



# Building a Valuable Business

## A Guide to Succession Planning

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# Successful Business Successions don't just happen...

They require planning....  
and implementation





## The Steps of a Typical Succession Plan

- Step 1 – Setting Objectives
- Step 2 – Determining Value
- Step 3 – Driving Value
- Step 4 – Converting Value to Cash
- Step 5 – Contingency Planning







## The Advisory Team

- No one professional has all the answers: Many diversified skills and talents are necessary:
- Business and Estate Planning Attorneys
- Financial/Insurance Advisor
- CPA/Accountant
- Transaction Intermediary – Business Broker or Investment Banker – in a third-party sale





# Setting Objectives

What do you want?



# Some Typical Owner Objectives

- Make more money while they own the business
- Have more free time while they own the business
- Have money for a good life after leaving the business
- Keep business in the family



# What kind of lifestyle do you Need or Want on complete retirement?

- The “reasonable” budget
- The “stretch” budget
- How much of that do you already have?
- How much more do you need?





# What is your business worth?

## Asset approach

- Net asset value

## Income approach

- Capitalized earnings
- Discounted future earnings

## Market approach

- Comparable closely held companies







## Economic Value

- Profitability
- Economic and Legal Documentation
- Your Future
- Your Risks
- How You Help a Buyer





# Building Capital

- Physical Capital
- Intellectual Capital
- Relationship Capital
- Human Capital





# Employees

The Joy and the Bane of Our Existence





## The Joy

- Employees will help you build value
- Employees may be your inside successors
- Employees make you more valuable to an outside successor








## The Bane

- They aren't me
- They won't do it "my way"
- They don't stick around







What do they  
need...  
to help build  
value? to be the  
successor?

- Marketing Skills
- Sales Talent
- Strategic Vision
- Entrepreneurial Spirit
- Leadership Qualities





## Key employees need rewards

- Challenges
- Recognition
- Benefits
- Money
- Ownership
- All aligned with owner goals





## Key employees need reasons to stay

- Vesting
- Rolling vesting
- Non-competes
- Stay bonuses





## Tangible Money Rewards

- Cash Bonus
- Non-Qualified Deferred Compensation
- Phantom Stock
- Stock Appreciation Rights







## Tangible Ownership Rewards

- Stock Purchase
- Stock Bonus
- Stock Bonus subject to Vesting (Restricted Stock)
- Stock Option
- Stock Option with Vesting







# Converting Value to Cash: Three ways out





## Three Ways Out

- Sales to Insiders
- Sales to Third Parties
- Liquidation





## Who are Third Party Buyers?

- Financial Buyers
- Strategic Buyers
- Entrepreneurial Buyers





## Sales process

- Pre Sale due diligence
- Controlled auction process
- Letter of intent
- Due diligence process
- Definitive agreements







# Definitive Agreements

- Structure
  - Asset, stock or merger
  - Purchase price: Cash/Promissory Note/Earn-Out/Retained Equity
  - Escrows, holdbacks
- Representations and warranties
- Covenants and Conditions
- Closing







## Post-Closing Issues

- Purchase price adjustments: working capital
- Earn-Outs
- Escrows
- Indemnification
- Consulting
- Non-Competes





# Contingency Planning

- Buy-Sell agreement among owners
- Wills and Trusts



# Thank you for your time!

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