research report – informed by the RAVDA national database.

What is a Risk and Value Driver Assessment (RAVDA)?

- Tool used to identify opportunities to improve our client's business performance.
- Detailed online questionnaire that investigates a wide range of risks facing business owners, and rates their level of concern on each issue.
- Supported by a national database of financial and qualitative RAVDA benchmarks across most SME industries.

10 key areas of risk and performance

 Focus areas for today



Non-Financial risks, and particularly external risks are increasingly impacting SME ability to survive, let alone capitalise on long-term value creation.



“The costs and consequences of poorly handled non-financial risks (for SME’s) can be immense and, at an extreme, catastrophic.”

(James Shipton, ASIC Chair)

Ashfords SME Research Report 2020/21 (3,382 respondents)

Key statistics when looking at our focus risk & value drivers



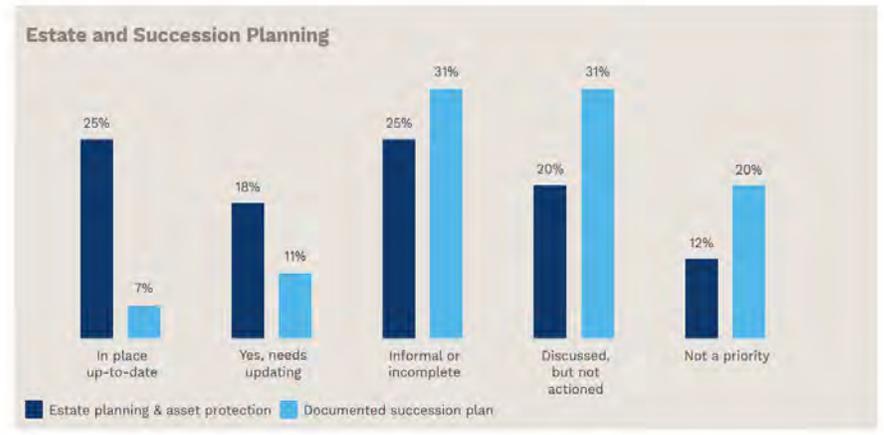
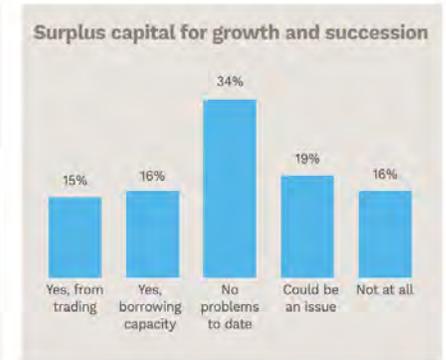
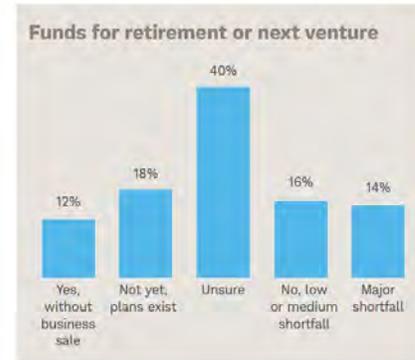
Only 12% have funds for retirement / next venture without selling the business and **70%** have no funds for retirement or next venture.

43% have personal, family and business arrangements for asset protection and estate planning from common trigger events (business disputes, ill health).

18% have documented management & ownership succession plans.

16% no surplus capital to fund future growth & succession.

“We need to work on identifying potential partners or opportunities so that we don't end up simply closing the business in 7 to 10 years and walking away with a debt to pay out.”



Key Insights:

- Succession risk was the highest identified risk with only 1 in 4 SME's having a documented and executed plan.
- Businesses are the source of owners income and key asset but often not protected.
- High levels of owner reliance and key person risk.



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Business Exit Plans are inherently linked to Succession Planning.

An Exit Plan

- Should be your strategic plan to sell or exit the business.
- Defined when you go into business and not at the end of your business journey.
- Helps potential investors know your long-term plans.
 - Do you want to float your business.
 - Do you want to pass it onto family members.
 - Do you want to liquidate.

Your Exit Plan will affect how you run the company, so should be planned for.

Drives Succession Plans by.....

- Being communicated years in advance,
- Ensures expectations are realistic and achievable,
- Plans for the successor's future role and responsibilities,
- Provides for a smooth transition,
- No set rules about what to include,
- Not a 'one-off' task - part of your future operating model,

Important that you seek advice.

Who is your successor?



- ✓ A family member....
- ✓ An employee....
- ✓ A business partner....
- ✓ Someone from outside the business....
- ✓ Are they the right fit....
- ✓ Are they up for the task (both skill & will)....

Unplanned Exits also unfortunately do occur.

7 unexpected causes of exit

- ✓ Death
- ✓ Disability
- ✓ Debt
- ✓ Dispute
- ✓ Disaster
- ✓ Divorce
- ✓ Drama

Exit Plan that plans for the unexpected will give you peace of mind and can minimize the loss of value when something unforeseen does occur.

Unplanned Exits – some critical questions to have answers for.

- ✓ What happens to your business if you are forced to exit due to death / disability or illness?
- ✓ Do you want to run your business with your business partners spouse or child?
- ✓ What happens to the value of your business if something happened to you or your business partner?
- ✓ What will the banks reaction be?
- ✓ How will your family get paid or get their share of the business?
- ✓ What happens if your business partner can't buy out your share?
- ✓ What happens when the other party want dividends and are not prepared to contribute?

Loss of key people can be as disruptive and impactful as the loss of an owner.

- ✓ Will your sales and profits be impacted?
- ✓ Do you lose intellectual property?
- ✓ Will there be incremental costs in trying to find a replacement?
- ✓ How are key client relationships impacted or even the loss of clients?
- ✓ Could it impact your credit rating?
- ✓ What is the impact on goodwill?



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Buy/Sell Agreements are an important solution for Exits (Planned or Unplanned)

Partnership or Buy/Sell Agreement

- ✓ Legally binding agreement between partners or co-owners.
- ✓ Answers what happens if an owner or partner is disabled, dies, is forced to or chooses to leave (sale or retirement).
- ✓ The agreement will determine:
 - Who can buy the departing owners share,
 - Relevant circumstances that allow the share to be sold,
 - The prices to be paid.
- ✓ Can be funded by an insurance policy.

Insurance can assist as in providing a solution for Unplanned Exits

Benefits of Insurance

- ✓ Can fund your business succession plan by transferring part of the risk to an insurance company.
- ✓ When your business would be unable to pay for a departing owners share of the business if they died or suffered a serious illness or injury.
- ✓ When your business is unable to cover the loss of revenue and goodwill and/or re-pay debts if an owner or keyperson dies or suffered a serious illness or injury.

Buy / Sell Insurance provides the money to buy out the departing owners share and gives the remaining owners options around the future of the business?

Risks covered can include....

- ✓ Life
- ✓ Total and Permanent Disablement
- ✓ Critical Illness / Trauma
- ✓ Income Protection Insurance
- ✓ Coverage is usually taken at the equivalent share of the business..
- ✓ The business will usually pay the insurance premiums.

Key Considerations....

- ✓ Different policy ownership options are available and this can impact who controls the policy, business structure, future ownership changes and tax treatment of the proceeds.
- ✓ Your Buy/Sell or Shareholders Agreement needs to match the policy ownership structure.
- ✓ This will assist in the smooth transfer of ownership when an unexpected event happens

Key Person Insurance provides a lump sum to the business to reduce the financial strain following the unexpected loss of a key person.

Risks covered can include....

- ✓ Risks covered can include:
- ✓ Life
- ✓ Total and Permanent Disablement
- ✓ Critical Illness / Trauma
- ✓ Two purposes – Revenue & Capital
- ✓ Needs to be documented at the outset as this will impact how the premiums and claims proceeds are treated for tax purposes.

Key Considerations....

- ✓ Revenue purposes such as finding a replacement, training costs, reduction in sales or profits and bad debts
- ✓ Capital purposes such as paying off business loans, retaining your credit rating and offsets for the loss of goodwill.
- ✓ Typically owned and paid for by the business who in turn receives the proceeds of a claim.
- ✓ Level of cover depend on specific business circumstances and contribution from its key people.

Case Study

Context

- Frank and Joe ran a successful manufacturing business,
- Primary source of income (wage plus annual dividend) for both families,
- Joe was suddenly struck down with Cancer and he passed away within 12 months,
- Joe (via his Will) left all his assets to his wife Laura, including his half share of the business.
- Laura now owned half a business;
 - Did not know its value
 - Required a weekly income to support her children.
 - Reliance on an annual dividend was not an option
- As such Laura needed to sell her half of the business but Frank did not have the money available
- Joe was the central driver of the businesses which now risked the business folding due to his absence, rendering her half share worthless.

Mitigations

1. Implement a documented Succession plan that dealt with death, disability, retiring or resigning.
2. Inclusive of an up to date Business Valuation that provides a mutually agreed value on the business that;
 - ensures the right insurance cover is allocated
 - a valuation on the business in the event a partner needs to buy another partner out,
 - or the business is to be sold in its entirety
3. Company paid Insurance Cover that would have paid Laura her share and transferred ownership to Frank under their Shareholders Agreement.



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Next Steps

- ✓ Attendees have unlocked a complimentary one-on-one consultation to review your business risk and value drivers and their impact on your succession plans (includes an on-line RAVDA assessment).
- ✓ The review will provide key insights and start the process of developing a strategy to protect your future and that of your business.
- ✓ A follow up email with the invitation will be sent post the webinar and a copy of this presentation.



Questions?