



Advising the Family Business

Seminar

14 February 2018

Howard Hackney

Introductions

- Howard Hackney
- Round table thumb nails sketch:
 - Role
 - Location
 - Background
 - Type of clients
 - Your expectations
- Workshop approach – no right or wrongs
- Learn from one another's skills and experience

Howard Hackney

Howard left Grant Thornton UK LLP in 2008 where he had been a partner for over 25 years to establish his own boutique practice. During his time at Grant Thornton he was head of professional practices for the North West and head of family businesses for the UK. At Grant Thornton he had a variety of roles including office Managing Partner, North West regional marketing partner and membership of the partners appointments panel. Howard specialises in advising mid market professional practices and family businesses. In 2002 he won the CBI's national award as "Best Business Adviser".

Howard's focus is providing "special projects" advice to mid market family businesses and professional practices where he can truly add value from his wealth of practical experience. Recent assignments have included family succession planning for four substantial caravan parks, succession planning, structuring and fund raising for an architects practice, strategic planning for a family business in the chemical distribution sector and the sale of a legal practice. He has a wealth of "war stories" from his long specialism in the subject.



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Advance billing!

- The conceptual and theoretical background which makes family businesses different
- A methodology to approach the issues involved
- How to manage the ownership and management succession process
- How to assess who may be best to provide management succession
- How to manage if not control the inevitable personal conflicts
- The role and potential contents of the shareholders agreement
- The role and authority of a Family Council
- The role of a Family Forum
- Identification of a valuation criteria for valuing the business
- The creation of an internal market for shares
- The establishment of a dividend policy

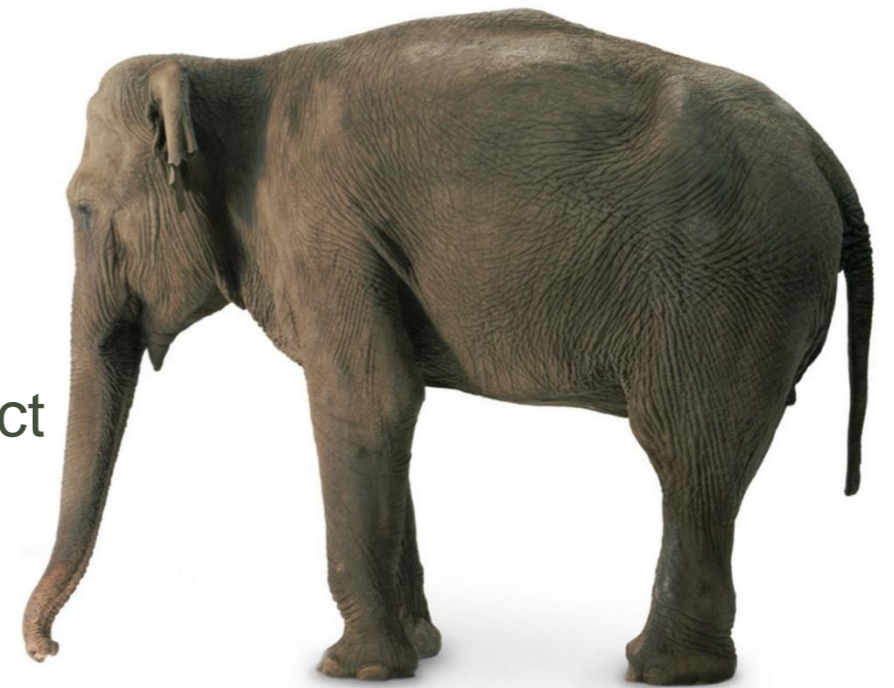
Advance billing!

- The role of external wealth and in particular pensions in aiding the succession process
- What may be fundable by way of extracting wealth and providing security to earlier generations
- Mitigation of Inheritance Tax
- Consideration of CGT issues that may apply in any reorganisation
- The scope to use differing classes of shares and option arrangements
- The role of trusts and will planning
- The role of the external advisor and the dos and don'ts of that role

Elephant in the room

- Objective is to create work – while meeting the client's objectives
- Potential to create work
- Lawyers to implement (and advise)
- Financial planners on creation of wealth outside the business especially pensions
- Fund managers to manage the external wealth
- Bankers to fund the arrangements – often cash out
- Surveyors to value property
- Accountants – happy long term client without a conflict

- What do you wish to address during the day?



Agenda

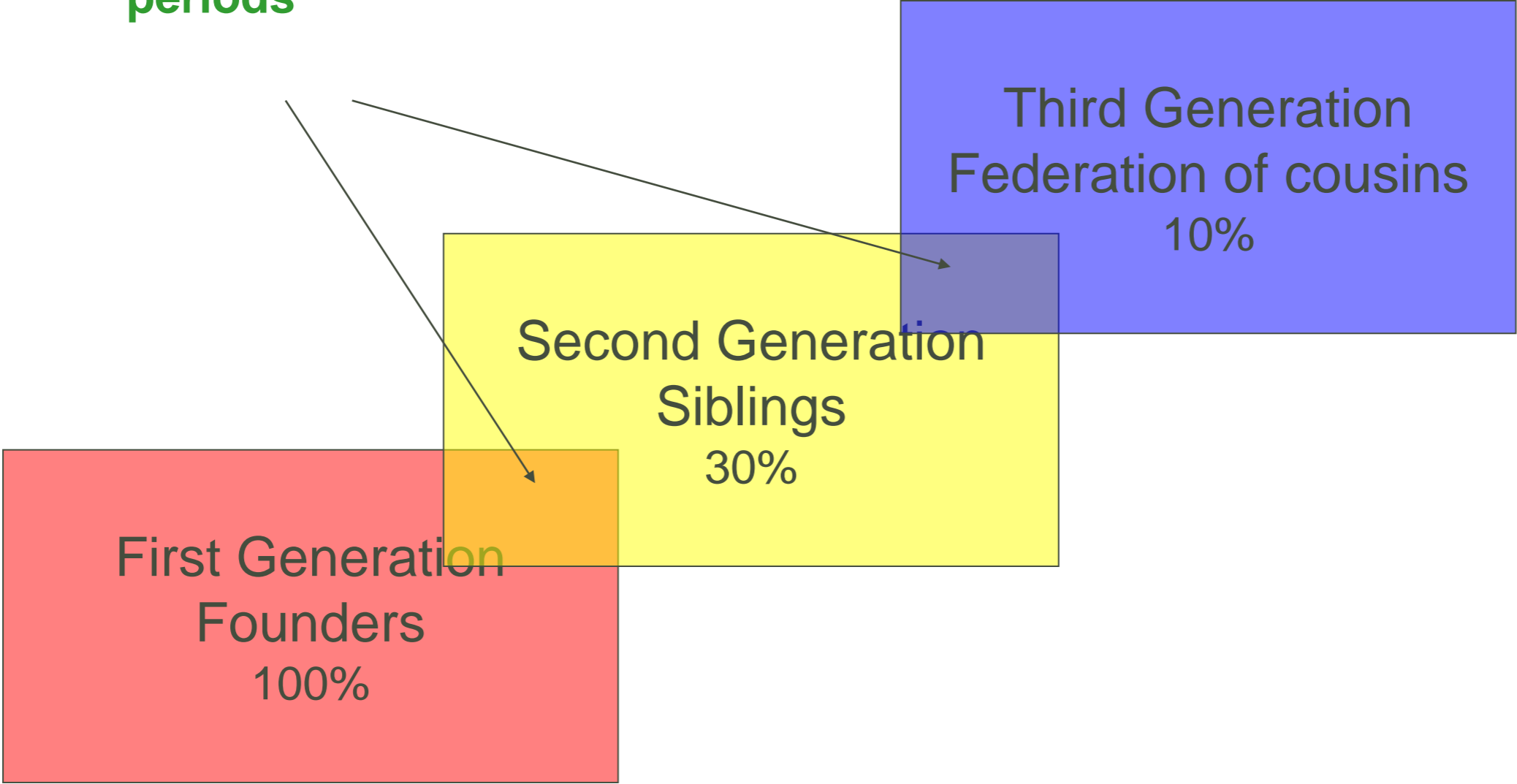
| | |
|-------------------------------|---------------|
| Introduction | 09.30 – 10.00 |
| The conceptual background | 10.00 – 10.30 |
| Guiding principles | 10.30 – 11.00 |
| Choosing the right successors | 11.15 – 11.45 |
| Reaching agreement | 11.45 – 12.15 |
| Your issues | 12.15 – 12.45 |
| Case study 1 | 13.45 – 14.30 |
| Case study 2 | 14.30 – 15.15 |
| Your issues | 15.30 – 15.50 |
| Case study 3 | 15.50 – 16.35 |
| Case study 4 | 16.35 – 17.00 |
| Conclusions and action plan | 17.00 – 17.15 |

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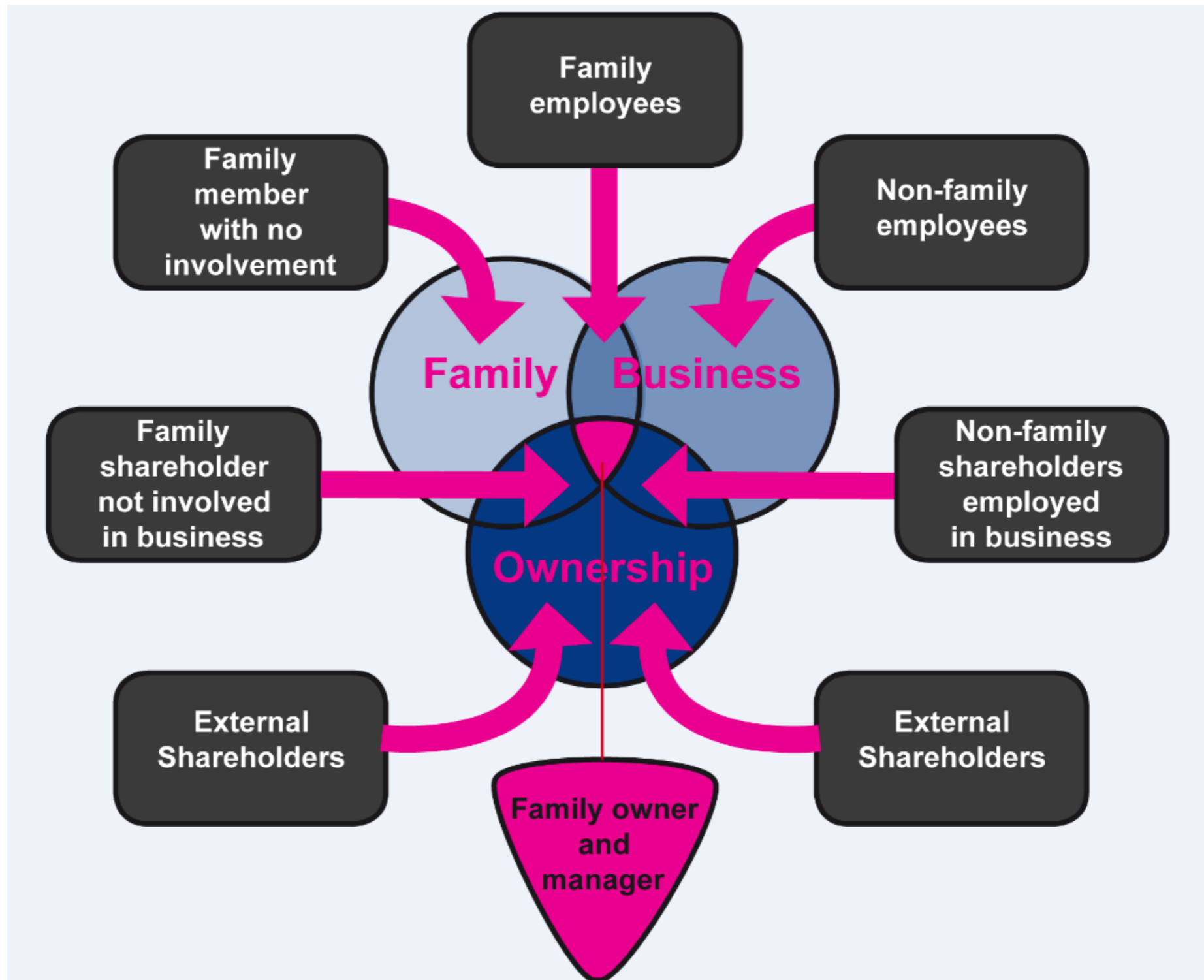
The conceptual background

Transition

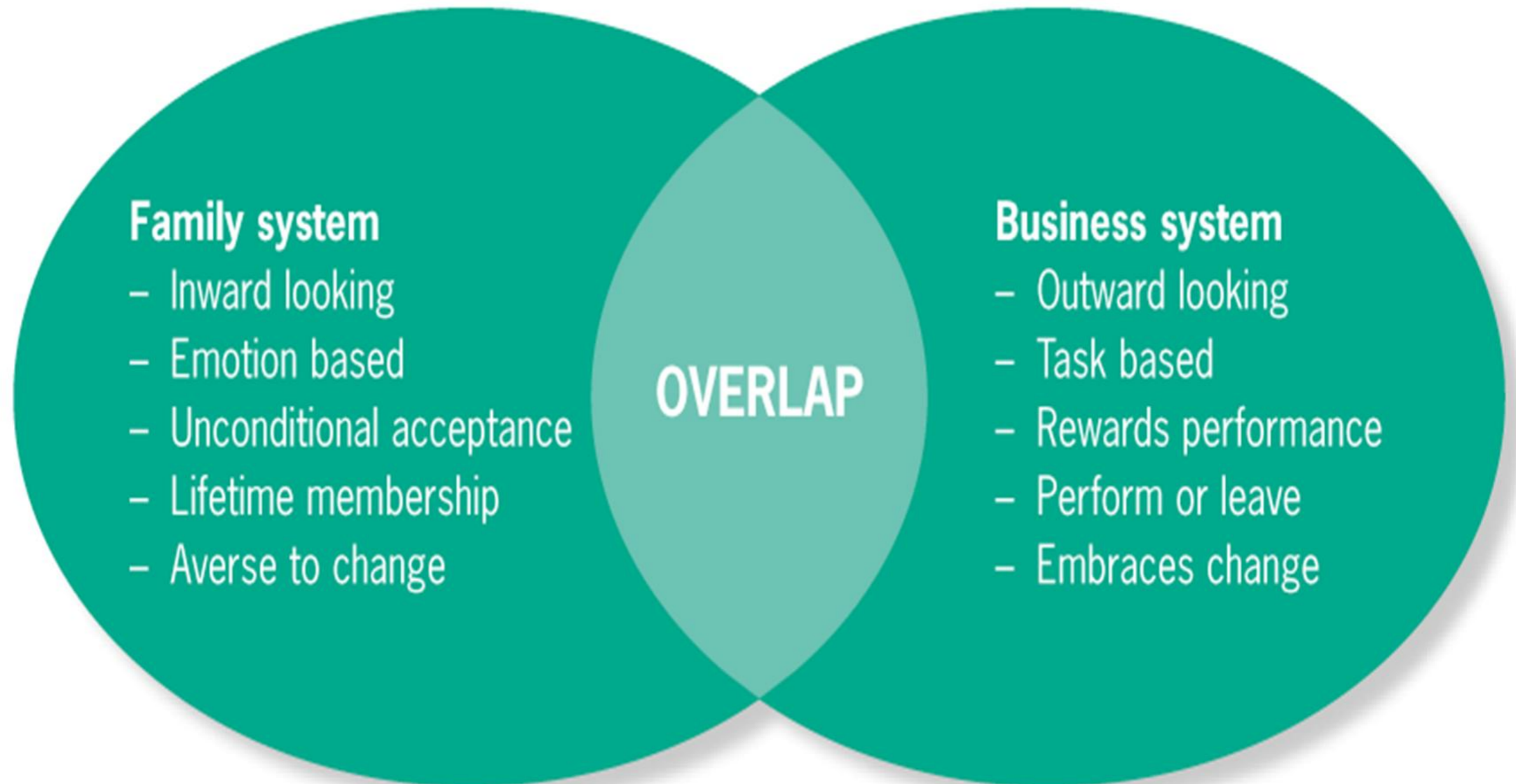
Transitional periods



The individuals in the family business



The seeds of conflict



Conceptual background

- Discussion
- Personal experiences



Guiding principles

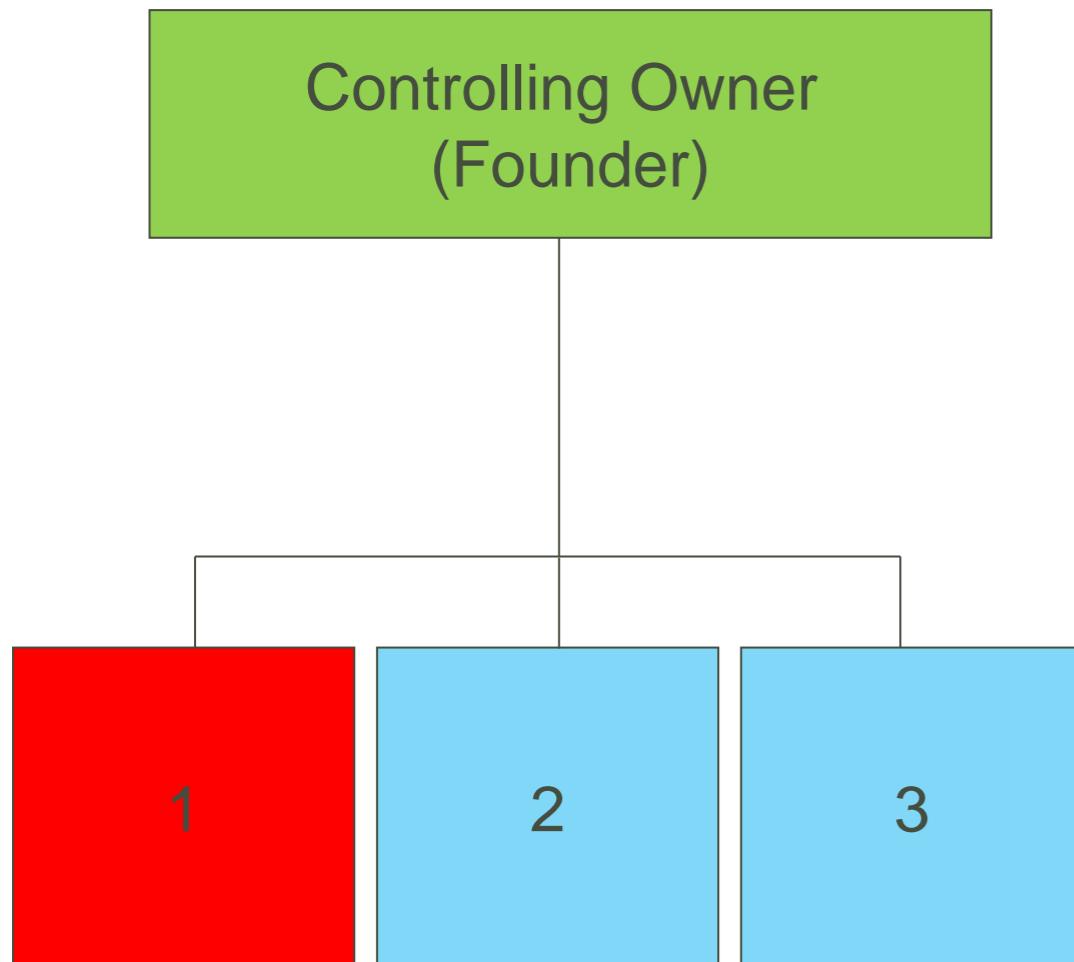
Distinguish between

- Shareholding succession
- Management succession

- Business issues
- Family issues



Transition to sibling partnership



Favoured by many parents who want harmony, equality and business survival through the family with more or less equal division amongst a group of siblings

BUT

Please avoid if possible

Some parameters

- Try to limit the spread of shareholding
- Try to give management voting control
- Use other wealth (or loan notes) to balance fairness between siblings
- Have independent wealth outside the business – but pensions & tax?
- Allows management to be able to risk passing on control



Avoiding shareholder disputes

- Keep shareholding base narrow
- Shareholders agreement and family constitution
- Have agreed valuation criteria – perhaps higher of
 - Net assets
 - Multiple of 4 to 8 X post tax profits
- Create an internal market for shares
- Agree a dividend policy
- Board appointment based on skills alone not shares

With a wide base of shareholders

- Family council
- Elected blood line representative to vote all blood line shares
- Role akin to an Institution
 - Approve a business plan
 - Agree Board appointments and bonus arrangements
 - Approve changes in dividend policy
 - Approve sale or purchase > agreed limits
 - Approve borrowing > agreed limits
- No involvement in management
- Family forum for extended family



Guiding principles

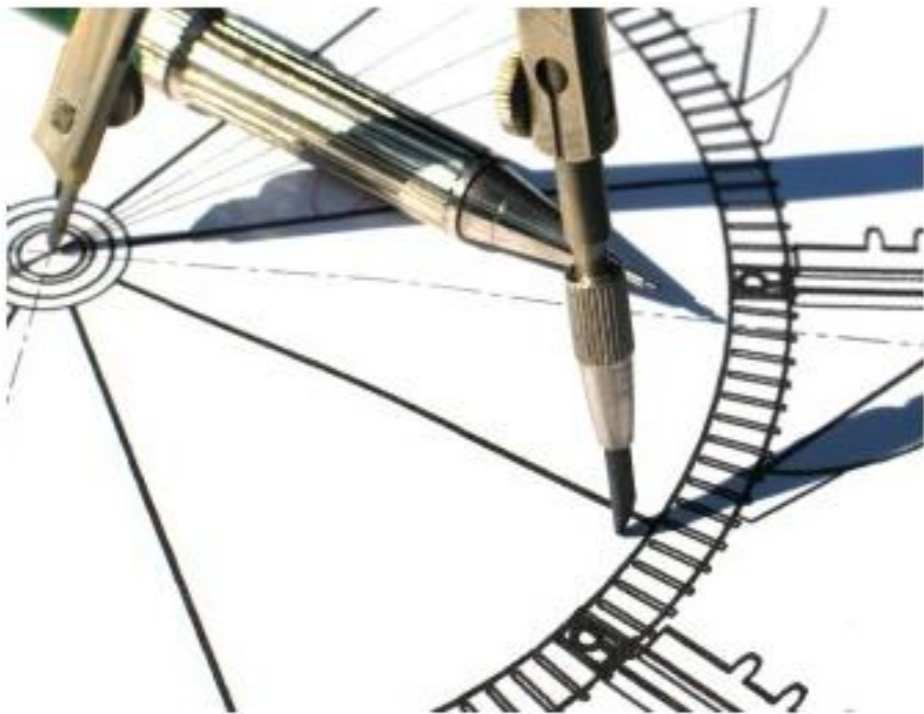
- Discussion
- Personal experiences
- Valuations
- Dividend policy



Choosing the right successor

Management attributes

- The desire
- The skills
- Support
- Motivation
- People
- Organisation
- Intellect
- Credibility
- Need for an equity stake?



Non family non shareholding CEO?

- Difficult
- Have seen it work BUT
- Chicken & egg
- Those with the right motivation (to add value and grow) will only join with a piece of the action
- If they do without it they probably do not have the right motivation.
- BUT not an absolute

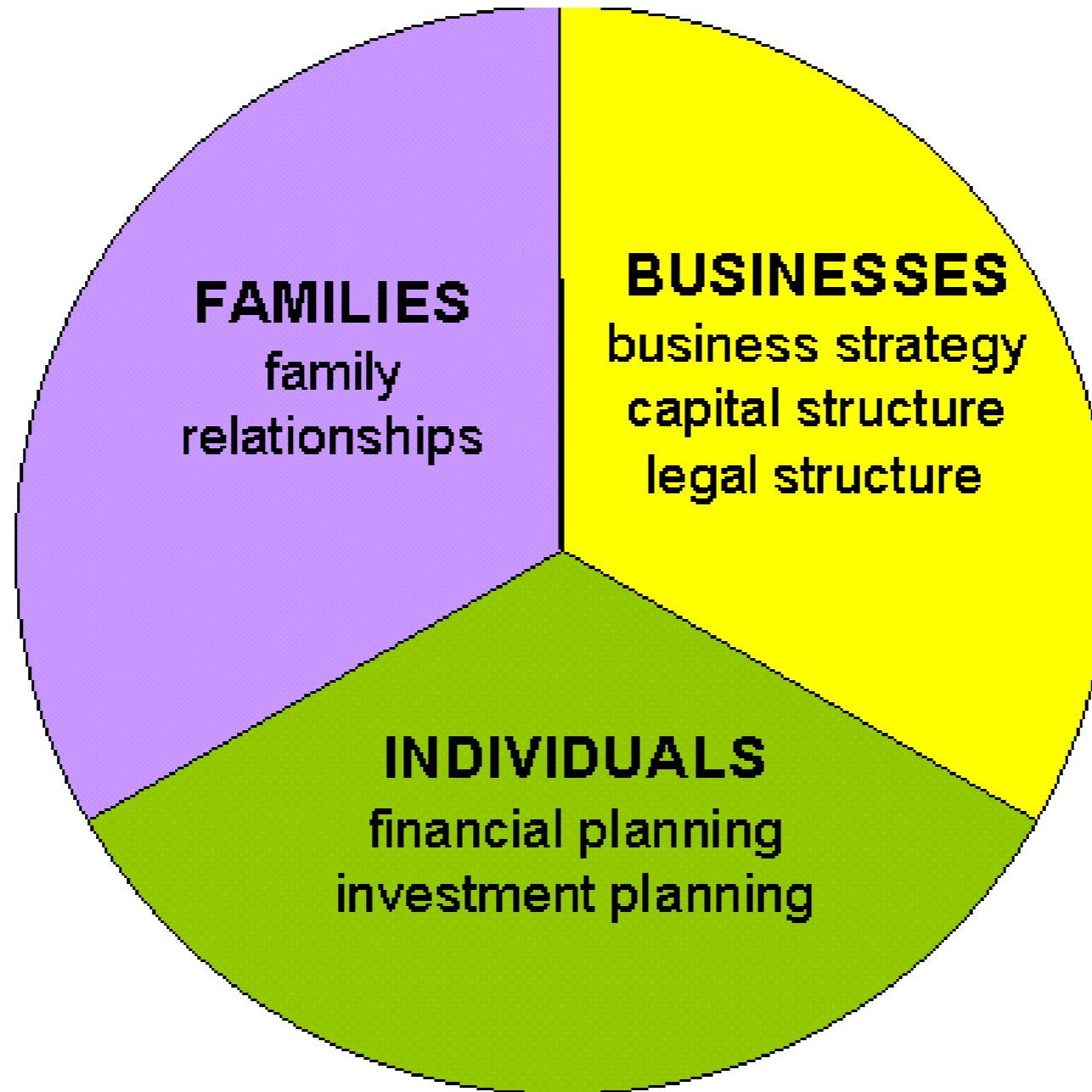
Choosing the right successor

- Discussion
- Personal experiences



Reaching agreement

Holistic approach – range of disciplines



Addressing the issues and persuading the family

- Use of 12 factor matrix
- A formal fixed price assignment
 - Information gathering
 - Preparation of structured questionnaire
 - Confidential one to one interviews
 - Development of proposals
 - Testing of proposals
 - Family meeting
 - Set of agreed actions
- Implementation separately thereafter

The 12 Factor Matrix

| | | |
|--|--|---|
| Succession planning | Remuneration planning | Equity ownership by family members |
| Family members not involved in the business | Introducing & rewarding non-family executives | Retirement and estate planning |
| Bringing family members into the business | Strategic planning | Financial structures |
| Preserving wealth | Resolving conflict | The family creed |

The adviser

- People, people, people
- Independence which is paid for tends to be more highly valued
- Must never take sides – but can be robust
- Same facts often = different interpretation
- Never be surprised – “I have nothing now so I have nothing to lose” – “I am frightened of him”
- Accept you cannot resolve everything
- Try to meet all sides at first meeting
- Stress at outset the need for compromise



Your issues

Conclusions & work creation

Discussion

- What would be your fee and fee approach to these two case studies?
- Reactions & comments
- Generation of work opportunities
 - Existing clients
 - Colleagues
 - Intermediaries
 - Events
 - Direct marketing
- Your individual plan
- How ensure it happens?



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