

So You've Been Watching (and Cringing at) HBO's 'Succession?'

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Let's discuss some less-dramatic exit options for business owners (when they want to step away).

You may not run a global media conglomerate, but even closely held business owners (and perhaps especially closely held family business owners) can find themselves in a bind if they fail to prepare and implement a thorough

and regularly updated business succession plan.

Planning for the future of your business, family, employees, and yourself requires thoughtful deliberation and consideration of your goals and the opportunities available. Maybe, in HBO's dramatic style, more than one of your children think they should take over. But, just as possibly, maybe no family members feel called to take over the business.

A little early planning – and some basic knowledge about some other exit strategies available to you – can go a long way in ensuring a smooth succession and transition to the next phase of your life.

Management Buyout

You may already have an answer in-house: Are there managers or high-performing employees who are ready and willing to buy-in – both financially and culturally – to the business you've built? If you haven't thought about that possibility or discussed it broadly as part of your business culture, you may not even know if one of your managers is waiting in the wings.

One benefit of looking inside for an exit strategy: you have the opportunity to groom, handpick, and craft your senior management team as employees, long before the need for an ownership transition. The earlier you start, the longer you have to identify, hire, and train the best candidates. However, we often see business owners ignoring this aspect of growth. While they are focused on growing and improving the *services* provided by their business (by hiring a high-performer in sales, for example) they don't often consciously focus on finding the best shepherd to take over the whole company when they're gone. In the event you don't have eager children or family members ready to step up when the time comes, this business "tunnel vision" may have cost you a lot of valuable planning and grooming time.

Consultants can help owners play catch-up and identify potential internal players whose culture and experience align well with the current owner's goals – but without a conscious effort, past hires don't always provide the right "pool" from which to choose for a straight management buyout. We encourage owners to start thinking about this possibility early on.

ESOP

What if your business doesn't have a stand-out employee who wants to enter into a straight purchase of the business? Employee Stock Ownership Plans (ESOPs) are employee benefit plans which – to put it simply – allow your employees to acquire ownership interests in the business. Each employee is incentivized to ensure the business continues to be successful, as their benefits are tied to its value, but none need to take on the understandably daunting task of single-handedly filling the prior owner's shoes. This strategy provides not only a liquidity event for the current owner(s) but also retirement proceeds to its employee participants. The use of ESOPs can also result, with proper implementation (and subject to limitations, of course), in tax benefits, including deductions for cash or stock contributed to the ESOP, potential deferral of capital gains for sellers of C-corporation stock, and exclusion of income from federal tax for the portion of an S-corporation owned by the ESOP.

The use of an ESOP does not mean that all participating employees run the company together – management structures can remain in place, and voting rights can be determined as needed on a case by case basis. Owners should be aware, however, that this strategy is not as "final" as a pure third-party purchase, discussed below. Owners and the sponsoring company will likely remain involved, with owners possibly serving as guarantors for the notes and transfers involved.

There are a number of variations on employee ownership which can be implemented over time, regardless of whether your *ultimate* exit plan is an ESOP – stock options or phantom stock agreements, in particular, are examples of helpful employee incentives which might also help you identify, retain, and incentivize candidates for roles in the other exit strategies we've discussed. But the haphazard use of too many of these tactics at once can have less-than-ideal consequences. Business owners should come up with a cohesive plan for when, under what circumstances, and to whom any such employee incentives might be offered.

Strategic Buyers or Private Equity

This last exit strategy works well for owners who value the ability to walk away "clean" at some point – it carries with it a certain freedom that family or management transitions and ESOPs may lack, but it is not a quick fix. If your financial goals line up with these "clean-break" aspirations, setting your business up from the start is crucial.

A lot of business owners might assume they can sell if they ever want to. But while there will always be a market for successful closely held businesses looking to transition, that market is tightly-packed, and supply sometimes outweighs demand. There may be a strategic buyer (even a one-time competitor) in your same industry or an outside investor or group looking to build upon what you've started – and you may be one of the lucky few to stumble upon that investor at just the right time. But typically the process of selling a business is long and involved. Unfortunately, if you are suffering from that same business "tunnel vision" or if you put off exit planning until you are completely ready to get out, you may have missed crucial opportunities to network with these industry groups and potential investors.

Creating, growing, and successfully marketing your business as an attractive candidate for investors means clean books and paperwork, thoughtful hires, pre-sale due diligence reviews (locate the gaps and issues, and get them fixed), and conscious efforts throughout the life of the business. You'll also have to plan for the transition phase, during which (perhaps) management or key employees need to stay on as part of a negotiated sale package. As an owner, you may also be asked to roll over part of your equity into the new venture – and you don't want to be surprised by that ask if it comes along. Not every business will find the right buyer (much less so quickly), so the earlier you start preparing for these possibilities, the better.

Summary

You have options: none of which need to include dramatic backstabbing or HBO-level manipulation – but if you don't start thinking about your options early on, you may limit yourself to fewer available and smooth exit strategies.

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