
PASSING ON THE
FAMILY BUSINESS
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There can be many reasons why a business needs to be passed on to a new owner. It may be for health reasons, retirement, family or personal circumstances or a desire to concentrate on other interests. Whatever the reason, for any successful business, there will come a day when it is time to pass on the reins. For the business to continue in its success it is important that there is good planning for that day. Indeed, it is good not only for the business and all the employees involved, but also for the owner's wellbeing. For most, who have set up their own business or who have spent a good deal of their lives running a business, they would like to see the business continue to flourish. With good succession planning, the business has greater worth to the new owners and is more likely to succeed.

Planning for the handing over of a business should ideally start around three years before the event to enable a smooth transition. Even though, for most owners their business is their most valuable asset, few think through succession planning. As a result less than a third of family businesses survive into the next generation of ownership and only a tenth into the generation after that. Planning for business succession is important for these figures to be improved, but the truth of the matter is that owners are so involved in the day to day tasks of running the business that this is easily overlooked. This article is to help you look the things that need to be considered when planning for the passing on of your business.

What are the goals?

The main goals for most owners are: financial security, continued success of the business enabling a good transfer of the wealth to the next generation and the wellbeing of employees loyal to the business.

With these in mind there are several different possibilities for whom to pass on the business to:

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A single owner: It is important for the owner to assess if the successor is not only willing to take on the ownership of the business, but also if they have the capabilities and a passion for the business. Often the owner will want a child of his or her own to take on the business, but even if they are keen to do so they may have very different capabilities and interests. All these three factors: willingness, capability and motivation of the successor, need to be considered before deciding on making the hand over. If any of these three are not present then the business is very unlikely to succeed and could become a burden. In this case it would be better to consider other options, including recapitalizing or selling and transferring the funds to the estate.

Multiple owners: It may seem like a good idea to split the ownership of the company between several people, each fulfilling a different role, either operational or non-operational. Different people will have different talents and interests, which could seem to fulfill a wholesome solution. In practice, with several owners, this can cause a lot of friction as each wants to pull in their own individual direction. There can end up being power struggles, which in turn can have very negative effects on families and employees alike, eventually leading to the collapse of the business.

In addition, it is common for there to be a very unequal share of the wealth as some become more active in the company than others.

If the owner is really keen to pass the business on to several owners, then it is wise to get professional advice about how this transaction can best be achieved. Each company and family is different so the succession plan needs to be very detailed and take into account all the variables so that a satisfactory and congenial solution is found that stands the test of time.

However, if it appears unlikely that a sustainable working model is achievable then it may be best to consider the sale of the business and funds put into the estate for distribution.

No successors: In the case of there being no successors the options are to sell or for recapitalization. Sale can be made to an employee in the business or it can be put on the market. In any case careful planning should be made ahead of time so that the business is sold with its best potential, not only to enable a high value, but also to enable its success into the future.

In summary, the planning for passing on a family business is important and careful planning should be undertaken in order for the business to successfully continue into future generations. There should be clear goals included in the planning and care should be taken regarding who should take on the business. If there is doubt about the willingness, capability or motivation of a successor, the owner should seriously consider recapitalization or selling the business rather than the business becoming a burden and collapsing.

Keywords: family business, passing on a business, business succession, planning succession, selling a business, retirement from a business, running a business

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Our M&A Process

TARGET APPRAISAL	APPROACH	DUE DILIGENCE	NEGOTIATION & CLOSE	POST MERGER INTEGRATION (PMI)
Key Areas				
▪ Target & market analysis; ▪ Initial assessment of synergies & value drivers; ▪ Indicative valuation; ▪ Go or No-Go decision; ▪ Preparation of transaction documents (NDA – Non-disclosure Agreement/LOI- Letter of Intent); ▪ Select Transaction team; ▪ Appoint advisors; ▪ Consider funding ability.	▪ Initial approach letter; ▪ Signing of NDA; ▪ Prepare & share initial information requests; ▪ Formulation of LOI (Letter of Intent) & possible negotiations; ▪ Initial meeting and Q&A; ▪ Circulate information on the Target to the Transaction team.	▪ Set scope of due diligence; ▪ Set up VDR (virtual data room); ▪ Coordinating of due diligence, further meetings and Q&A sessions; ▪ Consider points relevant to the Post-Merger (PMI) phase;	▪ Revisit indicative valuation & prepare detailed valuation based on due diligence findings; ▪ SPA negotiations with the seller; ▪ Development of final structure (share/asset deal) and final valuation; ▪ Approvals; ▪ Signing of SPA & Close.	▪ Consider the extent of integration; ▪ Development of 100 Day PMI Plan; ▪ Consider short & long term objectives; ▪ Estimate requirements to capture synergies; ▪ Determine resource needs & optimal allocation.
Parties Involved				
▪ CFO; ▪ Head of M&A; ▪ Accountants; ▪ Corporate finance advisors; ▪ Consultants.	▪ Senior management; ▪ CEO, CFO, CTO; ▪ Strategy director; ▪ Head of M&A; ▪ Head of Business Development; ▪ Consultants.		▪ Company general counsel; ▪ Lawyers; ▪ Senior management.	▪ Company general counsel; ▪ Lawyers; ▪ Senior management/HR.

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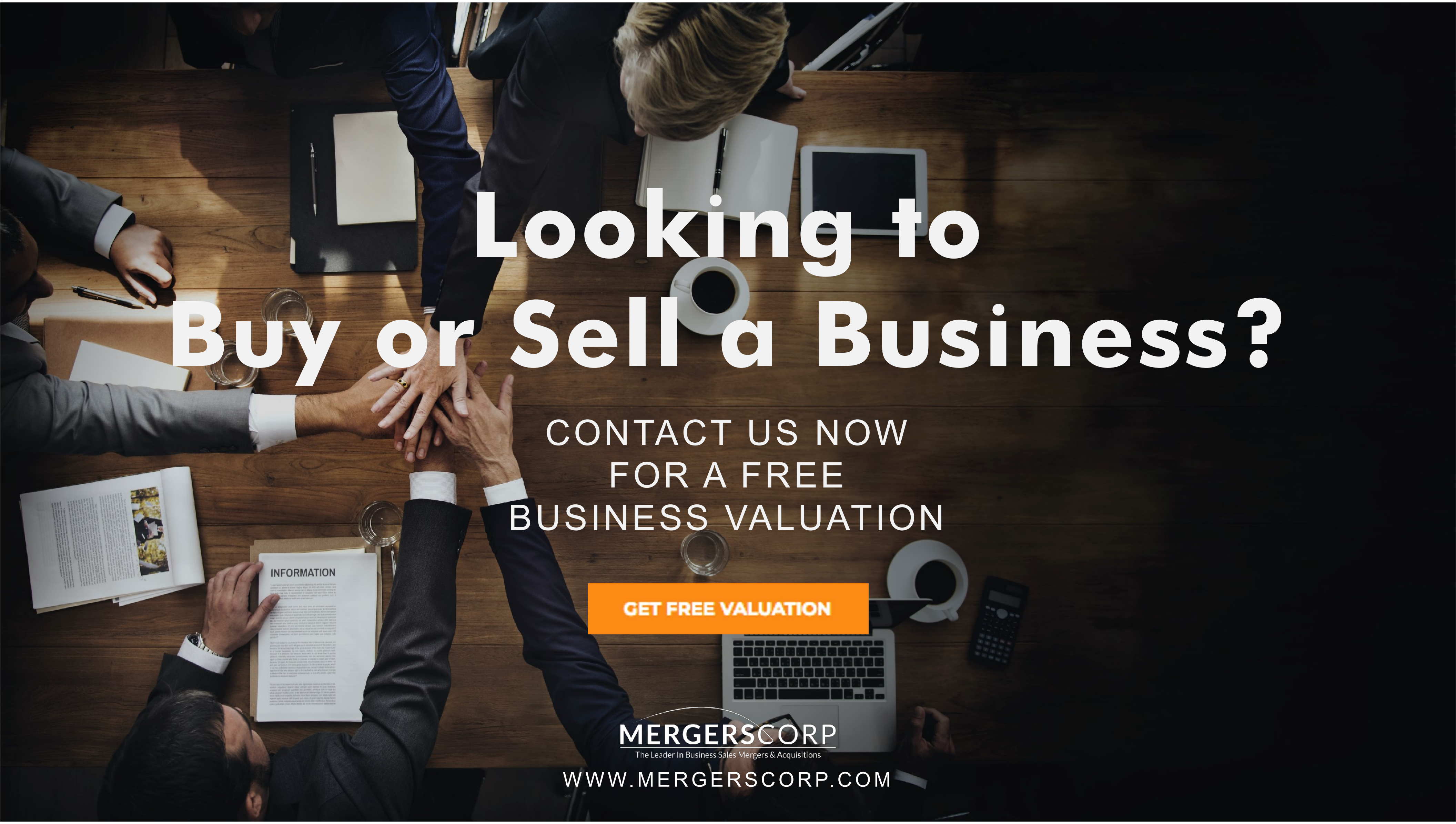
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