



BUSINESS SUCCESSION PLANNING

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DID YOU KNOW?

Most business owners spend more time planning a family vacation than how to exit from their business.

This is not due to a lack of desire.

It is simply because they don't know how or where to begin.

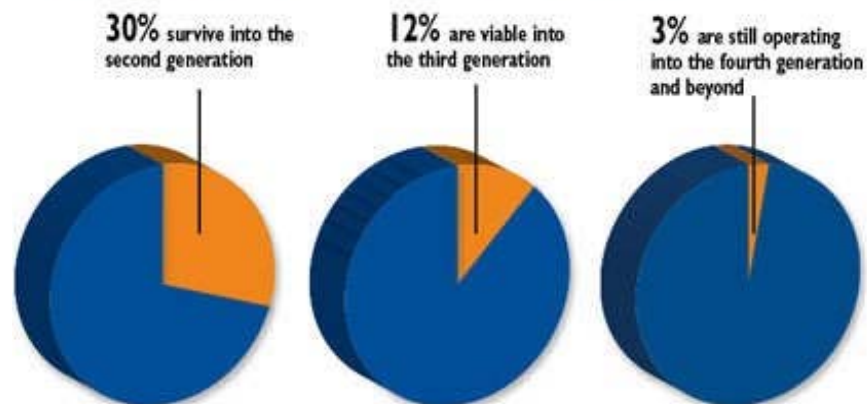
The vast majority of owners are unaware there is a specific planning and implementation process that can help ensure they achieve their objectives.

WHY DO YOU NEED ONE?



PASS IT ON?

Family-owned firms make up 80% to 90% of all U.S. businesses, yet only 3% of all family businesses survive beyond the third generation.



WHY PLAN?

- A Business Succession Plan is an important component of any business strategic process. It will aid the business owner in:
 - Preparing for the time when they will retire
 - Addressing extreme matters such as illness or death
 - Securing the survival of the business through transition of ownership
 - Maximizing the return of the retiring owner's investment
 - Minimizing tax burden at transfer

- By not preparing a Succession Plan the business owners risk:
 - Monetary loss due to unexpected estate, gift, and income tax
 - Huge gaps in wealth from lack of business valuation activities and financial planning
 - Jeopardizing in the future of business

THE REALTY FOR BUSINESS OWNERS

- Typically 50-75% of a business owner's net worth is in his/her business assets. The balance is in their personal real estate & financial investments
- You only have ONE chance to transfer your largest asset
- 85% of all small business owners do not have a Business Succession Plan
- Very few start the process early enough to achieve the maximum benefit of valuation and planning...**it's never too early**
- Most business owners have only an anecdotal perception of the value of their business... **"My brother in law knew a guy who had a business like mine that sold for..."**

COMPONENTS OF YOUR PLAN

- Establishing Goals and Objectives
- Family Involvement in the Process
- Identifying Successors
- Contingency Planning
- Business Valuation
- Exit Strategy
- Implement & Follow-Up

ESTABLISHING GOALS AND OBJECTIVES

- Owner retirement goals
 - How do you plan to spend your retirement?
- Family member goals
 - Involved/not involved in business?
 - How will they be impacted?
- Goals of other stakeholders (partners, employees)
 - Will business transfer to them?
 - How will the business operate during transition?
- Goals for addressing disagreements, illness, and death
- Assessing your risk tolerance

FAMILY INVOLVED IN THE PROCESS

- Communication
 - Establish a formal process of communication
 - Process for hearing concerns & opinions
- Process for handling family change & disputes
 - Divorce, death, injury
 - May involve outside help (lawyers, accountants)
- Family vision for the business
- Relationship between family & business
 - Separate the two

IDENTIFYING SUCCESSORS

- Who will take over the business
 - Partner, Family member, employee, third party buyer
- Training Successors
 - Establish a training plan
- Build support for successors
 - Among family members, employees, customers, suppliers
- Teach successor to build vision for the business
 - It may be different from yours
 - All affected parties must be “on board”

CONTINGENCY PLANNING

- Plans rarely proceed smoothly
 - Economic downturns
 - Illness/death of owner or key employee
 - Natural disasters

- Look at “What if” scenarios
 - Prepare a list of possible situations
 - Identify the course of action
 - Formalize it in a legal document
 - Fund contingencies with insurance or other investment vehicles

STRATEGIES FOR MAXIMIZING VALUE

- Value your business early... and often
 - ❖ Note: average multiplier for a tour operator (of recent) has been between 2x to 4x earnings.
- Focus on implementing business improvements
 - Clean financial records & systems
 - Clear ownership and control of intellectual & tangible property
 - Owner is not the key employee
 - Succession plan for key management positions
 - Policy manual exists and is updated regularly
 - Customer concentration issues addressed
 - Facility and operation is clean and orderly
 - Minimal overlap between owner's personal and business expenses

Financial Planning Strategy

- Is there a business Buy-Sell?
- Key person life insurance?
- Are you also saving in a retirement plan / investment account? Max Deferrals
- Do you own the business location?
- Do you have charitable intent? CRT
- Exit Transition Consulting Position / Benefits
- Medical Insurance pre-Medicare
- Do you have a financial advisor? Guide?

REVIEW YOUR PLAN ANNUALLY

Review on same track as tax and business planning

- Update & modify as circumstances change
- Conduct business valuations on same cycle to ensure that business is on track



QUESTIONS



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