# HOW TO EXIT YOUR BUSINESS IN STYLE

## AND TAKE SOME CASH WITH YOU

Wealthbuilders

Exit your business in style!

BUSINESS SUCCESSION PLANNING

Wealthbuilders Ltd – Business Continuity and Exit Mentor

## Contents



WEALTHBUILDERS

Exit your business in style!
BUSINESS SUCCESSION PLANNING

# The Key To Unlocking And Protecting Your Hidden Wealth

There is only one universal truth in business -
(and it is NOT tax!!)


**HOW YOU LEAVE IT DEPENDS LARGELY ON THE PLANS YOU HAVE PUT IN PLACE.**

You own a profitable and growing business which provides a lot of what you desire: Income, wealth, an identity, challenges, stimulation, satisfaction and pride.
However, your business may be failing you in an unexpected way. Because in the end, what you really need from a business is the ability to leave it – under the most favourable conditions

There is only one way that as an owner, you can do so successfully. You must create an Exit Plan as early as possible and stick to it (with alterations to account for changed circumstances) as long as you maintain your business.
And you must have a robust protection plan underpinning your exit strategy in case you encounter a tragic event which forces you to leave your business unexpectedly and at a time not allowed for in your planned strategy.

# Developing Your Exit Plan

To give you an idea of where you stand in developing your exit plan, take the following quiz. If you can answer "YES" to all of the questions, this will serve as an affirmation of the decisions you have implemented. If you are like the vast majority of business owners, these questions will highlight areas of concern we need to address.

- Do you know your primary planning objectives in leaving the business, such as:
  - Departure date?
  - Income needed to achieve financial security?
  - To whom you want to leave your business?
- Do you know how much your business is worth?
- Do you know how to increase the value of your business?
- Do you know how to sell your business to a third party in a way which maximises your cash and reduces your risk?

  OR
- Do you know how to transfer your business to family members, co-owners or employees while enjoying maximum financial security?
- Have you implemented all necessary steps to ensure the business continues if you don't?
- Have you provided for you and your family's security and continuity if you die or become incapacitated through injury or serious illness?

Planning makes the difference between living comfortably and living precariously.

**You Have Worked Too Hard Not To Enjoy The Fruits Of Your Labour**

**Start by planning NOW.**

# Owner's Departure Objectives - Checklist

## Financial Exit Objectives

- ☐ Leaving the business in style means, for me, having $__________________ of annual after-tax income for the rest of my (and my spouse's) lifetime, and/or a lump sum of $______________

## Personal Exit Objectives

- ☐ I plan to work till……………………………… At that time I will no longer be an employee of the company, although I may well want a large portion of my income stream to come from the business.

  Or

- ☐ I plan to work at my present level until………………., at which time I would prefer to take a lower profile and aim for business ownership of …..%. I plan to work at that level till……………………………… At that time I will no longer be an employee of the company, although I may well want a large portion of my income stream to come from the business.

  Or

- ☐ Other______________________________________________________________________

  Or

- ☐ I intend to transfer the business to:
- ☐ The following children
- ☐ The following key employees
- ☐ My co-owners
- ☐ A third party, known or unknown. This could be:-
  - A business competitor
  - A complimentary business owner
  - A supplier
  - A customer
  - A franchisor

  ___________________________________________________________________________

  ___________________________________________________________________________

- ☐ I intend to pursue the following activities after my departure:

  ___________________________________________________________________________

**If you are not sure of the answers to any of these questions, the following pages will assist you in making some of these decisions.**

# Four Ways To Leave Your Business

## Option I: Transfer of Ownership to Your Children

If you are a typical business owner, there is a 50 percent chance that you want to transfer the business to your children. If you are a typical owner, you will end up transferring the business to someone else. Fewer than one in three owners, wishing to transfer to a child, end up doing so.

**It is in your best interest to realise the difficulty of this transaction. You must prepare the business for the possibility - indeed the likelihood - that it will be transferred to another type of buyer.**

### 1. Advantages

- Fulfils personal goal of keeping the business and family together.
- Provides financial well-being for younger family members unable to earn comparable income from outside employment.
- Allows you to stay active in business with your children.
- Allows you to control your departure date.
- Enables the family to accumulate "Patient Capital" – preserving and building working capital.
- Possibly enables you to fix value by starting with the question, "How much do I need or want?" rather than being told, "This is how much I am willing to give you." This also allows you to pass the business on at a discount to family members, perhaps as an inheritance in advance. When you keep the business in the family, the sale price need not accurately reflect the business value.

### 2. Disadvantages

- Great potential exists to increase family friction, discord and feeling of unequal treatment among siblings. The normal objective of treating all children equally is difficult to achieve because one child will probably run or own the business at the perceived expense of the others.
- Financial security is normally diminished - not enhanced - although with careful planning and implementation, financial security can often be achieved while transferring the business to the children.
- Because family is involved, your control may be weakened. You can lose effective control even though you still have voting control - due, of course to the vagaries of family dynamics.
- The real risk of transferring the business - because of family ties – to someone who can't or won't run it properly, threatens your financial security and the future existence of the business.

## Option II: Sale to Other Owners or Employees

One of the great advantages of having other owners in your business is that they can be your means to retirement. Especially with smaller businesses, a common retirement planning technique is to have a younger individual buy into your business while you are still active. Upon your retirement, the younger owner will purchase your remaining shares.

This can be advantageous because the younger person learns the business – its structure, employees, customers, operation, and management – under your tutelage. More important for you, the younger person's capabilities (as well as her weaknesses) are known to you, so you have a pretty good idea of how your business will be run after you leave. And most important of all, the business can be sold to a market you create and control.

### 1. Advantages

- Owner can structure the deal ahead of time to suit his particular needs and objectives.
- Establishes a fund inside the business for the eventual purchase of owner's interest.
- Maintains a greater measure of control during the buy-out.
- Pre-qualifies the buyer(s) through on-the-job training and observation.
- Continues the "culture" or mission of the business.
- Ensures that all of the employees who helped build the business won't lose their jobs and future with the company.
- A side benefit of planning an employee buyout is that the steps taken to build value and train future owners will make the business more profitable, more stable, and better managed-even if the owner decides to postpone her retirement. Thus, grooming the "heir apparent" allows an owner to slow down, to have options that will give the owner flexibility in case the unexpected happens, such as a sudden disability or inheriting a bundle from Aunt Emma. At the same time the owner has developed a stronger business, both from a financial and employee standpoint.

### 2. Disadvantages

- If the business is worth more than $2 million or so, it is often very difficult for the employees to be able to afford it. The owner simply has too much money and financial independence at risk.
- **However, there may be ways to overcome this problem. We are often able to negotiate a managed "Buy in" system to allow a gradual transition of the business shares to a suitable potential purchaser either from within the business or an outside purchaser.**
- Employees are often employees because they don't have an owner "mindset." They're often not entrepreneurs and they don't respond well to the challenges and pressures of ownership.

The cash flow of the business, especially with smaller businesses, may not permit much pre-funding since the owners often take out all of the excess cash flow. Therefore, the risk to you as the owner can be quite significant because all available money may have to come out after you leave, leaving little cushion in the business. Although there are many ways to minimise this disadvantage, bear in mind there is still a significant risk in transferring control of the business when you leave it. You may not want to come back into the business after you've tasted the good life and after your successor has run the business into the ground and made customers, cash flow, employees and the good reputation of the business all vanish.

## WHAT IF SOMETHING TRAGIC HAPPENS TO A BUSINESS OWNER?

### BUSINESS RISKS TO CO-OWNERS/SHAREHOLDERS AFTER A DEATH OR SERIOUS DISABLEMENT

**1. Surviving Majority Shareholders**

* Must reckon with the deceased's heirs and their financial and legal advisors
* The heirs will probably want income in the form of dividends and a conservative growth policy for the company
* The other shareholders will probably want to follow their existing development programme and draw a salary
* The heirs may harass and frustrate the company
* Unpleasantness and bickering are likely results

**2. Surviving Minority shareholders**

* The controlling interest passes to new majority shareholders
* Though the survivors must carry on the business
* They are outvoted by untried interests
* Jeopardising their very jobs and incomes

**3. A surviving Equal shareholder**

* Also faces a conflict of interest as to dividends and policy
* Leading to deadlock with the heirs
* And often eventual liquidation

**4. On the other hand the heirs probably face problems also**

* Drastically reduced income due to the death of the breadwinner
* A risky investment in a business (relatively speaking, as investments go.)
* An inherited interest that they may not want
* Inexperience in the business

**Their expectations from the business are probably different from those of the remaining shareholders**

* Dividends vs salary increase
* Dividends vs investments

**There are very effective techniques to overcome these risks.**

## Option III: Sale to a Third Party

In a retirement situation, a sale to a third party too often becomes a bargain sale – the only alternative to liquidation. This option becomes necessary because you have failed to create a market for your business through sale to your family, co-owners, or employees, or to have prior arrangements with:-

- Customers
- Suppliers
- Competition
- Complimentary businesses

And you have failed to manage your business into a "Sale Ready" situation and set the value accordingly.

### 1. Advantages of this option

- If the business is prepared for sale (and this is a big if!) you can retire and take some money with you. Many owners don't realise this. But, unless you are truly a "Mum and Dad" business or a sole trader, you should get most or all of your money from the business at closing. Therefore, the fundamental advantage of the third party sale is cash - now. This ensures that you attain your fundamental objectives of financial security, and perhaps, avoid risk as well.
- A second primary objective, that of treating all children equally, is also easier to achieve, because eventually, you just divide the money among them on an equal basis without having to worry about who is going to run the business, etc.
- Sometimes an unanticipated advantage in selling to a third party is the ability to frequently receive substantially more cash than your CPA or other business appraiser anticipated because the marketplace is "hot" or because the purchaser perceives a strategic advantage for the purchase.

### 2. Disadvantages

- Regardless of what the buyer says, the personality and the culture of your business will undergo a radical change. The buyer would not buy the business unless convinced that the business can be improved through change. Maintaining the culture of the business is normally best achieved by selling to someone other than an outside third party. Maybe this should not be your concern.
- If you do not receive the bulk of the purchase price in cash, at closing, your risk normally becomes immense. The best way to avoid this risk is to get all the money you need at closing so that any funding debt that you carry is "gravy."

## Option IV: Liquidation

**If there is no one to buy your business, you shut it down. In a liquidation the owners sell off their assets, collect outstanding accounts receivable, pay off their bills, and keep what's left, if anything, for themselves.**

The primary reason liquidation is considered is that a business lacks sufficient income-producing capacity apart from the owner's direct efforts and apart from the value of the assets themselves. That is, if the business can produce only $75.000 per year and the assets themselves are worth $1 Million, no one would pay more for the business than the value of the assets. In general, smaller businesses (those producing less than $75,000 income to the owners) are unlikely to be sold to anyone other than, perhaps, a key employee.

Service businesses in particular are thought to have little value when the owner leaves the business.
This certainly is true if liquidation occurs.

Since most service businesses have little "hard value" other than accounts receivable, liquidation produces the smallest return for the owner's lifelong commitment to his business. In a service business with little accumulated assets, liquidation is preferable only to death as a means of getting money out of your business. Smart owners guard against this. They plan ahead to ensure that they do not have to rely on this last ditch method to fund their retirement.

In these circumstances the owner needs to consider alternative methods of funding their retirement through effective investments outside the business, using their business to create sufficient cashflow to fund outside investments.

# Four Ways to Leave Your Business - Checklist

## 1. Transfer of business to children

☐ This method appeals to me because:

______________________________________________________________________

______________________________________________________________________

______________________________________________________________________

______________________________________________________________________

☐ This method might be appropriate for my business for the following reasons:

______________________________________________________________________

______________________________________________________________________

______________________________________________________________________

______________________________________________________________________

☐ This method would be appropriate only if the following conditions were present:

______________________________________________________________________

______________________________________________________________________

______________________________________________________________________

______________________________________________________________________

☐ This method is inappropriate for me and my business for these reasons:

______________________________________________________________________

______________________________________________________________________

______________________________________________________________________

______________________________________________________________________

## 2. Sale to Co-owners, Key employees, or all employees (possibly an introduced suitable third person)

☐ This method appeals to me because:

______________________________________________________________________

______________________________________________________________________

______________________________________________________________________

______________________________________________________________________

☐ This method might be appropriate for my business for the following reasons:

________________________________________________________________________

________________________________________________________________________

________________________________________________________________________

________________________________________________________________________

☐ This method would be appropriate only if the following conditions were present:

________________________________________________________________________

________________________________________________________________________

________________________________________________________________________

________________________________________________________________________

☐ This method is inappropriate for me and my business for these reasons:

________________________________________________________________________

________________________________________________________________________

________________________________________________________________________

________________________________________________________________________

## **3.** Sale to a Third Party

☐ This method appeals to me because:

________________________________________________________________________

________________________________________________________________________

________________________________________________________________________

________________________________________________________________________

☐ This method might be appropriate for my business for the following reasons:

________________________________________________________________________

________________________________________________________________________

________________________________________________________________________

________________________________________________________________________

☐ This method would be appropriate only if the following conditions were present:

______________________________________________________________________________

______________________________________________________________________________

______________________________________________________________________________

______________________________________________________________________________

☐ This method is inappropriate for me and my business for these reasons:

______________________________________________________________________________

______________________________________________________________________________

______________________________________________________________________________

______________________________________________________________________________

## 4. Liquidation

☐ **This should be used only as a last resort. Don’t even consider this.**

## Planning For The Unforeseen

If you do nothing else, as a business owner you have a duty to your family and to your business to answer and to communicate to them the answers to the following questions:

**IN THE EVENT OF YOUR DEATH, TERMINAL ILLNESS OR SERIOUS TRAUMA**

**1.** Who can be given the responsibility to continue and supervise:-

- Business operations?
- Financial decision?
- Internal administration?
- Is there a business manual in place so that if you can't go in to work tomorrow, someone can take over your operation?

______________________________________________________________________________

**2.** How will these people be compensated for their time and, most importantly, for their commitment to continue working until the company is transferred or liquidated?

- Consider key person insurance on your life to fund this need at the company level. Use the money to offer the key employees a "stay bonus," a cash bonus receivable by them if they stay and see the company through its transition.

______________________________________________________________________________

**3.** Should the business, at your death or permanent incapacity be:

- Sold to co-owners.
- Sold to an outside party?
- Sold to an employee(s), and if so, whom?
- Transferred to family members?
- Continued?
- Liquidated?

**4.** Who should be consulted in the transfer process described above?

______________________________________________________________________________

______________________________________________________________________________

**5.** If the business is to be sold to a third party, list the names and contact of businesses which have expressed an interest in acquiring your business.

______________________________________________________________________________

______________________________________________________________________________

**Write down the answers to these questions now. Discuss these issues with your family before placing your answers alongside your other estate planning documents. risks.**

## Transfer of Ownership Checklist

- ☐ To whom to you wish to sell?

  ______________________________________________________________________

  ______________________________________________________________________

  ______________________________________________________________________

- ☐ Does the potential buyer, or buyers, have as much skill as you do?

  ______________________________________________________________________

- ☐ With your retirement, what gaps in the running of the business need to be filled?

  ______________________________________________________________________

  ______________________________________________________________________

  ______________________________________________________________________

- ☐ Will the new owner(s) have the skills to fill those gaps? ________________....______________

- ☐ If not, what is the best way of finding someone with the required skills?

  ______________________________________________________________________

  ______________________________________________________________________

  ______________________________________________________________________

- ☐ When should the new owner(s) be brought on board? _________________...______________

  ______________________________________________________________________

  ______________________________________________________________________

- ☐ How much is your business worth today? ___________________......_____________________

- ☐ How much will the business likely be worth at your planned retirement date?

  ______________________________________________________________________

**These are all simple questions. They are questions most people never ask themselves. Yet if you have no goals or objectives to reach for, how can you attain a satisfactory retirement? The answers to these may also help determine the form the buy-out must take. For example, if you feel the need for a large amount of cash up front, deferred compensation is not the answer; perhaps a share sale financed with a bank loan, would be more appropriate. On the other hand, if time is on your side because you've started the planning process early enough, all the actions we've just covered may work; it is your happy task to select the most appropriate.**

# Checklist for Owners Considering a Family Transfer

- ☐ The date I want to leave the business is ___________________________________.

  Remember, leaving for some means just stepping back and allowing others to run it. For others it means getting out entirely. Or it may be selling or giving away part or all of your ownership interest.

- ☐ I want to have $_________________accumulated (or $____________ per year of after tax income) when I do leave. I understand that this is not necessarily a lump sum amount, but rather an income stream for me and my dependants after my employment (and with that my normal salary) ends.

- ☐ I have decided that the child (ren) who should run and own the business is/are:

  ______________________________________________________________________________

  ______________________________________________________________________________

  ______________________________________________________________________________

- ☐ My children will be treated fairly by adopting the following plans:

  ______________________________________________________________________________

  ______________________________________________________________________________

  ______________________________________________________________________________

- ☐ I will keep or create family harmony while transferring the business by adopting the following strategies:

  ______________________________________________________________________________

  ______________________________________________________________________________

  ______________________________________________________________________________

# Key Employees

The one indispensable component of a valuable business is its top employees.

The more valuable you are to a business the less value you leave behind when you leave it.

So when you ask yourself, "What is the most effective way to create and build value in my business?" One answer is, "Finding, keeping and motivating key employees."

There are several important reasons:

- Properly motivated by a profit-based incentive plan, key employees do increase the value of your business.
- Key employees often become potential owners when you decide to retire or move on to another venture – or in the event of your prior death or serious disability.
- If you decide to sell to a third party, the continued existence of a stable, motivated management team will increase the purchase price.

## KEY EMPLOYEE INCENTIVE PROGRAMME

A successful incentive programme should have the following elements:

- The plan provides financially attractive awards to key employees. As a rough rule of thumb, the plan should create a potential bonus of 10% of the key employee's annual compensation.
- The plan is specific. That is, there are determinable performance standards, such as the company reaching a certain net income or revenue level, or key performance indicators in place.
- The plan is structured to increase the company's value such that, as the key employee reaches measurable objective standards, the net income of the company increases.
- The incentive reward is vested. Payment is linked to tenure, thus encouraging the employee to remain on the job in order to receive the reward.
- The plan might include benefits such as medical or other insurance, which is usually perceived by the employee as being of more value to them than the cost of such a plan to the employer.
- The key employee may be offered a shareholding in the business.
    - This may be funded by the existing owners and loan repayments made out of profit share.
    - Any shareholding must be vested to insure against shares exiting the business.
    - The shareholding must be protected by a Buy/Sell agreement funded by insurance
    - This strategy can be used as a very effective exit strategy
    - Contact me for further details of this plan.
- The plan must be ***effectively communicated and understood*** by the employee.

**Simply installing a key employee incentive plan will not by itself ensure success in motivating and retaining key employees.  Managerial and leadership talent must also be present.**

## Key person retention - Checklist

- ☐ Do any of my business's plans favour a group of top employees? If so, how? If not, can anything be done to increase their benefits? Are existing employee incentive plans working?

**Who are the key employees? Why?**

______________________________________________________________________________

______________________________________________________________________________

______________________________________________________________________________

**Is their position the key? Or are they personally the key?**

__________________________________________

- ☐ Am I interested in the possibility of key employees one-day buying me out, in part or in whole? If so do I have the type of key employees who are capable and motivated to one day run my company?
- ☐ Are any employees capable of running the business if I am not there?

**Who are they?**

______________________________________________________________________________

______________________________________________________________________________

______________________________________________________________________________

**What promises have I made to key employees regarding?**

- ☐ Share ownership. __________________________________________________________
- ☐ Participation in management. ________________________________________________
- ☐ Sharing in profits of the company. ____________________________________________

Are these plans consistent with my long-term retirement and financial goals? For example, if my key employees will not be buying me out, their incentives should be cash-based; if they are going to be the eventual owners, their benefits should be share based. In either case, is at least part of their incentive a golden handcuff that will motivate them to remain with my company?

NOTE: Share should not be allocated to employees unless they are a part of you long term ownership strategy. All such allocations should have a vesting provision so that if the employee leaves the company, the shares must be returned to the company or to the other shareholders(s).

**Do I have in place sufficient protection should a key employee leave? Such as-**

- ☐ Covenant not to compete?
- ☐ Covenant not to take other employees with them?
- ☐ Trade secrecy protection covenant?
- ☐ Forfeiture provisions on deferred compensation or share repurchase agreements if covenants are violated?

These covenants are best contained in an employment agreement supplemented by similar restrictions in the buy – sell agreement (if key employee is to receive ownership) or a deferred compensation plan (if employee is to receive cash-based incentives).

**How are the incentive compensation packages reviewed and revised?**

______________________________________________________________________

**How are the benefits effectively communicated to all concerned?**

______________________________________________________________________

**Do the incentive packages appropriately reward the employee in terms of being:-**

- ☐ Financially attractive?
- ☐ Founded on explicit performance standards that are measurable and realistic?
- ☐ Determinable in specific dollar amounts?
- ☐ Awarded at least annually?

**If no incentive package is now in place, how would I design one using items 1 through 4 above?**

______________________________________________________________________

______________________________________________________________________

**What obstacles are there in implementing a plan in terms of cost and the possibility of upsetting non-participating good employees?**

______________________________________________________________________

- ☐ Would money spent now on company – wide benefits (e.g, a retirement plan or medical insurance) better serve my long-term goals by being re-allocated to top employees?
- ☐ What is the best type of plan to motivate and retain my top employee(s)?
- ☐ Cash based or share based? Which is better? ___________________________________

**If cash based**

- ☐ What amount? _________________________________________________________
- ☐ Based on what standards? ________________________________________________
- ☐ When should I give it? ___________________________________________________
- ☐ How much should be deferred? Or subjected to golden handcuffs?

  __________________________________________________________________
- ☐ What type of vesting schedule? _____________________________________________

**If share-based, what terms and conditions should be placed on:**

- ☐ Share bonus? ________________________________________________
- ☐ Share or cash bonus option? ______________________________________
- ☐ Share option? ________________________________________________
- ☐ How are shares to be valued? _____________________________________
- ☐ How many shares are to be offered? Now and in the future?

  Now ______________

  Future ______________
- ☐ What type of vesting schedule? ____________________________________

**Finally and most importantly, do my existing key employee incentive plans meet the following criteria:**

- ☐ Are they specific?
- ☐ Are the benefits substantial?
- ☐ Are the plan objectives meaningful, realistic and well communicated?
- ☐ Do they increase the value of the business when the employee attains his incentive goal?
- ☐ Do they handcuff the key employee to the business?

**DOES THE COMPANY HAVE SUFFICIENT KEY PERSON INSURANCE IN PLACE TO INSULATE THE VALUE AND PROFITABILITY OF THE BUSINESS FROM LOSS AND EROSION DUE TO THE LOSS OR SERIOUS ILLNESS OF KEY PEOPLE.**

# Protecting Other Risks

## Shareholder’s Loans

Shareholders are often called upon to finance the growth and development of a company through loans of one type or another, particularly in the early years.

These loans can be in the form of a cash advance or through the partner’s share of profits not wholly drawn by the shareholder - that is, retained earnings.

These loans help keep the business viable and growing. Unfortunately, these personal assets tend to become locked into the company, and may be very difficult to repatriate in the future. Any future buyer will probably not pay enough for the business to release this locked-in capital.

These loans are repayable on demand, and if provision is not made for their repayment they can be lost forever, or in some cases may ultimately cause the demise of a business.

In the event of the death of a shareholder the estate is likely to demand repayment of the deceased partner’s loans to the business.

## Shareholder’s Current accounts

***Credit current accounts*** –
This is where the company owes money to the shareholder.
Shareholders are often called upon to finance the growth and development of a company through loans of one type or another, particularly in the early years.
These loans can be in the form of a cash advance or through the partner’s share of profits not wholly drawn by the shareholder - that is, retained earnings. The loans help keep the business viable and growing.
In the event of the death of a shareholder the lawyer for the estate or family trust will almost certainly demand repayment of the deceased partner’s loans to the business.
These loans are repayable on demand, and if provision is not made for their repayment they can in some cases ultimately cause the business to trade insolvently, leading to possible liquidation and the demise of a business, and possible personal bankruptcy for surviving shareholders as personal guarantees are called on by the liquidators.
*Question.*
Will your company have sufficient liquidity to pay out these loans on demand? This is most unlikely, as the money is usually needed to fund cashflow or development. In this case, the business could be judged to be trading insolvently, and therefore be subject to liquidation. If this happens, any lenders or creditors as well as the liquidators will demand repayment of any outstanding debts, and probably call on personal guarantees – thereby attacking personal assets of any surviving owners as well as the deceased estate. This often leads to impoverishment and possibly personal bankruptcy.

***Debit current account.*** –
This is where the shareholder owes money to the company.

This situation arises when a shareholder takes drawings from the company, or where the company loans money to the shareholder in the form of a Term Loan.

Such funds are normally repayable on demand, and unless previously otherwise agreed in a formal agreement, a repayment demand is likely to be made by the company. Most certainly, if the company is eventually wound up through the demands of other creditors, (see below) liquidators WILL demand repayment of the shareholder's current account.

Question

How would your estate repay these fund in the event of your death, or if you are disabled, would your family assets or insurance allow for repayment, or would you be facing bankruptcy?

## Business Debt

Debt dependency is a major factor in shifting of control of the business from the owners to the financiers. Should a default situation arise, financiers have an unshakeable hold over the business, its owners and their assets, and under the Companies Act 1993, over the officers of the business should it be an incorporated company

The vulnerability created by debt arises from the loss of control over the business that the debt instruments or the terms of debt create.

Our aim is to give cash, control and certainty to the business owners.

**Cash** so the owners can regain **control** of the business from the financiers and allow themselves and their estates a degree of **certainty** as to outcome.

If a business defaults on debt servicing to a financier, the terms of debt normally allow the financier the opportunity to take control of whatever assets the business may have and dispose of them to recover outstanding debt. **This is a recipe for disaster.**

In the event of a Major Tragic Event occurring to one of the key people in the business, it is a sensible risk management technique to provide sufficient cash to retire all ( or at least the bulk of) business debt to retain control and provide certainty of outcome.

## Personal Guarantees

It is important to appreciate that a personal guarantee survives death, and is a prior charge on the deceased's estate.

In the event of a guarantor's death, the guarantor's estate could not be distributed to the dependants until it was released from the guarantee - which would be a prior charge on the estate.

It is not generally recognised that a guarantor's estate can be at risk even for debts **INCURRED AFTER DEATH**, if the guarantee is given to protect the debts of a company and is not capped.

Most personal guarantees are "Joint and Several" guarantees. This means that all signatories may be held responsible for the whole of the debt. In the event of the death or serious disablement of a business owner who is a key person, a financier may well demand repayment of a business loan in full or in part from the estate of the deceased partner or the personal assets of any of the surviving signatories to the personal guarantees if they feel that the financial stability of the business has been compromised by the tragic event.

**GUARANTEES TO COVER A LEASE**

If the lessor decides at the time of the death of a guarantor that there is some risk that the building may be unoccupied at some future time during the term of the lease, the guarantee will probably be retained until the lease expires.
This means that the signatories to the personal guarantee, or their estate, may be called upon at any time up to the expiration of the lease.

## Income Earning Ability

The ability to earn an income is probably your most valuable personal asset.

However, more care is usually taken to protect other, less valuable assets than this extremely important ability to create wealth.

Often more is spent on insurance for the Managing Director's car than is spent to protect his own unique ability to run a business and generate profits.

## FINANCIAL MRI SCAN – a 10 point guide to business financial security and peace of mind in just 60 minutes - at my cost

**(Major Risk Investigation) –your full report covers:-**

1. Business debt and Personal Guarantees
2. Shareholder current accounts
3. Premature death, disability or illness of a partner
4. Business Continuity (Buy/Sell or Share Transfer) Agreement and share transfer funding
5. Key people
    a. retention
    b. loss of profits and business income.
    c. Replacement costs
6. Asset protection
7. Existing insurance suitability
8. Estate planning –
    a. Wills,
    b. Family Trust
    c. Enduring Power of Attorney
9. Business ownership structure
10. ACC structure and savings

- And you receive a full written and bound report on your business's Financial Risk profile with recommendations and an action plan to enable you to minimise the often catastrophic effects of an unexpected traumatic event.
- We use YOUR words and YOUR ideas and thoughts to craft your unique Financial MRI Scan report

You will also receive

- A complimentary copy of E-book, "How to Stop Your Business Going Bust."

simply phone or email for a free initial consultation.

09 44 66 057
021 960 537
info@wealthbuilders.kiwi

OR Use this link to book a chat with Barry - Book a chat with Barry https://calendly.com/financialmriscan

**TO ASCERTAIN YOUR CORPORATE RISK PROFILE RATING, WE STRONGLY RECOMMEND THAT YOU COMPLETE THE CORPORATE RISK PROFILE QUESTIONNAIRE ON THE FOLLOWING PAGE:**

## Corporate Risk Profile Questionnaire

| | Y/N |
|---|---|
| Is this a limited liability company or a partnership? | |
| How many shareholders/owners? | |
| Are there any shareholders' loans or retained profits? | |
| Has the company any debt? | |
| Have any shareholders or directors signed personal guarantees? | |
| Does the company lease premises? | |
| How many key people in the business? (people whose loss would cause some financial difficulty for the company - see page 17) | |
| **TOTAL - COUNT 2 FOR EACH "YES"** | |
| **THIS IS YOUR GROSS RISK PROFILE (TOTAL A)** | |

| **FOR YOUR "NET" RISK PROFILE, USE THE FOLLOWING CALCULATIONS** | **NO +2** | **YES -1** |
|---|---|---|
| Do all directors have family trusts to protect personal assets? | | |
| Do all family trusts have regular trustee meetings, up to date minutes and resolutions, and a separate bank account from which rates, insurance R&M and all other relevant payments are made? | | |
| Is there an effective, up to date buy/sell agreement between the shareholders or with other parties? (Separate from a partnership agreement) | | |
| **Does the Buy/sell agreement cover the following provisions?** | | |
| Share Buy/sell arrangements | | |
| Shareholder current accounts | | |
| Company debt and personal guarantees | | |
| Does the agreement cover Permanent Disability as well as death and terminal illness? | | |
| Does the company have adequate KEY PERSON cover, including disability and serious illness provisions? | | |
| Does the company have a KEY PERSON retention plan in place? | | |
| Do all key people have key person income replacement provisions? | | |
| Is there adequate debt protection in place in the case of a tragic event striking a key person, shareholder or director? | | |
| Is there provision to extinguish personal guarantees in the case of a tragic event striking a key person, shareholder or director? | | |
| Do you have a clearly defined Company Continuance Plan in place and understood by all interested parties? | | |
| Is there a programme in place to invest outside the business? | | |
| Do you have a planned exit strategy to enable you to exit your business in style - and take some cash with you? | | |

| | | |
|---|---|---|
| **COUNT 2 FOR EACH "NO", SUBTRACT 1 FOR EACH "YES"** | | |
| **THIS IS TOTAL "B"** | | |
| **NOW TOTAL "A" AND "B" - THIS IS YOUR NET RISK RATING** | | |

## Questionnaire Rating

| | |
|---|---|
| LESS THAN 5 | Probably not too many concerns. We recommend having a **Financial MRI Scan** prepared with a consultation. |
| 5 TO 10 | There will be several issues to cause concern, some probably serious. We definitely recommend that a **Financial MRI Scan** be prepared as soon as possible and arrange for a consultation. |
| **OVER 10** | **There are many serious business and personal risk concerns. HIGH PRIORITY, Have a Financial MRI Scan prepared and arrange for a consultation.** |

Contact Barry for more information or to answer your questions - info@wealthbuilders.kiwi

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# Testimonials

You have demonstrated endless patience and nothing has been too much trouble for you as I have grappled with understanding anything that I wasn't completely confident about. I haven't at any time felt pressured into doing anything I haven't felt confident about either and appreciated your stepping in when you needed to. But probably, the best aspect of our relationship is that you really listen to what I am saying and this is a real bonus for me. I have really appreciated your willingness to work side by side with me until I did understand the concepts.
My trust in you is growing as I have more and more dealings with you. I can't thank you enough for the help you have given me so far."
**Laraine Mills**

Barry is a down to earth, friendly, warm individual who can communicate complex information in a manner that makes it readily comprehensible. He has found that I have been paying nearly double the ACC I needed to for the last 8 years.
I warmly recommend Barry to any organisation or individual looking to improve their own particular business or personal circumstances in the areas of expense reduction, business growth or succession planning."
**Ken Wells, Managing director, Jigsaw Business Solutions Ltd.**

"I have no hesitation in recommending Barry Vincent to anyone with the remotest concern about their financial situation, and genuinely hope that as many people as possible have such a positive opportunity to secure their future."
**Daniel Thurston, - Managing Director, 4i's Communications Ltd**

**Re: Barry Vincent – ACC Consultant par excellence**
We engaged the services of Barry Vincent, in his capacity as ACC consultant, to advise us on ways to lower our ACC Levy payments. Barry was professional, thorough and analytical in his approach and, whilst dealing with ACC is a slow and arduous process, he kept us informed every step of the way with good, easy to understand explanations. In our experience, it is not the ACC way to make matters easy to comprehend! Barry simplified the process for us and, once his analysis was complete, he advised us on a strategy which we have heeded and, to date, we are saving hundreds of dollars annually on our ACC Levy payments.
Barry continues to offer sound advice to us on ACC related matters, on request, and his fees are fair and reasonable. He is a personable gentleman and I highly recommend his services.
**Claire Reyneke - Managing Director Bay Recruitment Ltd**

"I highly recommend Barry Vincent. He recently helped us during a time of major transition while adding a new partner into our business. Barry is obviously a man who is expert in his field. He put together an impressive presentation and business plan
My partner and I found Barry to be a man of his word, he does what he says he will do."
**Roger Crabtree - Civic Auto Electricians Ltd**

“I originally approached Barry through another contact. From the beginning when I sat down with him I was very impressed. No “blue skying”, no pressure, just a factual account of what he can do for us. I also like the way Barry gets things done. His presentation is superb. Barry helped us with Business Succession Planning, especially the risk side. I could not recommend Barry Vincent more highly to my business peers and personal friends.”
**Garry Hemmingson - Nutrio Products Ltd**

“I recommend that anyone wanting to add value to their business, not only in savings with ACC and Insurance, but also for guidance within this industry - to contact Barry first.
Barry has accumulated a wealth of knowledge in this industry that will offer huge benefits whether as an individual or as a company. Barry cuts through the red tape and offers guidance every step of the way. You know you're in the right place, when you've found Barry.
Barry is extremely personable and reliable.”
**Wayne Barnett, Company Director at Embassy Stationers**

“Barry has a detailed knowledge of the Insurance business, especially in the area of Business Insurance and Succession planning. I have always found Barry to be professional and thorough.”
**Josh Bronkhorst - Senior Business Manager,**

Barry has my utmost respect for the work that he does with his clients.
He is very much an advocate for his clients and ensures that he is looking after their needs.
**Jeff Page ---Managing Director TNP Financial Services Dealer Group**

“I have known Barry some 14 years and have worked more closely with him since 2008. During that time I have been incredibly impressed with his knowledge of ACC, insurance, business structures, key person issues, business succession planning and general business acumen.
Barry is a "salt of the Earth" sort who genuinely cares about the people he engages with and often undertakes additional work to ensure that his clients are happy and properly covered. His biggest strength is that of an educator in that he ensures that his clients fully understand what is being put in place for them and how they will benefit from the process. “
**Owen Grauman – Managing Director – Group Plus Financial Services Ltd**

This Planning Guide is prepared for your information and guidance by

Business Continuity Planning
A division of **Wealthbuilders** LTD

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