



MACQUARIE VIRTUAL ADVISOR NETWORK

## **RADAR 2019**

SUCCESSION PLANNING

FUTURE PROOF YOUR BUSINESS

# Succession Plan

## - Introduction

We recommend the following investor-ready, succession plan recommendations be considered especially in a “Multi-Equity Practice” in order to attract and retain high calibre professionals to:

- Ensure the ongoing success of your practice;
- To maximise the value of your practice, should you decide to sell; and
- To maximise the successful merger or takeover of a target practice.

# Succession Plan

## - Board of Director(s) Objectives

- Where do you want to be?
- What do you want to be doing in 1 year, 5 years, 10 years, 15 years time?
  - Continued ownership
    - Actively
    - Non-Executive Director
  - Outright sale
    - Third parties
    - Partner/Shareholder/Unitholder
  - Acquisitions/Mergers

# Succession Plan

## – Corporate Structure

- Have one Corporate Structure for your practice
  - Company/Trust
- Consider a Holding Company / Trust
- Shareholding / Unitholding “unified”
  - Not Different owners in different Practices
  - Will require Valuation of each entity in the group
- One consolidated Balance sheet / Profit and Loss

# Succession Plan

## – Board of Directors

- One or more Non-Executive Directors
- Remuneration Committee
  - Decide remuneration for all employees including Owner/Employees
  - External Consultant
- Audit Governance Committee (AFSL)
- Decisions
  - Decide = Valuation and dividend policy
  - Decide = required sell down of equity at what age

# Succession Plan

## – Separate Ownership from Employment

Remuneration based on:

- Roles and responsibilities including;
  - Advisor fees, Business Development
  - Not because a Shareholder / Unitholder

Create a situation where a Shareholder / Unitholder can either / or

- Sell down
- Become a Non-Executive Director
- Become a Chairman
- Retire

# Succession Plan

## – Valuation Methodology

Consider Valuing Goodwill not based on a percentage of revenue, but a multiple of net profit.

Because:

- Revenue Profit Margins are changing
- This is becoming the recognized Model
- Best measure of Return on Investment
- Lenders preferred approach

# Succession Plan

## – Maximize Liquidity of Equity

### Why

- Broaden employee ownership opportunities  
Attraction – Retention - Motivation
- Consider ceilings on ownership
- Review any Pre-emptive Right Clauses in Shareholders/Unitholders Agreement
- Consider Non-advisors for Shareholding / Unitholding, and as well:
- As Directors



# Succession Plan

## – Maximize Attraction and Retention of Your Most Valuable Asset

### Maximize Business Value through employee incentive plans

Because the employee's future incomes are linked to the future success of the client, it will be much more attractive to an independent for outright or partial sale.

Incentive plans work very very well, but NOTHING RETAINS LIKE EQUITY.

**Retain your most valuable assets.**

# Succession Plan

## – Employee Equity Plans

### In terms of succession planning:

Not only do employee equity plans provide opportunities to create capital they also enable funds to be put aside to buy out the existing owners.

They can also be used to attract, motivate and retain employees to give them a sense of ownership and empowerment, if you like, to align goals.

# Succession Plan

## – Employee Equity Plans

### In Terms of Practice Sale or Acquisition

Where there is actually a third party acquiring entity interested in buying the business, the fact that such employee equity plans exist will add to the goodwill or value of the business that is for sale.

An added benefit of employee equity plans is that they will enhance the acquisition success of acquired practices.



Remuneration  
Strategies  
Pty Ltd

# Succession Plan

## – Legal Documentation-Review

- Trust Deed
- Shareholder Agreement
- Constitution
- Buy Sell Agreement
- Management Agreement
- Employment Agreement
- Employee Equity Agreement

# Succession Plan

## - Maximize Value

- Are all your books and records in order, such that if an offer came in you could “sell” tomorrow?
- The objective is to maximize succession value
  - Maximize maintainable profit
  - Minimise costs
  - Minimise business risks
  - Maximize potential
- Balance sheet
  - Inter-company loans
  - Debit/Credit loan balances
- Your ownership structure
  - Is it for Tax Planning, or
  - Is it to maximize “sale value”

# Succession Plan

## – Management / Advisor Succession

- Management succession
  - Selection
  - Grooming
- Selection
- Transfer of knowledge
- Role and responsibilities
- Relationship succession
  - Suppliers
  - Clients
  - Financers
  - Referrers
- Choosing your team
  - Non-Executive Directors
  - Accountant
  - Lawyer
  - Banker

# **Succession Plan**

## **– Case studies**

## **Succession Plan**

- **What are you going to do now**
- **Lets discuss & review**