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Business Succession Planning in 2022  
The Time is NOW!





## Mission

Promote Business Ownership that generates wealth, fulfills dreams and enriches lives

## Vision

Generate wealth for our clients & associates by producing extraordinary results through creative, win-win solutions grounded in integrity & partnership.

## Values

- A demand for excellence with a sense of urgency
- Respect for people
- Listening to our clients
- Innovative thinking to deliver extraordinary results
- A requirement for profitability for all parties
- Honoring our word – doing what we say
- Integrity – Operating with ethics & honesty



## Headwinds

### **Significant Demographic Changes**



### **Market/Economic Implications**

- 66% of all Businesses with employees are owned by Baby Boomers
  - ❖ An estimated 15 million Businesses
  - ❖ 79% of owners surveyed plan to transfer/exit over the next 10-15 years
  - ❖ Only 15% of owners have spoken to an advisor
- Next Generations
  - ❖ Generation X & Y with similar values as Boomers are small in size.
  - ❖ Millennials, with STARKLY different values than Boomers, are larger in size.

*Today's psychographic and financial data on Millennials does not match a business owner profile*

42% have student debt

Priorities: Lifestyle, Recreation & Freedom



## Change is Inevitable

*How does the eventual wave of Successions, Transfers and Exits impact Business?*

### Market Expectations:

- Business Owners who have planned will successfully exit.
  - ✓ Monetization of the Business either full or partial
  - ✓ Business will be recapitalized either through debt or equity and will add human capital
  - ✓ Business will be in a stronger position to compete & gain market share
- Business Owners who failed to plan will struggle to exit
  - ✓ Monetization value will be a fraction of potential value
  - ✓ Competition will be fierce as stronger businesses will gain market share
  - ✓ Potential for closure of business as best exit option



## Studies Reveal Notable Findings

- 1/3 of Business Owners plan to Sell Their Business
  - YET ❖ Less than 2% know the value of the business
  - ❖ Fewer understand what adds and what detracts value
  - ❖ Less than 30% of listed businesses are successfully sold
- 1/3 of Business Owners plan to Transfer The Business to a Family Member or Key Employee
  - YET ❖ 1 out of 4 business owners have NOT informed their successors that he/she is the chosen successor
  - ❖ 75% of Insider Transfers Fail
- 1/3 of Business Owners DO NOT KNOW what they will do or PLAN TO SHUT THE DOORS
  - YET ❖ 80% of Business Owners believe that a successful exit will result from planning and action items they implement



## **Adapting & Innovating in Challenging Times**

Knowledge isn't power,  
applied knowledge is power.

Eric Thomas



## **Succession Planning**

- What is Succession Planning?
- What are the unique attributes of the Construction Industry that make Succession Planning:
  - Imperative
  - Challenging
- Succession Planning Steps



## What is Succession Planning?

“Succession Planning is the development of a WRITTEN plan that outlines a path for the Founder/Owner’s eventual voluntary or involuntary departure from the Business.”

Voluntary = Retirement; Reduction in Daily Role; Sale of Business

Involuntary = Disability; Illness; Death; Dissolution



## Resistance to Succession Planning

- 15 Million Businesses in the US owned by Baby Boomers
- The average age of a Baby Boomer is 71.6

83% have no written Succession Plan  
Only 15% of Business Owners have spoken with an advisor

### Common Reasons

- Too busy with challenges of daily operations
- Fear planning means leaving “the business” – losing their identity – purpose, passion.
- Subconscious aversion to the reality that they won’t be able to run the company forever.



## Succession Planning

Succession Planning is the development of a written working, living document created by Company stakeholders. It is designed to allow the Company to be a sustaining, enduring value legacy for generations.

The focus is:

- Sustainable Value
- Enduring Value
- Transferable Value



## Succession Planning in the Construction Industry is both Imperative & Challenging

Characteristics typically found in Arizona Construction Companies:

- Family Business => Management, Family Politics, Generational Differences
- Customer relationships or referrals rely on Founder/Owner => Limits on Transferability of relationships/referrals
- Lifestyle Business => Financial performance serves the lifestyle of the founder/owner

*\*There are an estimated 50,000 construction firms in Arizona classified as small businesses – providing approximately 81% of construction jobs.*

2016 Statistics of US Businesses, US Census Bureau



## Construction Challenges Continued

- 23% of Construction Firms have employees
  - 88% employ less than 20 people
  - Fewer employees = Dependence on Founder – Limits Transferability
  - Fewer than 20 employees, most likely “Lifestyle Company”
    - Emphasis not on building transferable value
    - Value must exist in order to transfer/sell
  - Some companies utilize heavy equipment\*
    - Capital intensive
    - Often the result of tax mitigation strategy
    - Value above book value is challenging
    - Leverage the asset from a “use or utility perspective”
    - High utilization/return on assets is key metric
- Source – Arizona Small Business Profile, 2019 – SBA office of advocacy
- Consider alternatives to purchase—Tax mitigation while taking chips off the table?”



## Elements of a Good Exit

- Fair Treatment & Appropriately Compensation.
- Sense of Accomplishment - Having contributed something of value to the world.
- At Peace with what has happened to other people who have helped build their business.
- Discovery of a New Sense of Purpose outside of their business.
- (For some) The Company is going on without them and doing better than ever.



## RISK

These characteristics typically compromise the viability of the Company beyond Founder/Owner.

- Dependency on one or few Persons
- Customer Concentration – Revenue of 40%+ from one customer
- Out of date Operational Documents, Buy/Sell Agreements
- Unfunded Buy/Sell agreements – Dependence on cash flow
- Inadequate Commercial Insurance
- Outdated or “cheap” benefits – P&L issue
- Lack of Key-Person retention strategies

Succession Planning is “De-Risking” the Company.



## What is at stake?

- ☐ The Company is often the largest asset on the Founder’s personal balance sheet. (80% of surveyed business owners have 90% of their wealth tied up in their business)
- ☐ In many cases, retirement is heavily reliant upon the Company in the form of on-going salary, distribution or a liquidity event. (78% of business owners have less than \$500K in retirement accounts)
- ☐ The number of stakeholders impacted by the Company’s success or failure is far greater when you consider: founding family, employees, vendors, banks, Arizona economy (81% of construction jobs are provided by small construction firms) etc.



## Succession Planning Steps

PART I – Business Continuity Plan

PART II – Succession Planning



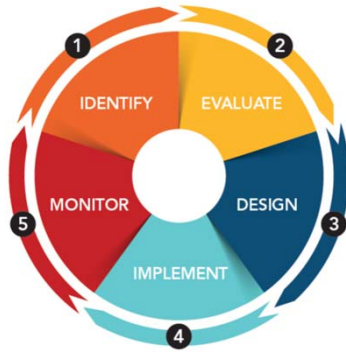
## PART I: Business Continuity Plan

Written Playbook for Employees and Advisors to Implement in the event the Founder/Owner becomes unavailable or incapacitated for an extended period of time.

- List of Advisors to contact with directions on next steps for Advisors
- List of Key Relationships (Customers, Vendors, Bankers, Insurance Agents) with instructions on who should make the phone call, what is stated and any requests to be made.
- Letter to Employees with guidance on how to proceed in the short term; assure Employees that detailed plans have been made; and inform all that the Company is in good hands to carry forward.
- List of passwords, codes, etc.



## PART II – SUCCESSION PLANNING



### Transaction Brief Growth & Risk

Landscape Maintenance Company

- Owner Age 38




#### Original Objective:

Sell Business  
Start another non-competing  
business

#### IDENTIFIED Objective:


Risk Mitigation & Diversification of  
Net Worth



## Transaction Brief Growth & Risk

Landscape Maintenance Company

- Owner Age 38



**IDENTIFIED Objective:**  
Risk Mitigation & Diversification of Net Worth

**EVALUATE:**

- Business
- Personal


\$3 Million Revenue Company in 2009  
\$6 Million Revenue Company in 2011

• **Revenue Growth**

2009 to 2010	54%
2010 to 2011	30%

• **Adjusted EBITDA** - 20%+ of Revenue

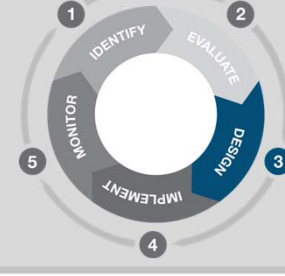
2009	\$ 900K
2010	\$1.5 mil
2011	\$1.2 mil



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**IDENTIFIED Objective:**  
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**DESIGN:**


- Monetize \$3 Million of Equity = Cash for Diversification
- No more personal guarantees



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- Monetize \$3 Million of Equity = Cash for Diversification
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**IMPLEMENT:**


- Revenue over \$10 Million
- Adjusted EBITDA near \$2 Million
- Successful Replication of Model



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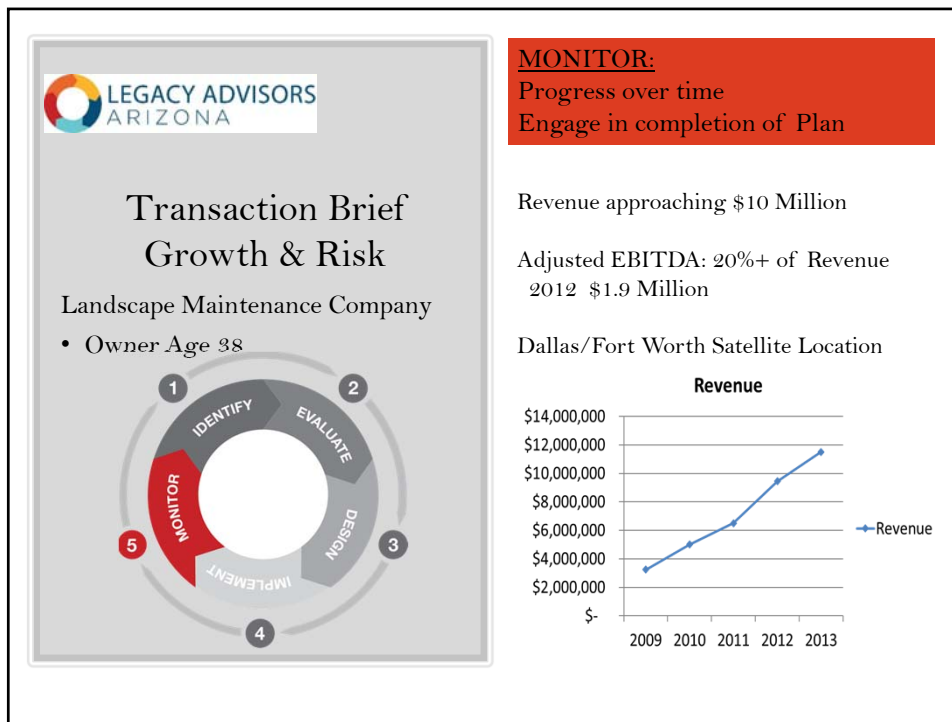
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**MONITOR:**  
Progress over time



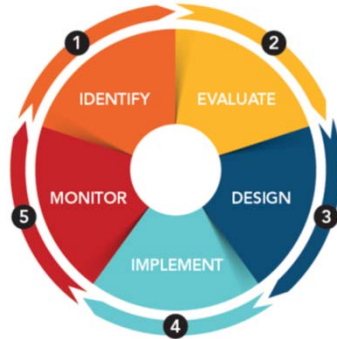


## Planning for a Successful Exit

### *"Family Succession & Transfer"*

Specialty Contracting Company

- Owner Age 67



#### Extraordinary Results:

- **Developed Leadership Team** – 5 Family Members valued what each person brought to the team.
- **Created Mission, Vision & Value Statement** – Employee Performance shift; Leadership among non-family members
- Implementing New Project Mgmt System
- LOC in place with only personal guarantee – no other collateral
- Designed Exit Plan for Generation 1 & 2
- 2016 Performance – Revenue \$10 mil; Unadjusted EBITDA \$1.2 mil
- 2017 Performance – Revenue \$14 mil; Unadjusted EBITDA \$1.9
- **Family Relationships Improved**



## Planning for a Successful Exit

### *"Market Timing"*

Education & Training Company

- Owner Age 62



#### Extraordinary Results:

- \$1.2 mil in cash
- 2 Year Guaranteed Consulting Agreement at \$250K per year
- New Opportunity for Son as President
- Capital for Growth
- No Personal Guarantees
- 7.5 Multiple on Earnings - Achieved highest multiple on earnings in industry sector.

#### Update: 2 Years Later

Market Disruption results in increased competition & price for services fall = business value decline.

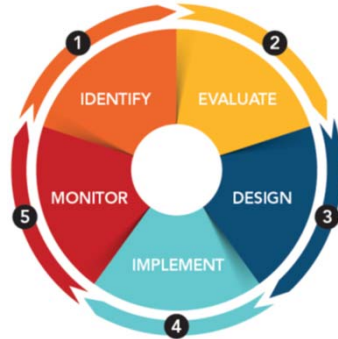


## Planning for a Successful Exit

*"Grow Company with Successor – 2 Exit Options"*

### Tech Test Equipment Company

- Owner Age 58



- Identified & Hired 1 Key Employee for Sales/Marketing
- Design Compensation Plan for Stock Ownership based on Company Growth
- Employment Agreement & Shareholder Agreements executed
- 2 Exit Options
  - By the end of 2018, Key Employee would have enough equity to finance the purchase of the 80% shareholder; OR,
  - Sell entire Company to a larger company and retain Key Employee for continuity

#### Extraordinary Results:

- 2016 Pro Forma Performance Met – \$3.75 Mil Revenue & Adjusted EBITDA \$1 Mil
- 2017 Pro Forma Exceeded – \$5.2 Mil Revenue & Adjusted EBITDA \$1.5 Mil
- 2018 Pro Forma Exceeded – \$8 Mil Revenue & Adjusted EBITDA \$2.5 Mil



## Critical Actions for Planning

1. **Identify**: your goals, objectives and preferences that make your Plan a Successful Exit.
2. **Evaluate**: the Monetizable & Transferable Value of your business in its present operating condition; understand what that value means to your personal net worth, portfolio risk and how that fits into your long-term personal plans.
3. **Design**: a plan that closes the gaps with the business value, asset protection, and company leadership & management outside of founder/owner.
4. **Implement**: go to work on your objectives. Incorporate as part of the annual business planning.
5. **Monitor**: Interim review is essential as business and markets change.



## Critical Action - ***EVALUATE***

**Evaluate:** the Monetizable & Transferable Value of your business in its present operating condition; understand what that value means to your personal net worth, portfolio risk and how that fits into your long-term personal plans.

1. Know the Value of Your Business
2. Understand the Metrics that Drive and Detract Value
3. Be aware of Industry Trends & how Business Performance stacks up against Industry KPI's.



Explore ~ Plan ~ Transition

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