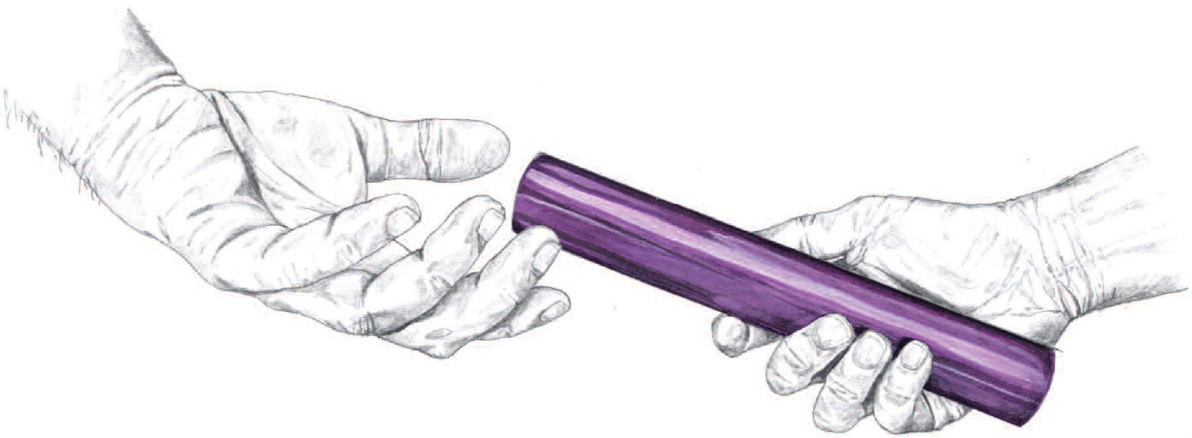
Grant Thornton

Succeeding at succession

Providing succession insights and solutions for today's private businesses

October 2011



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Agenda

- Why focus on succession planning and readiness?
- Overview of survey and research
- Results – what did we hear?
- What drives success with succession planning?

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Why focus on succession planning?

- What is a succession plan?
- Why does a business need a succession plan?
    - Benefits
    - Risks

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Why focus on succession planning?

Where are you on the spectrum?

Succession planning gone wrong	Succession planning gone right

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Why focus on succession planning?

- Shift in Canadian business due to exit of baby boomers
- Significant wealth in business assets
- Increased importance of non-financial issues in succession planning

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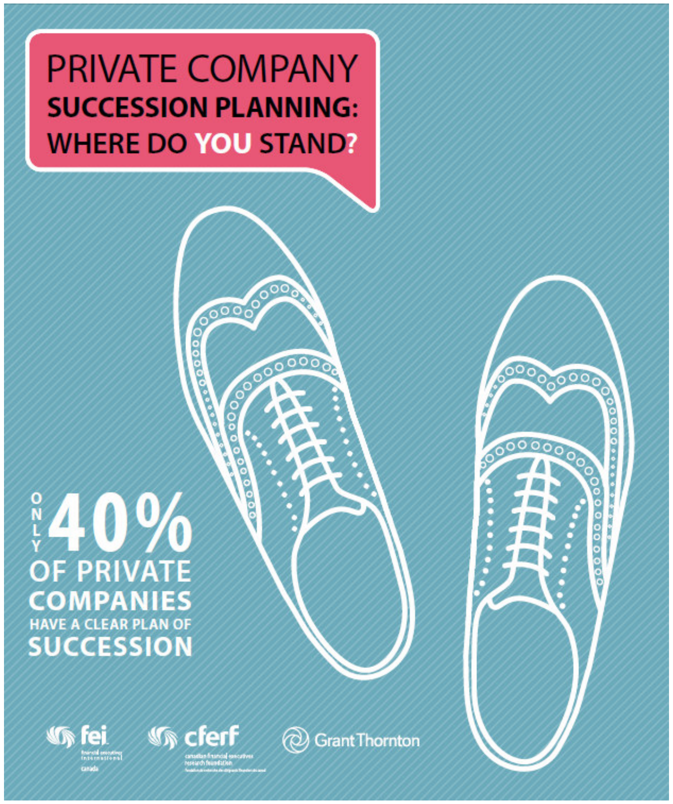
Why focus on succession planning now?

- **Economic downturn and its impacts**
  - Buyers market
  - Potential opportunities

Overview of survey and research

- More than 100 respondents (50% from family businesses)
- Respondents generally CFOs, VPs of Finance, Controllers or Owners from single or multiple-owner private businesses
- Various organizations sizes represented from <$25m in annual revenues to > $1b



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Overview of survey and research

Areas of focus

- **Business sustainability**
  - Vision and values
  - Strategy
  - Finance
  - Contingency planning

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Overview of survey and research
Areas of focus

- **People dynamics**
  - Effective leadership
  - Governance
  - Ownership
  - Family business

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Overview of survey and research
Areas of focus

- **Tax and finance planning**
  - Tax efficiency
  - Estate efficiency
  - Valuation

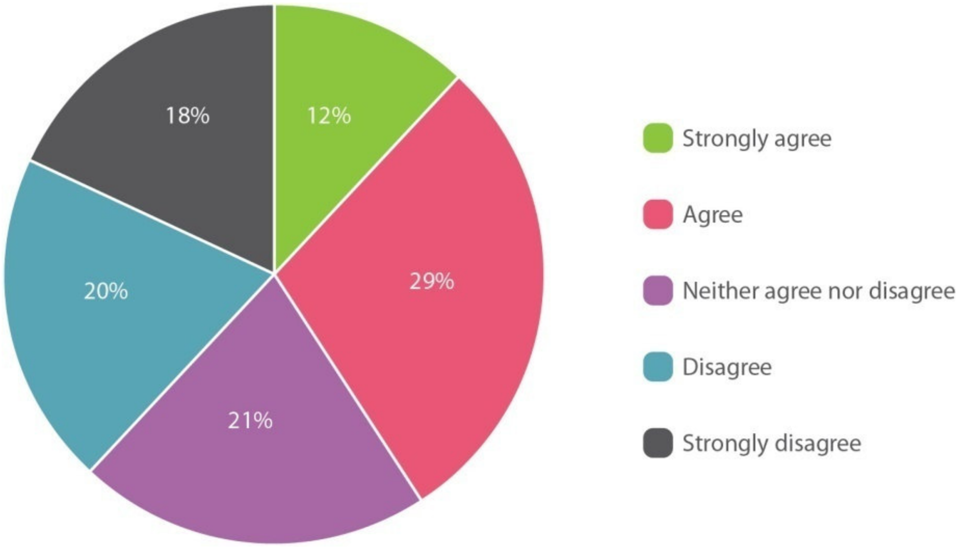
Results – what did we hear?

Overall

- Varied results
- Only 40% of Canadian private companies have a clear succession plan in place
- Insights are in the details

Results – what did we hear?
Vision

IS A CLEAR EXIT/TRANSITION PLAN IN PLACE FOR EXITING OWNER(S)?

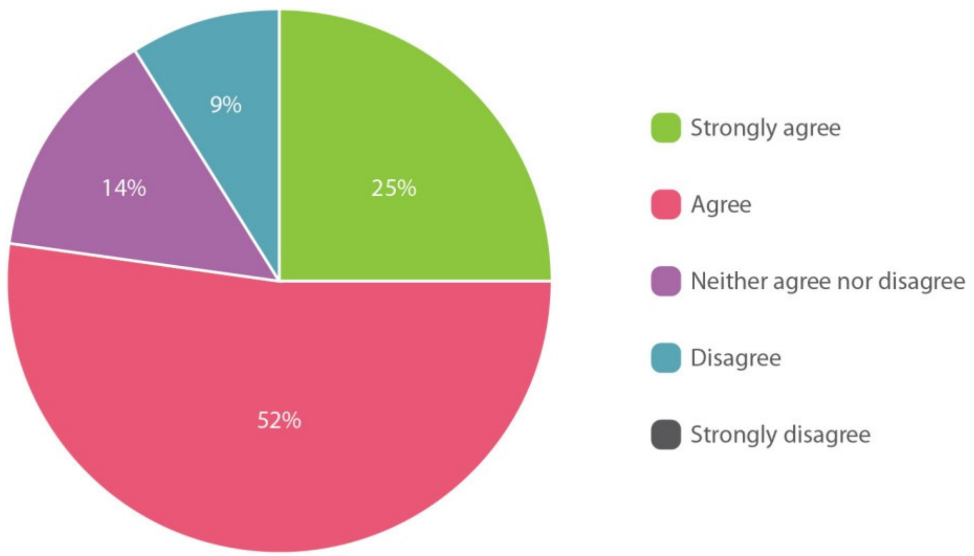


- **71% have a clear vision of their business for the next 5 years**
- **Only 36% know timeline of owner(s) exit**

Results – what did we hear?

Vision

DOES THE PLAN INCLUDE NON-FINANCIAL CONSIDERATIONS?



- **Of those that have a succession plan, 77% have addressed non-financial considerations, or the "softer side" of succession planning**

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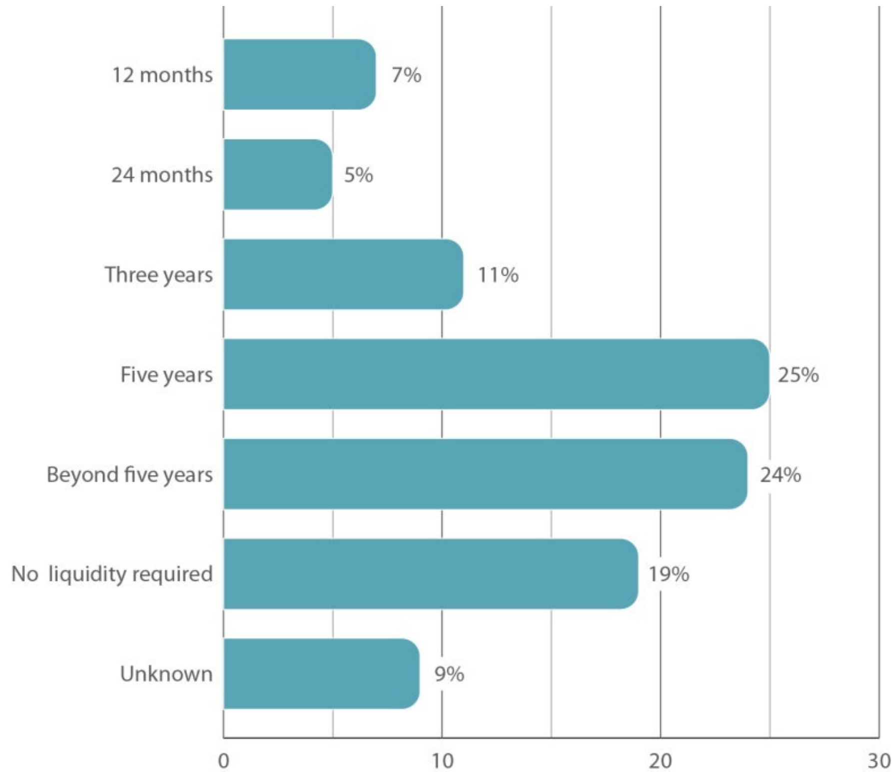
Results – what did we hear?

Finance

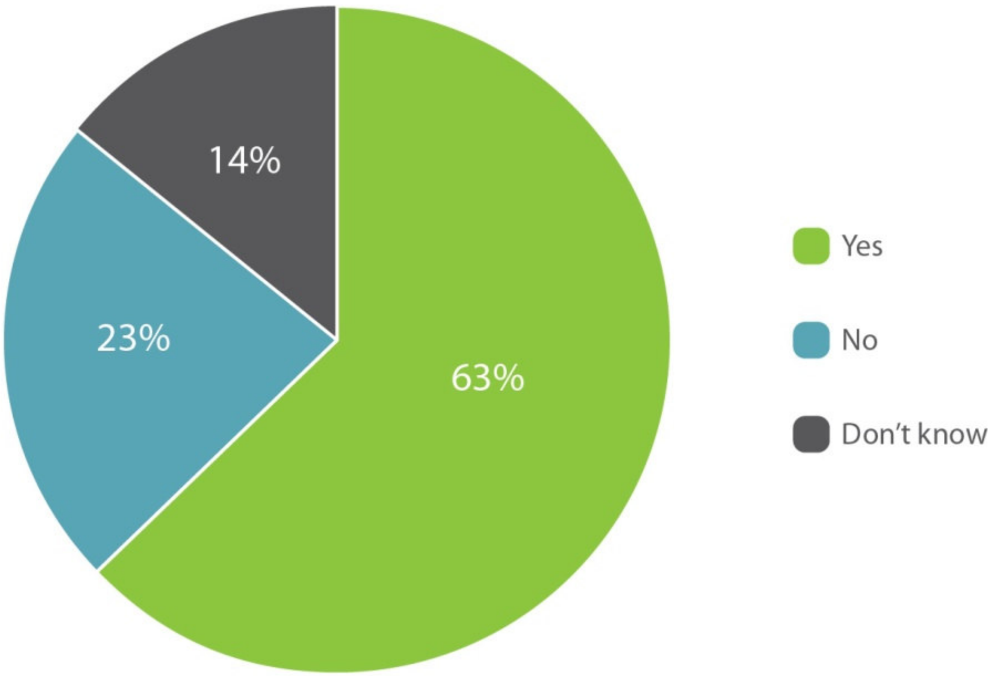
WHEN IS THE OWNER LIKELY TO REQUIRE LIQUIDITY?



- **Short-term liquidity a low requirement**

Results – what did we hear?
Finance

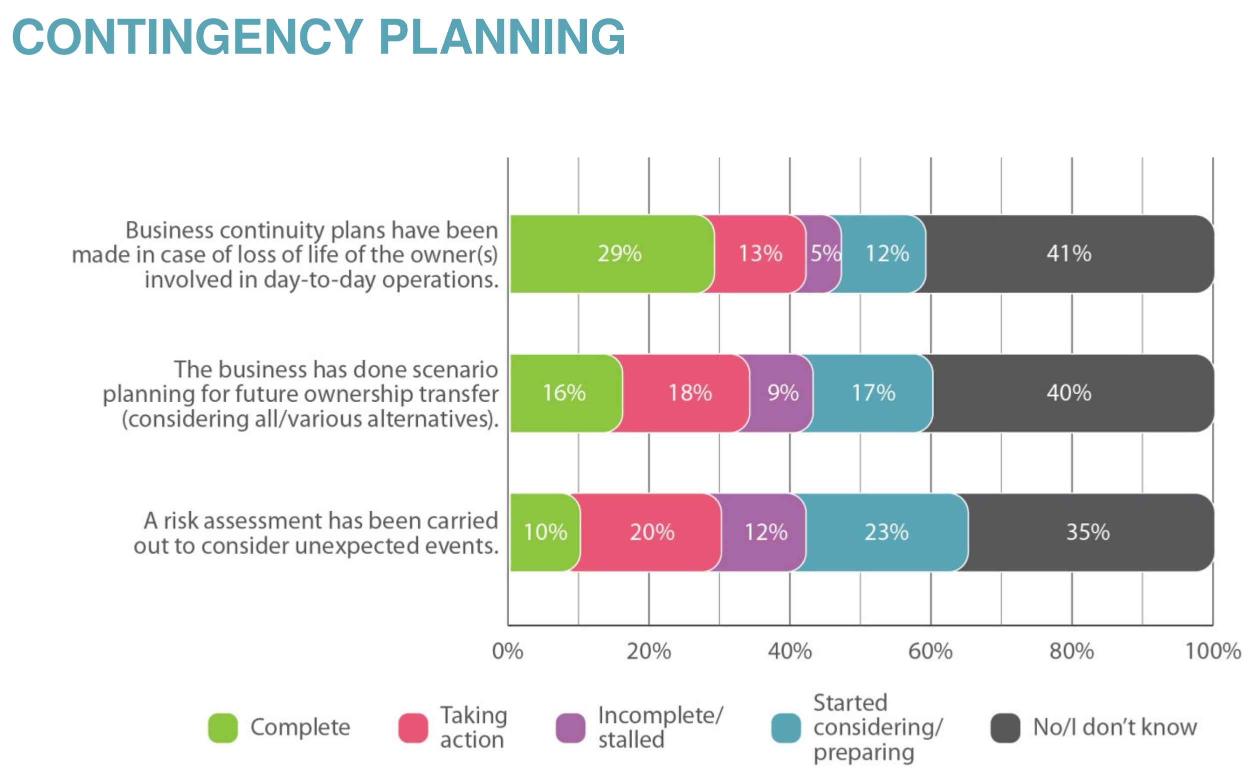
CAN OWNERS RETIRE WITHOUT SELLING SHARES IN BUSINESS?



- **Strong position of owners – sale not require to fund retirement**

Results – what did we hear?
Contingency planning

- **Very little focus on contingency planning overall**



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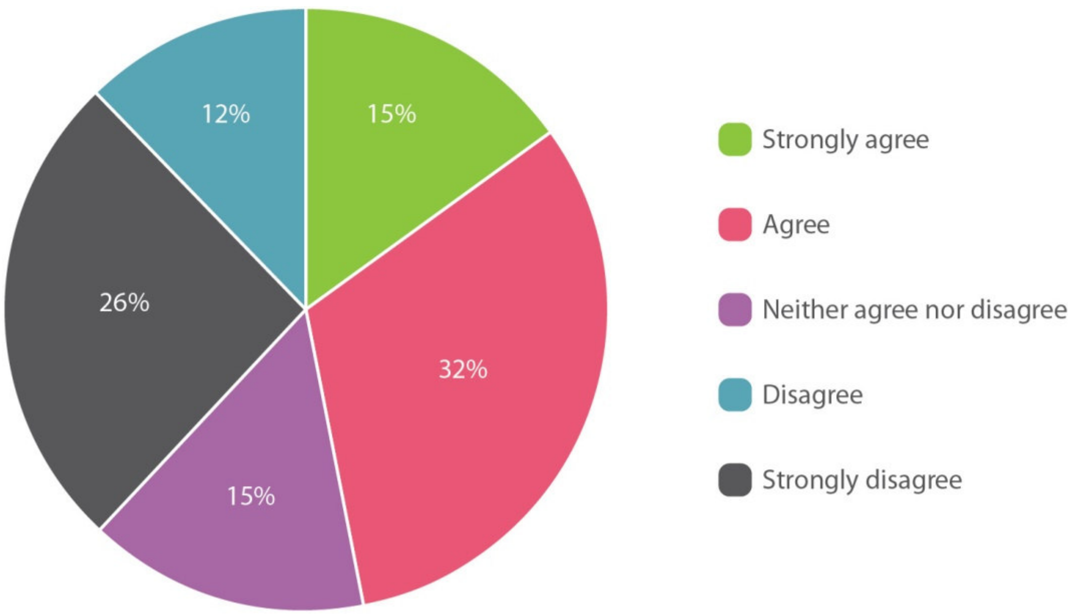
Results – what did we hear?

Effective leadership

IS THERE CLARITY ON WHO SHOULD SUCCEED TO LEADERSHIP?



- **Little clarity on who should succeed to leadership in the organization**

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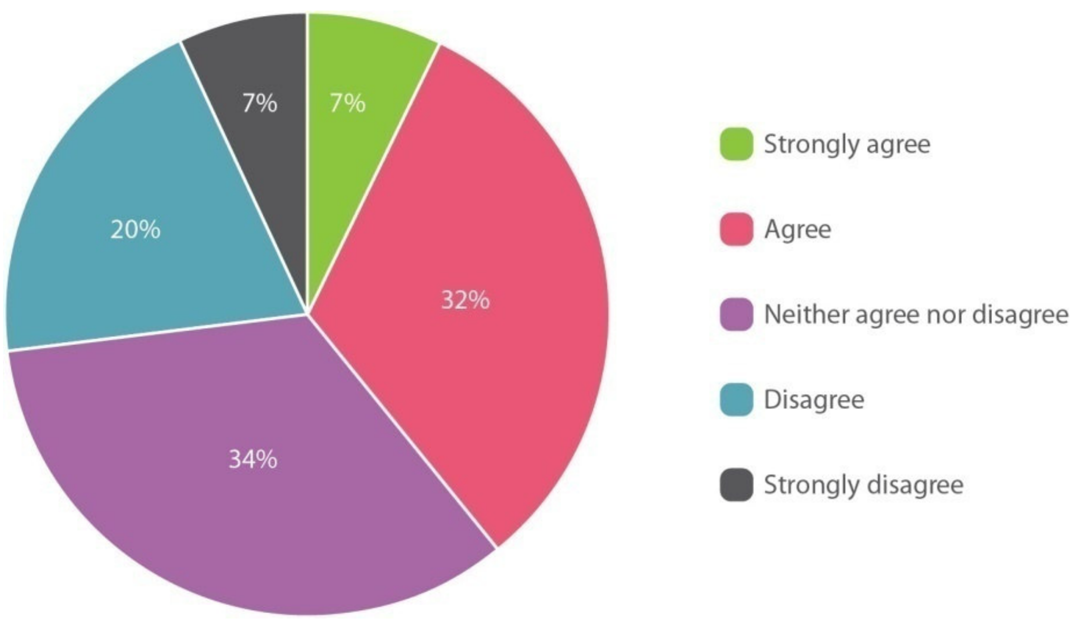
Results – what did we hear?

Effective leadership

ARE THOSE NOT LIKELY TO SUCCEED CLEAR ON REASONS?

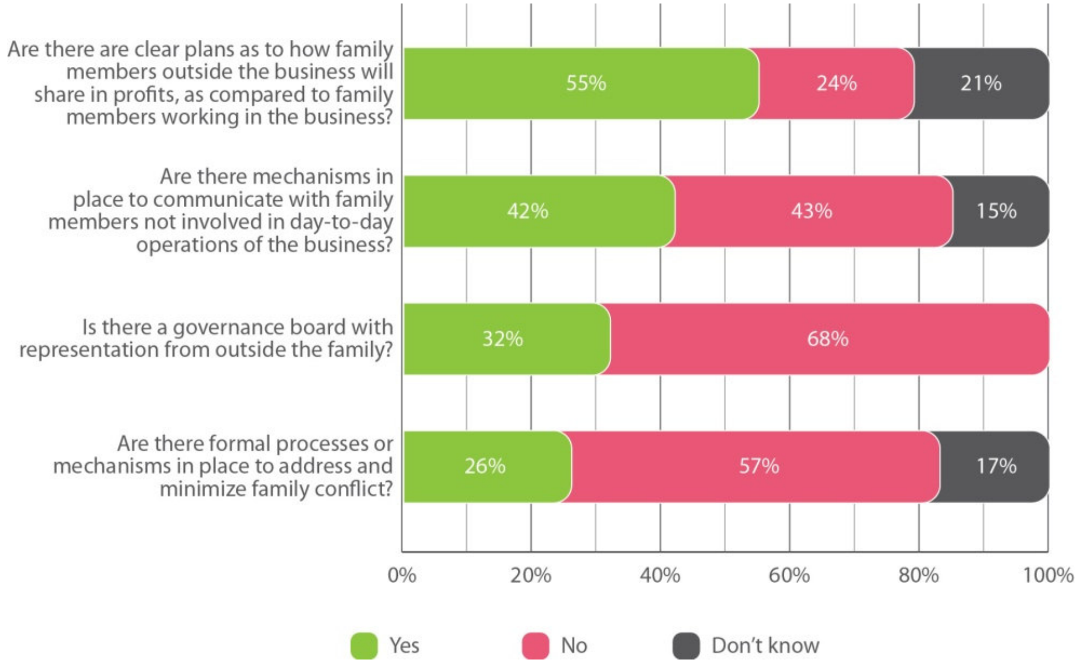


- **Unclear to others involved in the process**
- **Managing expectations is critical to long-term success**

Results – what did we hear?
Family business

FAMILY RELATIONSHIPS

- **Lacking mechanisms to deal with conflict and communicate effectively**



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Conflict and poor communication

A case study

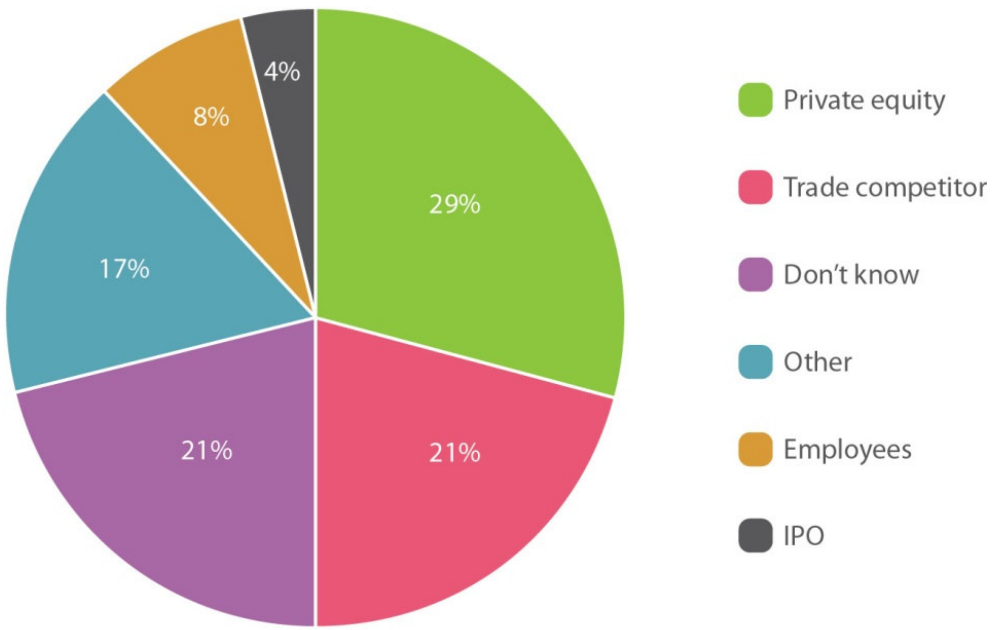
- Father and 4 children
- 1 child functioning as GM
- GM making decisions without consulting siblings
- Lack of communication resulted in conflict impacting family in and out of the business

Solution:

- "Operating Framework"
- Regular meetings

Results – what did we hear?
Ownership

OWNERSHIP WILL BE TRANSFERRED TO

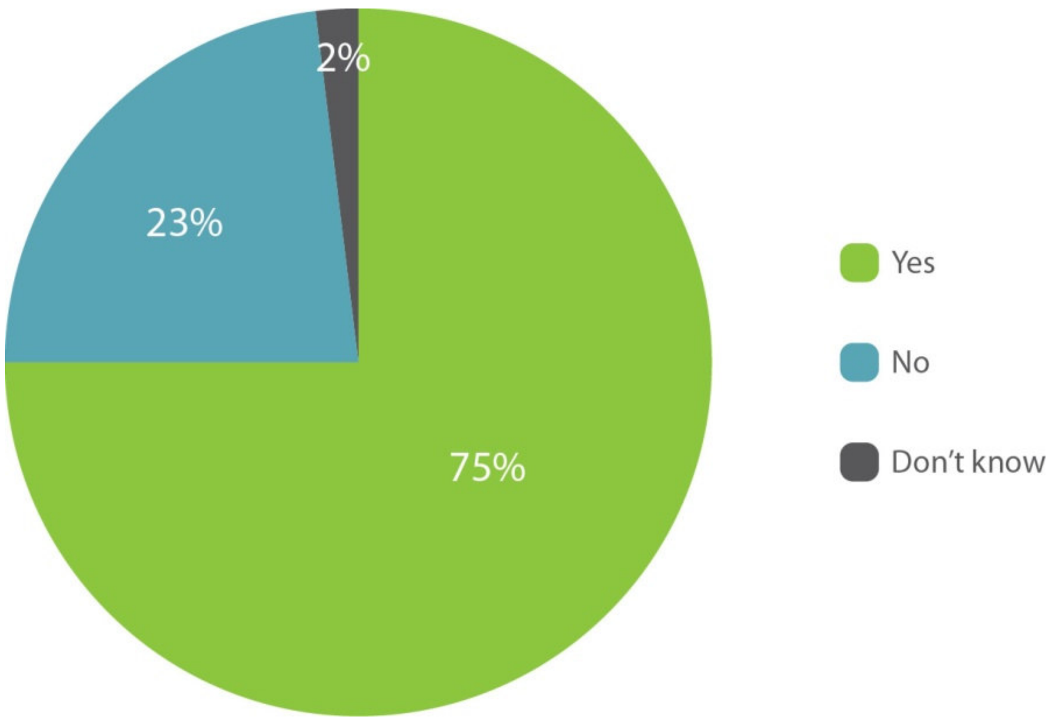


- **50% planning to transfer to private equity and/or trade competitor**

Results – what did we hear?

Tax efficiency

HAS THE BUSINESS SOUGHT PROFESSIONAL TAX ADVICE?



- **Tax plans should support overall succession plan and not drive the process**

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Tax planning driving succession planning

A case study

- Father and 3 children
- 10 years ago share interest of parents frozen
- 3 children functioned in different capacities in the business, many questions re: contribution vs. compensation, result = conflict

Solution:

- Individual consultations with 3 siblings
- 2 siblings never had an interest in the business, buy out facilitated

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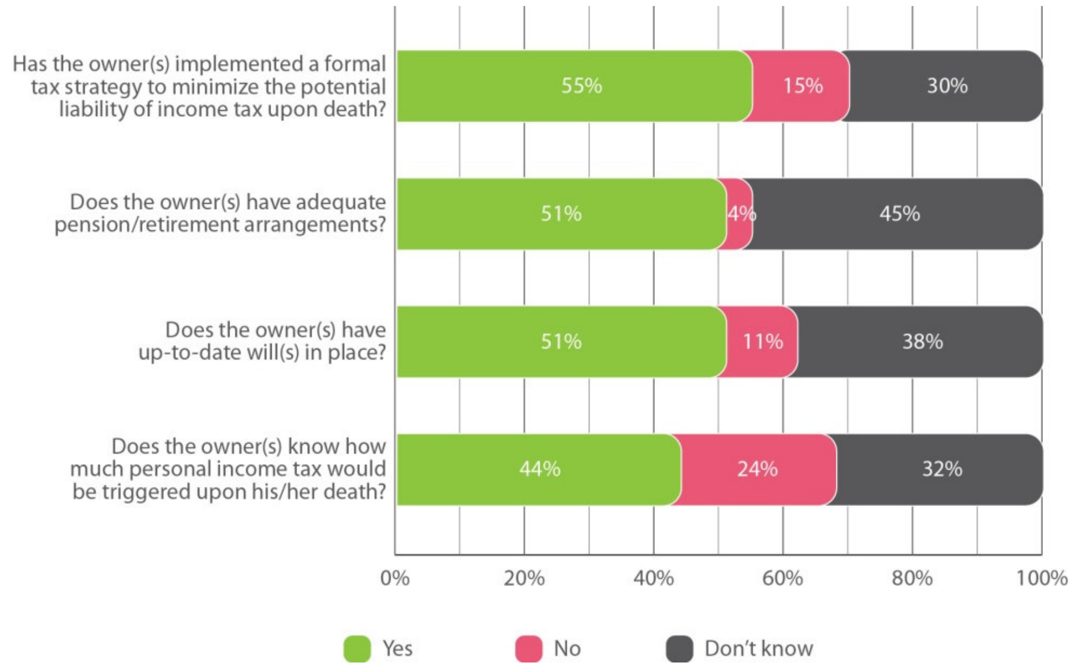
Results – what did we hear?

Estate efficiency

ESTATE EFFICIENCY

- **Consistent with tax planning - should support overall succession plan and not drive the process**



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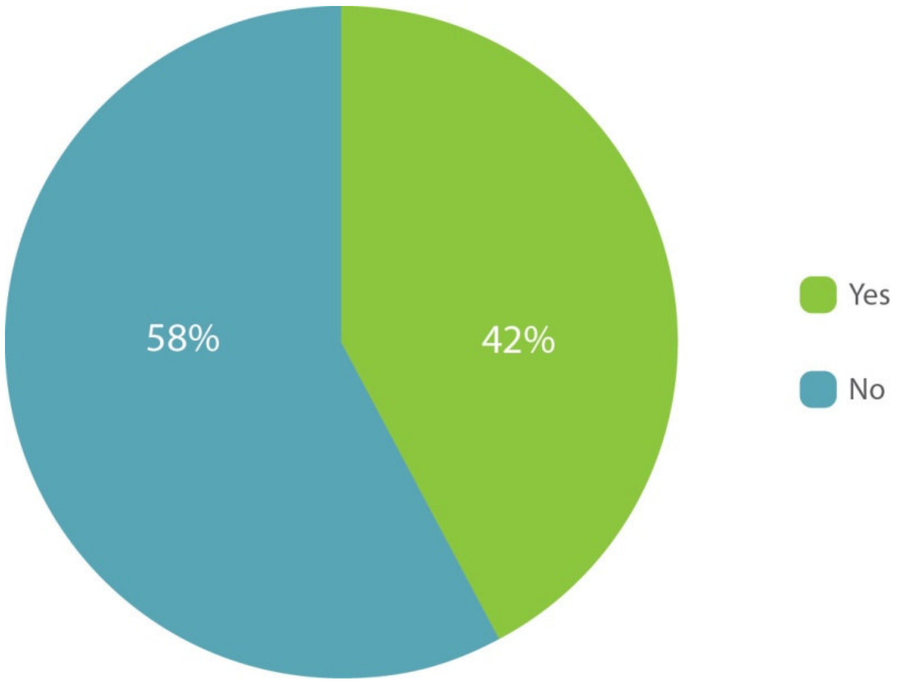
Results – what did we hear?
Valuation

HAVE THE OWNER(S) UNDERTAKEN A FORMAL VALUATION?



- **Formal valuations limited and/or out of date**
- **Little focus on increasing value of business**

What can we learn from the results?

Drivers of success in succession planning

- Comprehensive plan including traditional and non-traditional elements
- Non-linear process
- Start as soon as possible

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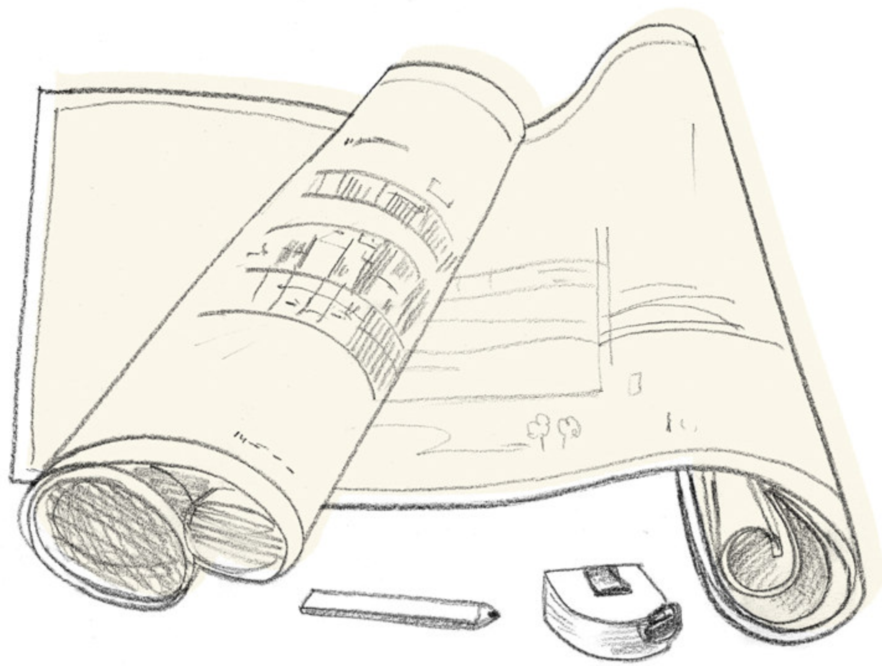
What can we learn from the results?

Drivers of success in succession planning

- Communication processes in place
- Revisit the plan often



Check up- questions to ask yourself

- **Reflecting on your current situation:**
  - What's changed (internally/externally) that could impact our plan - what do I need to do about it?
  - Are there issues to be resolved that could benefit from a third-party facilitator? How can we deal with similar issues going forward?
  - What will it take to implement the plan – do we/will we have what we need?

Questions?

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Succeeding at succession

Providing succession insights and solutions for today's private businesses

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Thank you!