

Information Sheet - Succession Planning

Are you a business owner looking to hand the reins over to your family or management team or sell to a third-party purchaser?

Management team / family cannot afford to buy the business?

Are you ready and able to let go? Still feel you need to be involved.

Is there a clearly documented Succession Plan in place?

Perhaps you feel it is easier to sell out to an independent third-party?

How do you remove your personal assets from any security the bank has in relation to the business as you sell down or out?

You need some guidance on formulating a plan for your business succession?

We can help you.

In many cases, privately run businesses with a key founder/s are focused quite rightly on making good profits, having a strong management team and building strong reputations and standing in their industry.

Most founders / owners of private businesses are realistic about value expectations and in many ways the acquirers (family, management team or third party) buy the business on a very reasonable pricing. There is a lot of preparatory work needed to be done by the founders, working with the bank and advisers, to put in place a clear succession plan underpinned by clearly identified value drivers – such process takes time.

For instance, the financial statements are often seen as a compliance necessity, done at the time of the tax return often a long time after the year end and the emphasis is on the lowest tax payable. This approach can sometimes distort the operating profit that could penalise the founder in a third-party determination of the fair price for the business. Buyers want confidence in the financial reporting / numbers.

Private Company Platform (“PCP”) group can help you achieve a succession plan outcome.

Given many long established profitable private businesses have enterprise values ranging up to \$100m+, it is likely the purchasers – management, extended family, syndicate etc – will need backing from investors and the bank to enable the purchase to occur.

In an age of volatile share markets, low interest rates and uncertain property markets, there is an appetite from the investment community to allocate funds into the lucrative direct private equity sector. Indeed, backing a management buyout team is seen as a very desirable allocation of funds by investors given in most cases the management team are experienced, knowledgeable and competent in running that business. The business is able to pay an attractive yearly dividend as part of an agreed Strategic Plan.

PCP, as your experienced chaperone, is the best way for you and the business to navigate the succession planning and implementation pathway. Our process is divided into three phases:

Phase one: get ready.

In this phase, PCP – at no cost - reviews your business fundamentals, working with the owners and management team to identify the matters that need to be done to be “buy-out ready.” PCP has a depth of experience in assessing businesses and identifying the key areas for attention – areas we cover include:

- Consideration of the best structure – trust, unit trust or company and optimisation of the structure for the investors, bank and buy out group – may involve a rollover and involvement of tax specialists
- Review of the financial statements with particular focus on the assets, liabilities, profit formulation and consistency with generally accepted accounting standards used for auditing purposes
- Consideration of related party dealings, property rental terms, remuneration, non-business aspects, client retention strategies, capex plans for inclusion in the master plan

- Documenting matters needing formal agreements to be in place such as family loans, employment agreements, leases, hire arrangements, rentals, securities, guarantees, delegated authorities
- Business valuation methodology / expectations / vendor restraints etc
- Board and management composition and operational mechanics – now / proposed
- Vendor/s involvement post the buy out
- Debt / equity optimisation and securities required working with the bank
- An agreed Business Plan, detailed forecasts, funding, buy backs, further vender sell downs
- Transitioning and mitigating any key person factors
- Audit, tax, legals, bank limits, covenants, IP protection etc

Having agreed the issues and allocation of tasks, PCP coordinates the process in tandem with phase two:

Phase two: get set

This phase sees the business uploaded to the PCP platform as part of a structured and disciplined approach to the ownership transition. Uploading to the platform helps to build the “Followers” i.e. prospective investors looking to *find* then *follow* businesses in the interim period until the corporate event is ready to take place – e.g. capital raise, sale or partial / full sell down by the founder/s to management or a broader ownership base.

The business, on the PCP platform, then reports somewhat like an ASX style reporting entity but customised for that business to avoid private company sensitive information being divulged. Also, in this phase, PCP’s listed parent entity **Advanced Share Registry Ltd** (ASX: ASW) takes up the register of members in preparation for an expanded stakeholder base at phase three. This phase allows the business to cover off all the agreed matters identified at phase one and can take anywhere from a few months to a year or more depending on the number of matters identified and time to satisfactory deal with the issues.

Phase three: go

With the business firmly established on PCP’s platform and a following of prospective investors being built, this is the period when PCP, working with the business owners and advisers, coordinate the process of the capital raising to facilitate the founder/s sell down. Once this process is successfully completed and the ownership transition occurs, the business remains on PCP’s platform long term. One of the features of being on the PCP platform is the operation by PCP’s sister company – **Sharetech Pty Ltd** – in facilitating any sales or interest in buying shares in that business. Innovative mechanisms can be built into the owner sell down or buy out – e.g. the owners may agree to a structured sell down of their shares via Sharetech. Alternatively the management team may have a pre-agreed buy back arrangement with the investors over a 3 to 5 year period enabling the investors to receive an attractive annual dividend return and excellent capital gain over a 3 to 5 year period based on pre-agreed buy back prices. PCP, ASW and Sharetech can facilitate this.

PCP – the way to go for good succession planning outcomes

- As the chaperone and coordinator of this vital part of a business’s life, PCP’s coordination skills and experience cover a wider territory than the typical accountant or family adviser
- The PCP platform provides a structured and disciplined pathway – no more “*oh yes I must get on with it!*” and then the day to day work pressures override the main issue until often a health scare or loss of key management forces the founder/s to act under time pressures
- PCP’s group companies provide the rigour and peace of mind around the shareholder engagement, management and after-market attendances – vital in the unlisted space

Contact Jeff Broun, Managing Director of the Private Company Platform group, on 041 993 4623 or email jeff@privatecompanyplatform.com and go to our web site at www.privatecompanyplatform.com