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THOUGHT LEADERSHIP SERIES

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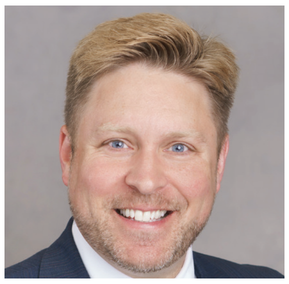

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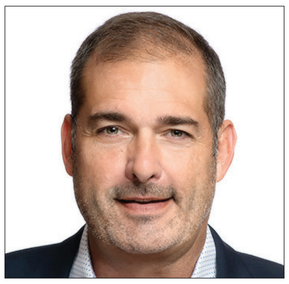

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Succession Planning

It's never too soon to think about succession

In this week's Thought Leadership Roundtable, executives at Calder Capital, Huntington Private Bank, and Inspire Results Business Coaching take business owners through the challenges and payoffs of succession planning.

Q: What kinds of businesses need a succession plan?

Roger Engelau: If you own a business—whether it's a $500K, $5 million, or a $500 million business—you need a succession plan. In any industry, if you don't have a succession plan you can be taken out of the picture by sickness, disability or death. Employees and family members are left to keep the company afloat with no real preparation and, sometimes, no real desire.

Dan Griffith: Every single business will go through a transition at some point, whether it is a sale, a transition to the next generation, or a liquidation. This is true for every business of any kind, shape, or size. Business owners can either make a plan and help manage that process or leave it to chance.

Andrew Williams: Wise companies—regardless of size—develop a succession plan to ensure stability and a smooth transition of leadership during times of change. Great planning mitigates the risk associated with losing key personnel, maintains customer and investor confidence, and maintains the momentum of business operations.

Small businesses can be heavily reliant on their owner or founder, making a succession plan crucial to ensure continuity in the event of their departure. You only need a succession plan if the success of the business in the next era is important to you.

Q: What is the optimal timing for putting a succession plan in place?

Dan Griffith: Many business owners make the mistake of waiting until they are ready for a transition to begin crafting a plan. In many cases, the transition happens when the owner may not be fully prepared. Whether it is good news—like an unexpectedly high offer to purchase—or bad news—like a catastrophic health event—it is never too early to have a transition plan in place.

Andrew Williams: The sooner you begin, the stronger and better positioned the business is. Succession planning is a proactive process that also involves identifying and developing potential leaders, and it takes time to do it well.

> "Many business owners make the mistake of waiting until they are ready for a transition to begin crafting a plan."
> DAN GRIFFITH

On this side of COVID, all businesses should be much more in touch with the impact of not having a solid plan in place. Waiting too long to develop a succession plan can be risky, as it leaves the organization vulnerable to disruptions or a leadership vacuum in the event of an unexpected departure.

Roger Engelau: At the risk of sounding like an alarmist, if you lead a company and you don't have a succession plan, it's a catastrophe waiting to happen—not just to your company but also to your employees, customers, and family.

A succession plan is something you want to have ready to go so it's there when it's needed instead of trying to throw one together at the last minute. Unbelievably, the majority of business owners just walk away, leaving stakeholders to figure out how to carry on.

If a family member or management team member is taking over the company, give them at least 5 years to prepare for the rigors of leadership. Even after a long runway, new business owners are almost always surprised at the heavy burden of business ownership.

Q: What are the first steps to take to create a succession plan?

Andrew Williams: A legal review identifies any gaps or overdue changes to the business entity (bylaws and buy-sell documents, for example). A business valuation provides documentation of the enterprise value, which will drive multiple decisions along the way. And an organizational review identifies key positions within the organization as it transitions.

Identifying potential successors, development plans and contingency plans come next. Be mindful that the final step is communicating the plan to relevant stakeholders, including employees, investors, and customers, to ensure transparency and buy-in.

Roger Engelau: Early in our working relationship, we encourage business owners to create a personal vision with their family so that they know what personal outcomes they want from business ownership, including succession.

When the time comes to choose your successor, draw up a formal transition plan together. Your plan should include a target date for the handoff, any changes in your work schedule, and a description of the legacy you want to leave. Also create a communication plan to keep all stakeholders—employees, customers, and family—informed.

Dan Griffith: One of the best ways to begin a plan is to consider various hypothetical situations. If the business owner was gone tomorrow, what

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would the plan be? Who would be ready to take over, and how prepared are they for the job today? If an offer comes across the desk of the owner, how big does it need to be and what are the "must haves" as a part of the negotiation? By asking a number of questions and walking down a few of the most likely paths, a business owner can begin to get a feel for what is important in the development of a succession plan.

Q: What kind of advisor should be hired to help with a succession plan/sale?

Roger Engelau: It's hard to create a succession plan without experts. You'll want a financial advisor to help plan your future money needs, a CPA to advise on tax issues, and a lawyer to draw up paperwork that protects your interests before and after the transaction. Your successor should choose their own lawyer to represent them as this will protect both of you.

As business coaches, we work side-by-side with owners and their successors to navigate the process from beginning to end and we connect you to financial and legal experts well-versed in succession planning.

> *"Family-owned businesses need to consider unique questions and navigate potential conflicts or disagreements. I've lived this and it can be hard."*
>
> ANDREW WILLIAMS

Dan Griffith: Many business owners look to a group of trusted advisors to assist with succession planning. These include legal counsel and accounting advisors, both for the personal estate planning and the M&A work. Many owners will also work with an investment bank, or business broker, to help in sales prep and execution. The most successful business owners also work with a personal financial planner to understand what the post-sale financial landscape will look like.

Andrew Williams: When I first earned my Succession Planning certification in 2011, the first question to answer was "... are we anticipating an inside transfer, or selling to a third party?"

Today's reality is that the market has evolved beyond that; it's no longer an "internal or external" question. Each entrepreneur and their key leaders—sometimes family—have unique options available to them.

I believe the best move is hiring an advisor who can help you understand current business valuation as well as the full range of options potentially available to you.

Q: To what extent should non-owner managers be involved in succession planning?

Dan Griffith: This can be a very difficult topic, as the management team often knows more about the business than anyone else. However, involving the team too quickly can create a retention risk, or severely alter the day-to-day output of the company. This is another reason to develop a transition plan well before a potential sale or ownership shift to the next generation. In many cases, key employees are excited to hear that there is a plan in place and understand their role in it.

Andrew Williams: This is dependent on the business and the degree to which non-owner operators are driving its success. Non-owner managers can play a critical role in identifying potential successors and providing input on their skills and qualifications. Building this culture of leadership development within the organization can help attract and retain top talent, as employees see opportunities for growth and development within the company.

Roger Engelau: Non-owner managers can play many roles. One of our clients, for example, put an interim president in place until the kids are ready to lead. Non-owner managers can be involved in selecting, training, and developing the successor, in preparing the next generation of non-owner managers to support the successor, and in keeping key customers on board through the transition. That is why it's so beneficial to include them in succession planning. And if you have key employees who you don't want to lose in the transition, "golden handcuffs" can be helpful to keep them in the fold.

Q: How is succession planning different for family owned businesses?

Andrew Williams: No surprise here, but this planning is more complex as it involves additional considerations related to family dynamics, emotions, and relationships. Family-owned businesses need to consider unique questions and navigate potential conflicts or disagreements. I've lived this and it can be hard.

In family owned businesses, succession planning often involves identifying potential successors from within the family, which can create challenges related to fairness and competency. It's important to establish clear criteria and a transparent process for identifying potential successors, and to communicate this process to all family members involved.

Roger Engelau: Complex dynamics and multi-layered relationships make discussions about handing over the reins to family exceptionally challenging. Family members also must decide if they even want to own the business. Once a successor is chosen, let them choose new employees, adjust the company culture to fit their character, take risks with you as a backstop, and make as many decisions as possible. The sooner you start to let go, the better.

Dan Griffith: One of the unique considerations is whether ownership will move from one generation to the next or to outside interests. Many transition questions also involve emotional family dynamics that involve more than numbers. When the family name is "on the door" there may be different priorities in the sale. For example, a family business selling a manufacturing facility to an outside party may put a higher priority on employee retention than a non-family owned business.

Q: What is the single biggest value improvement people make in anticipation of a sale?

Roger Engelau: As the time for transition draws near, many small business owners tend to minimize profitability to avoid Uncle Sam's reach, so it's important to create several years of maximum profitability. Also, improve your balance sheet through debt reduction and retained earnings.

You'll need a healthy bottom line to afford the necessary advisor costs, to pay for "golden handcuffs" to keep your key non-owner managers, and to pay your successor as they systematically rotate through business disciplines.

Maximizing profitability and cleaning up your balance sheet enables you to hand-off a healthy company and earn a healthy pay day for all the sacrifice you've put into your business over many years.

Dan Griffith: Almost every buyer is looking for a growth story. Although it is important to clean up a company's books to strip out personal expenses, much more value can be gained from showing where a potential buyer can realize up-side in the transaction.

Andrew Williams: It's cliché, but the answer here is improving the company's financial performance: increasing revenue, improving profit margins, reducing costs, and increasing cash flow.

So, start with a business valuation well before your planned exit. It helps you draw a line in the sand and understand your reality. In 2022, Calder did 120 valuations and ultimately sold 46 of those companies. The others are executing their unique plans to grow value to the desired level.

Q: It's not uncommon for business owners to be contacted by someone claiming they have a buyer for the business. What is the best course of action when this happens?

Dan Griffith: Have a plan in place before the phone rings. If a business

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owner knows what their financial planning needs are, it is easy to identify a viable sales price. If the books are clean, it is easy to do sales-price-multiple calculations. If there are facets to the deal that are essential—like leaving key employees in place for a period of time—it is easy to share those requirements at the onset.

Andrew Williams: Three things: 1) Don't get too excited; 2) Have the conversation; and 3) Build a file.

We've got a trove of data at Calder that shows that less than 5% of self-proclaimed "buyers" make serious, substantive offers. With that as perspective, it's OK to have a conversation without making any type of commitment. If a prospective buyer seems legitimate (i.e., a private equity firm you can find online during the conversation), understand their interest and explain that you aren't open to selling right now but that you'll add a note on this call to your file (which you should be building).

If you have legitimate interest in the party, engage an advisor to verify the legitimacy of the buyer, help navigate the process, and ensure that the transaction is truly in your best interest.

Roger Engelau: This is why you hire advisors to help you and why you should start your succession planning early. We help our clients analyze these opportunities within the context of their succession plan process. Succession is difficult. Don't be tempted to sell the business to the first person who comes along.

Q: What are common "misses"—things business owners often fail to consider when thinking about succession planning?

Andrew Williams: Failing to consider and answer "what is my purpose in the next season of my life?" I built a proprietary tool to help business owners answer that question. My clients are typically successful entrepreneurs with amazing resumes. While slowing down a bit is great, to think they are going to just flip the switch "off" and do more leisure time isn't realistic.

Other common misses would include not starting succession planning early enough, ignoring tax implications, underestimating the emotional impact, and, finally, failing to communicate that there is, in fact, a plan!

Roger Engelau: Succession plans don't have to be secret. Communicate your plans and get your whole team involved. Bad things can happen when people don't know there's a plan or what it includes. Those who thought they were in line for succession may try to outshine co-workers or be angry when they're not chosen. It can be bad if they leave and even worse if they stay. Other employees may leave for a more stable future elsewhere. The more everyone knows, the more clarity and confidence will prevail.

Dan Griffith: The biggest mistake I see is that owners fail to have a post-sale plan for their personal life. In many cases, business owners have their personal identity wrapped up in the company. Many potential sellers begin to get cold feet as the sale approaches, not because they are unhappy with the financial aspects but because they don't know what they will do on Monday morning. An owner needs a viable vision of their future before they can truly engage in a sale.

> *"Succession plans don't have to be secret. Communicate your plans and get your whole team involved."*
> ROGER ENGELAU

Q: If you could only give one piece of advice about succession planning, what would it be?

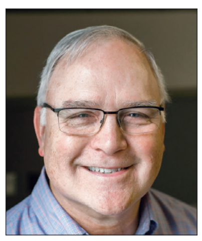
Roger Engelau: If you want this last chapter of your business life to end positively, enlist the help of someone who's successfully navigated the sensitive, often painful path that succession planning is.

We've been at the table for discussions about how much a son will pay his father after he retires. Imagine a son trying to put a dollar figure to the ongoing compensation the father/founder will recieve! Or the 60-year-old daughter whose mother won't let go and let her lead. These situations are not unusual. You've given so much of your life to make your business a success that it's nearly impossible to detach enough from the emotions, fears, and challenges to handle this transition all on your own.

Dan Griffith: Do not wait to make a plan. Your business could transition at any point, and it is more likely to be successful if a plan is already in place. Be sure that the plan considers several different options.

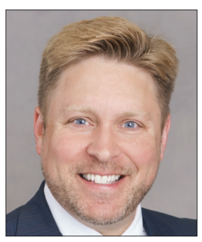
Andrew Williams: This one's simple. Start early. I had one client who died at his desk, so I sold the company for the estate. That's not an ideal outcome for anyone.

The process can take years to complete, but here's the upside: this isn't "pre-planning your funeral." You get to be around to enjoy the fruit of your work!



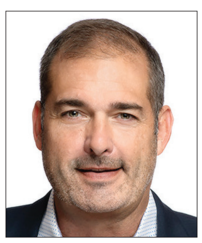
INSPIRE RESULTS — Business Coaching — Working side by side with owners Since 2010

A graduate of the US Military Academy at West Point, **Roger Engelau** led record-breaking sales at two Fortune 500 companies and turned around three companies before founding Inspire Results Business Coaching. His "why" is to help business owners and leaders achieve their dreams. He has partnered with and coached hundreds of owners to increased revenue, improved operations, and their first vacation in years.



Huntington Private Bank

Dan Griffith is the senior vice president and director of wealth strategy for Huntington Private Bank, where he leads a team dedicated to advising ultra-high net worth clients, develops the intellectual capital of the Private Bank and educates clients and colleagues on planning techniques. Dan began his legal career in private practice, where his client work focused on estate and tax planning, complex trust administration, business succession planning and charitable giving.



CALDER CAPITAL

An exit planning and mergers & acquisitions professional with more than 20 years of leadership experience, **Andrew Williams** brings a broad level of wisdom to his work at Calder Capital. As a former family business co-owner, he is uniquely qualified to help clients execute their unique succession goals. Williams helps business owners and leadership teams grow stakeholder value by teaching them to leverage EOS™ and his 15 years of transaction history.

Content paid for by Calder Capital, Huntington Private Bank, and Inspire Results Business Coaching.