Business Succession Planning

Forrester Boyd
CHARTERED ACCOUNTANTS

SUCCESSION PLANNING

A Quick Breakdown

A succession plan should be done as soon as possible, ideally before a crisis or unexpected event occurs. The process of identifying, developing and ensuring the continuity of key roles and responsibilities is essential for any business that wants to sustain its success in the long term.

Corporations and family-owned businesses, regardless of their size or industry, should have a succession plan in place to ensure a smooth transition when a key employee retires, resigns, or becomes incapacitated.

4 Reasons Why?

01 Retirement of Key Employees/Directors

When key employees retire, there should be a clear plan in place to identify and develop their replacements.

02 Expansion of the Business

When a business is growing rapidly, it is important to identify and develop leaders who can manage the increased workload.

03 Resignation of Key Employees/Directors

When key employees leave unexpectedly, a succession plan can help minimise the impact on the business.

04 Merger or Acquisition

When a business is involved in a merger or acquisition, there may be a need to realign key positions and identify new leaders.

What's Your Exit Strategy?

There are four common exit strategies.
Which is the right one for you?

Merger & Acquisition

Mergers and acquisitions may be completed to expand a company's reach or gain market share in an attempt to create shareholder value.

Sell to Partner/Investor

If you are not the sole business owner, this strategy entails selling your stake in the business to someone known and trusted.

Family Succession

Keep the business in the family. Requires honest and open family discussions, especially if there are multiple dependents. There is also many tax reliefs available such as Agricultural Property Relief (APR) and Business Property Relief (BPR).

Management/Employee Buy Out

Selling to existing management can provide a straightforward and seamless transition out of the business. Employee ownership trusts are also a potential option.

> An appropriate exit strategy or succession plan maps out and considers every aspect of your business in order to achieve your desired exit outcome.

Succession Planning

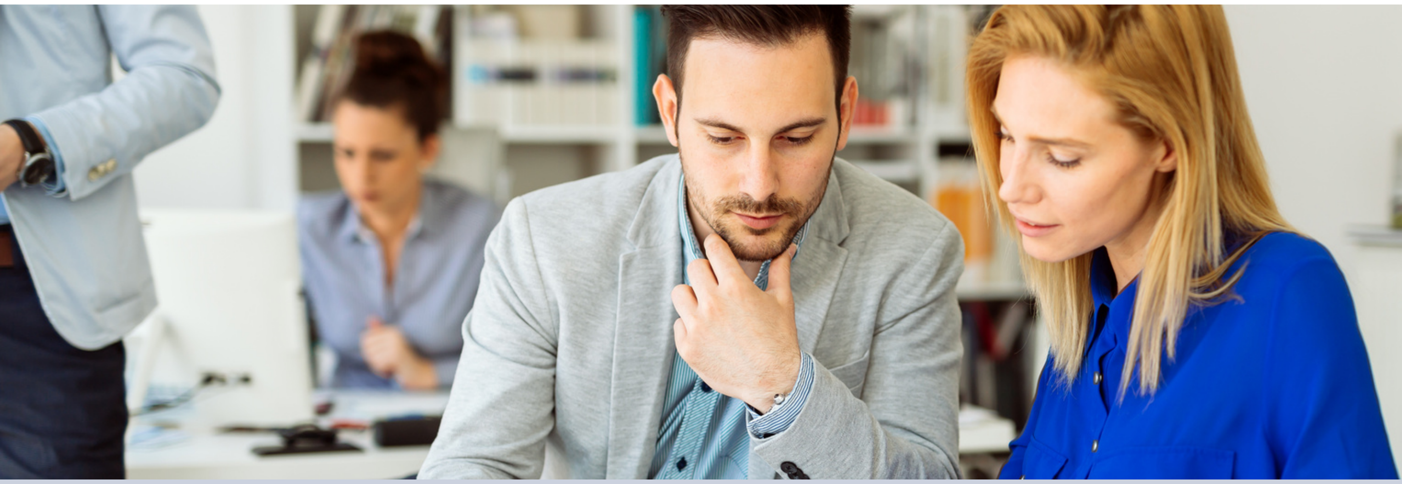
What you need to consider

Analysing the Financial Health of the Company

Understanding the financial health of your business is crucial when it comes to succession planning. An accountant can analyse your company's financial statements, tax returns, and other financial records to help you assess your company's financial performance and anything that could impact your succession plan.

Evaluating Business Valuation

Succession planning and business valuation also go hand-in-hand. You need to be aware of the value of your company to ensure the succession plan you put in place is correct for you and your business. This is where an accountant can help evaluate a business based on its historical and future trading performance and market and industry conditions.



Tax Planning

Significant tax implications, with regards to succession planning, can also occur when transferring ownership of a business or control of the company to a new generation. An accountant can help a business to minimise tax liabilities and maximise tax benefits to support business owners in creating a succession plan that is tax-efficient. They can also provide guidance on tax planning strategies that align with the ambitions of a business.

Estate Planning

Estate planning, which can often be a complex process, is also involved in the process of succession planning. Having an accountant to support you in developing an estate plan is essential in achieving your objectives and ensuring the transfer of any assets is smooth and successful. They can also assist with creating trusts, gifting strategies, and other estate planning tools that can help minimise tax liabilities and protect your assets.

Developing Financial Strategies

An accountant can also help you develop financial strategies such as creating a budget and cash flow forecasting to ensure a company's financial stability if and when a company transitions to a new generation of leadership.

In conclusion, an accountant can be an invaluable asset in helping business owners to create a successful succession plan that ensures a smooth transition of leadership and the long-term success of your company.

Management Buy-Outs

What is a Management Buy-Out?

A management buy-out (MBO) can be self-funded by the the seller of a company but is usually a corporate acquisition in which the management team uses their own funds and outside financing and deferred consideration to purchase the company from its current owners. The management team then become the new owners of the company, and may continue to run in it in exactly the same way or implement changes as they see fit.

MBO's occur when a management team sees an opportunity to take control of a business that the owner is looking to sell. It is sometimes more beneficial for a management team to take control instead of outside investors as they have a better understanding of the company's operations and potential.

The key to a successful Management Buy-Out

The key to a successful outcome of a Management Buy-Out is the strength and quality of the management team, which is a major factor in raising the required funds to complete the transaction. The management team are usually required to contribute some personal funds, but often the bulk of the buy-out is funded by external funds, which could be either debt or equity or a combination thereof, and the seller through deferred consideration.

Venture capital is a further funding option particularly where there is a funding gap after considering the more typical sources of funding.

707 buyouts completed in the UK in 2022 worth a cumulative £104 billion.

Employee Ownership Trust

A strong succession plan for your business?

An Employee Ownership Trust (EOT) is a business ownership model, where a controlling shareholding is held by a trust for the benefit of the employees.

To create this, a business will set up a new trust company that buys shares from the existing shareholders, and holds them on trust for the beneficiaries, who are the employees of the business.

Individual employees do not normally own shares directly, although some key employees can hold a small number of shares alongside the EOT.

What are the Pro's & Cons?

• An EOT provides a smooth handover of a business and it provides security for the employees.

• Tax advantages to both employees and the exiting shareholder(s). The sale of a controlling interest to an EOT is exempt from Capital Gains Tax (CGT).

• When a qualifying EOT controls a company, tax-free bonuses of up to £3,600 can be paid per eligible employee each tax year.

• Funding an EOT can be challenging, as the immediate cash proceeds will be limited to surplus cash currently in the business and whatever funding the EOT can obtain. In practice a large proportion is usually funded through deferred consideration.

• Decision making will be in the hands of the Trustees and the Board of Directors going forward, so it is important to ensure the correct people are appointed.

• Has to be the right choice for both the employees and the seller. In some situations an MBO is more appropriate, so it is important to weigh up all the options.

Employee Ownerships

The Numbers

1030

Employee Owned Businesses

June 2022

Record Year 2021

285

New EO Businesses

UK EO Sector

x2

Doubled Since 2020

Top 5 Sectors

- 38.2% Professional Services*
- 13.2% Construction
- 12.8% Manufacturing
- 10.5% Retail & Wholesale
- 9.1% Information & Communication

*INC PROFESSIONAL, SCIENTIFIC & TECHNICAL ACTIVITIES AND ADMIN & SUPPORT SERVICES

Top 5 Sectors Conversions Since 2020

- 33% Professional Services*
- 18.3% Construction
- 10.2% Manufacturing
- 11.6% Retail & Wholesale
- 9% Information & Communication

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All statistics and data were sourced from Finder.com and are accurate at the time of publication.

Publication Date: April 2023

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