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Whether retirement is 30 years away, just over the horizon, or not in your game plan at all, a succession plan is vital to ensuring the continued success of your business.

…Life Happens

…and you never know what's coming next

PEACE OF MIND FOR THE BUSINESS YOU'VE WORKED SO HARD TO BUILD

Before the pandemic, succession planning was often seen by business owners as an important but not pressing action they should be undertaking. COVID-19 should have moved the issue to the top of their agendas.

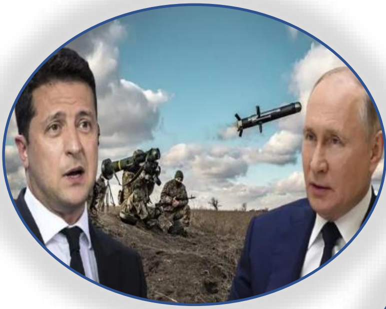
Think of a succession plan as peace of mind for the business you've worked so hard to build.

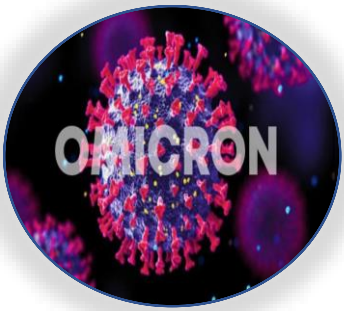
A good plan will need input from your accountant and a tax consultant. You might also want to involve experts in company structures and corporate finance, particularly if you need to value the business.

At DHKN we have all these specialists under one roof in our Galway office. Expertise on tap to help you plan for you and your business's future.

In the next few pages we review six things you should consider for the long-term (or maybe shorter-term) health of your business.

It's never too early to plan for your future.





Unexpected events from BREXIT to COVID; from Ukraine to Suez can seriously challenge any business.

DEVELOPING A SUCCESSION PLAN

Life happens — and unless you have a plan to deal with the unexpected, the business you worked so hard to build could crumble if you become disabled, die, get divorced, or decide to split with your business partner.

A good succession plan can help:

- Prepare the business to handle unexpected events
- Transfer ownership when the time comes
- Maintain your lifestyle in retirement
- Provide for your heirs financially
- Reduce the tax implications for you and your family

In this brief guide we set out a few tips on how to develop a succession plan that works for your business including:

1. Determining your personal goals
2. Deciding how to exit your business
3. Valuing the business
4. Tax planning
5. Preparing for transition
6. Reviewing the plan

1. What are your personal goals?

What do you want out of the business for you and your family? It’s one of the first questions we ask any owner when they start any kind of business plan, never mind a succession plan.

Having your personal goals clear in your mind, and ideally on paper, will help ensure that your business goals will be aligned to help achieve what you want for you and your family.

It sounds obvious but many entrepreneurs are focussed so much on their business that they don’t take the time for this important step.

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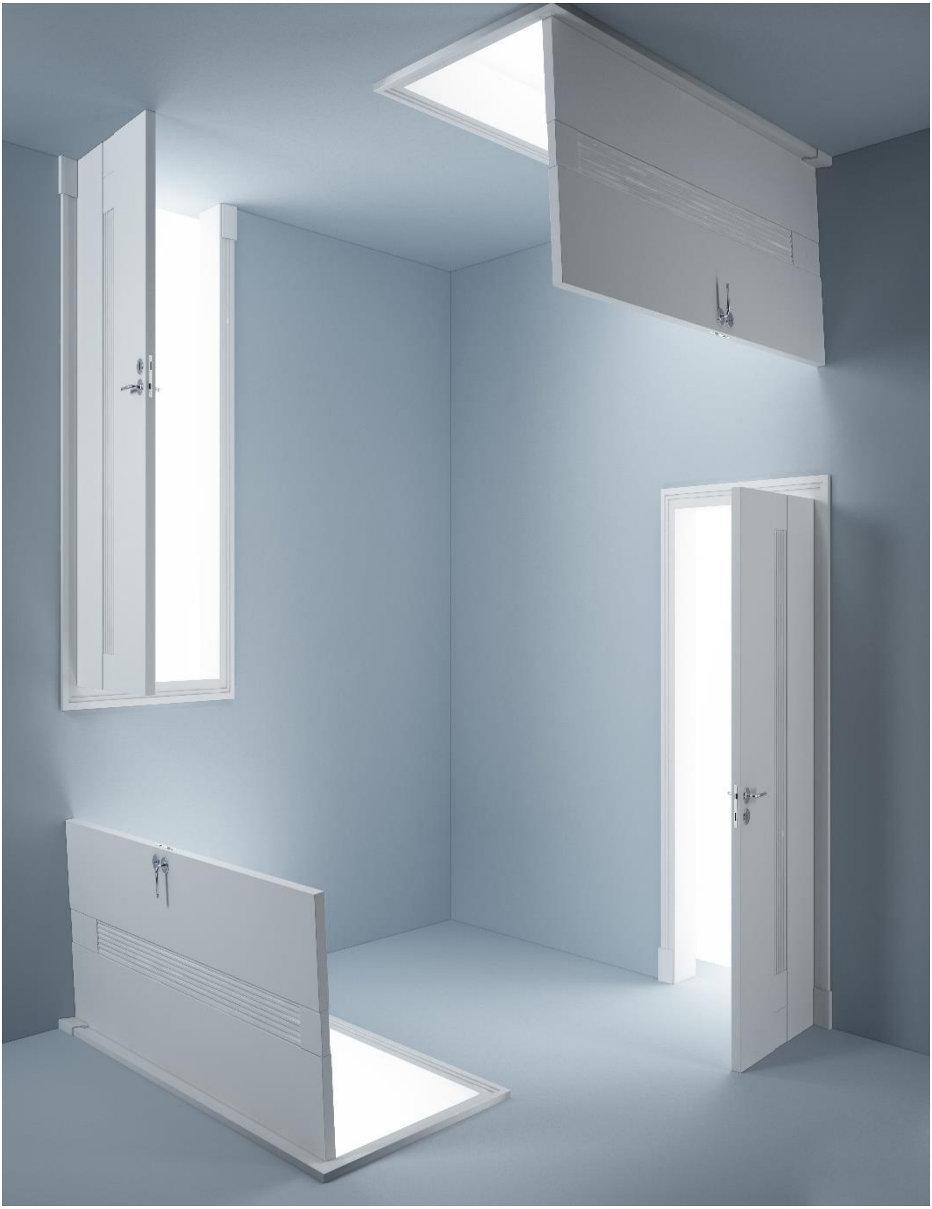

2. How will you exit the business?

You won't always know the answer to this because circumstances may change between when you start to plan and the event itself. Your exit could be temporary, partial or complete depending on your personal and financial circumstances. Some of your options are set out here.

a. Transfer the business to your family or heirs

This can be a cherished dream of entrepreneurs who start their own businesses or who may have taken it over from a previous generation. Questions to consider include:

- Is there a family member who wants to take this on? Do they have the skills or qualifications needed?
- What roles will family members not active in the business play? How will they be provided for financially?
- Are there family issues about the business that need to be resolved? If so, identify and tackle them now.
- How will your retirement income be secured? Will they need to raise funds to buy you out?

b. **Sell the business to your business partner(s)**

This can be a no-brainer…if you have a business partner. But without proper agreements in place it can be tough to do.

- For example, if your business partner is taken ill or dies suddenly, how will that impact your plans? When an unfortunate event happens, it's helpful to have a buy-sell and/or interim agreement in place.
- Does the partner have the required skills to continue growing the business? Who will do what you are currently doing in the business?

c. **Sell the business to key employees**

Identifying key employees who have the attributes and can acquire the skills needed to run the business is one of the two biggest challenges for this option. Loyalty should not be your primary driver.

The other major hurdle is financing the transition, since few employees can finance a purchase of this size. Options included securing a business loan and/or seller financing whereby you receive an upfront payment and payments over time.

d. Sell to an outside buyer

Reaching agreement on disposing of your business to family, colleagues or a third party can be an emotional time. It's best to seek professional help from legal, financial and tax advisers.

Many entrepreneurs count on selling their companies to fund their retirement, but not all businesses are equal in this regard. Businesses that can continue running without the owner on board are some of the most valuable to potential buyers.

There are also other key value drivers that make a business more or less attractive to acquirers.

Understanding these drivers, and putting resources toward improving them, can go a long way toward realising a dream of selling for the highest multiple possible.

e. Appoint a temporary replacement

A 'caretaker' appointment might be needed if you are taken ill, temporarily incapacitated by accident or you want to take an extended break to recharge and don't want to or can't run the business remotely.

If you have a business partner or co-directors then they might fulfil this role, if they have the right skills. In that case you should have an agreed procedure around this including remuneration for all parties, terms for return to work, etc.

Alternatively, you could appoint one of the management team or a member of your family to an interim role in your absence. Again, terms and conditions about remuneration, return to work, etc. should be agreed in advance – or at least drafted to allow for a quick handover is needed.

f. Let it wind down at your pace

Financially, this is almost always the least favourable option. Many business owners drift into this situation because they are unable to let go or did not clarify their personal goals when they were in a stronger position to make them happen.

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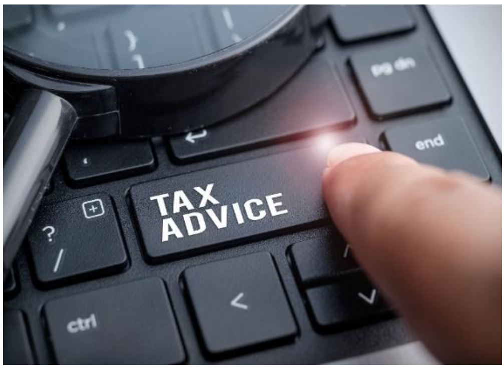
3. Value the business

Even if you aren't planning to sell your business, conducting a business valuation has many benefits. It helps you develop a retirement income strategy, properly value future owners' shares, and purchase adequate insurance for protection planning. It can also make it easier for your business or potential buyers to get loans or attract investors.

A valuation from a respected, qualified third party is more credible to potential buyers and their financiers.

If your business's value is less than you thought, you can use this as an opportunity to develop strategies to improve the valuation over time so that you can maximise your financial return when you're ready to exit.

4. Tax planning



There are several tax considerations which will inform your approach to succession planning. Irish tax policy is generally supportive of businesses transferring between generations, and there are tax reliefs designed to minimise tax payable on such transfers.

Seek professional advice.

5. Prepare for the transition

Prepare both your successor and your business for a smooth hand-off. No matter who takes over the business you will want to keep it going – and growing. The transition period to new ownership is a vulnerable time for a business.

- Identify any weaknesses in the business and develop plans to address them. The business valuation will probably suggest a few areas for improvement.
- Begin training your successor(s). Identify the skills they need and whether there are any areas where they'll need support after you exit. Develop a plan.
- Do you need to incentivise any key staff to remain in the business?
- Get comfortable with delegating more and more over time.
- Decide what role you want to lay in the business as it transitions and after you exit. Do you want to remain as an adviser after the exit or break all ties? What does the business need?
- Put the necessary legal and financial structures in place to make the transaction as seamless as possible.

6. **Review your plan regularly**

Creating a succession plan is a big accomplishment, so give yourself a pat on the back. But don't just file your plan away and forget about it.

Over the years, key employees may leave your business, family members may lose interest in taking the reins, and your own plans for your future may shift.

Reviewing your succession plan annually with your team of advisors will help ensure a successful and seamless transition — no matter when or under what circumstances it happens.

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Contact **Dave Hickey** at DHKN to arrange an introduction to one of our Tax Consultants, Estate Planners, Corporate Finance, Advisory and Corporate Governance experts who will work as team to deliver the best results for you and your business.

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