



Many Owners Fail at Succession ... You Don't Have To

Our experience and research show that many business owners are exposed to repeatable traps hindering succession. 80% of business owner wealth is trapped in their business. 80% of owners are neither mentally ready nor financially ready for succession. 80% of owners who aspire to sell their company either do not sell or later "regretted selling" a year after the deal.




Our "Leadership to Liquidity" Succession Process offers a more systematic route to transition by shining light on three types of succession readiness:

- ⦿ **Personal Readiness:** Mental & financial readiness and relevance "post-deal"
- ⦿ **Business Readiness:** Leadership succession, entity & tax structure and key value drivers
- ⦿ **Market Readiness:** Transfer options, market conditions, and planning for capital exit

After helping hundreds of business owners with strategic transition, we observe five key Lessons of High Performance Succession

1. Explore your succession pathways early in the process
2. Harmonize your succession pathway, business valuation and value gap
3. Craft an equity model that works for both exit and entry of owners and talent
4. Earn your cost of capital and then pay yourself first
5. Engage top talent in the process

Harmonize each of the Four Succession Pathways with a Unique Equity Model*

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Sale to 3rd party	Partnership Model	Stay in Family	ESOP
<ul style="list-style-type: none"> · Simple Ownership Model · Long Term Incentives · Owner Contingency Planning 	<ul style="list-style-type: none"> · Affordable New Partner Buy-in / MBO · Compensation Model for Growth · Financial Exit in Style 	<ul style="list-style-type: none"> · Leadership Succession Planning · Incentives for Interim Leaders · Estate Planning 	<ul style="list-style-type: none"> · Low-risk Financing · Foster Ownership Mentality · Tax-advantaged Structures

* Default succession pathway is liquidation

The Leadership to Liquidity Process:

Equity model defines how owners & leaders *enter and exit* the company equity model, in style, consistent with the selected succession pathway.

Here are some of the key incentive tests you may wish to consider before implementation of a major incentive plan:

Affordability: Can we afford the plans now and in the future - even in the event of extreme volatility?

Competency: Can we use these plans to attract and retain the most precious talent - regardless of whether this is the CXO or senior managers?

Succession: Can we use these plans to help us execute on our leadership and capital succession plan - such as: change in control, going perpetual, stay in the family or ESOP?

Simplicity: Can we explain the program easily to our key talent and the plan is easy to adopt from a book, tax and administrative perspective?

Resiliency: Can we modify or dramatically change the plans given changes in our competitive landscape, business priorities and people strategy?

Top 40 Executive Rewards*: A Pathway to Strategic Advantage

Equity Based Incentives		
<p>True Equity: Full Value</p> <ol style="list-style-type: none"> 1) Sell Stock to key managers 2) Compensatory stock grants 3) Owner Redemption (Gross up others) 4) Restricted Stock and RSUs 5) ESOP (leveraged or creeping ESOP) 6) Ramp-down/Ramp-up (new entity) 7) Restricted stock paid at CinC ** 	<p>True Equity: Upside Value</p> <ol style="list-style-type: none"> 8) Profits Interest in LLC 9) Drop Down Division (w/ upside interest) 10) Employee Stock Options ("Options") 11) Stock Appreciation Rights (SARs) 12) Hybrid Capital/Profits Interests 13) Out of the Money SARs, Options 14) Options/SARs paid only if CinC 	<p>Synthetic Equity (Full or Upside)</p> <ol style="list-style-type: none"> 15) Phantom Stock (enterprise or division) 16) Phantom Stock with Owner's Pref 17) Enterprise Value Unit Plan 18) Graduating Value Band Unit Plan 19) Liability SARs 20) Performance Shares 21) Sales Bonus upon CinC
Cash Based Incentives		
<p>LT Performance Cash</p> <ol style="list-style-type: none"> 22) Allocable Profit Sharing 23) Profit Appreciation Rights 24) Book appreciation rights (BARs) 25) Deferred Participation Units 26) Discretionary LTIP Plans 27) Cash bonus paid at CinC 	<p>Deferred Cash</p> <ol style="list-style-type: none"> 28) Discretionary Bonus(group/Individual) 29) NQDC Plan (w/ comp match) 30) Qualified Profit Sharing Bonus 31) Defined Benefit Plans 32) Incentive Bonus Plan 33) Split Dollar Insurance (or 162 Bonus) 34) CinC payouts as multiple of salary 	<p>Immediate Cash</p> <ol style="list-style-type: none"> 35) Salary increases 36) Annual Bonus 37) Sales Commission Programs 38) Spot Bonuses 39) Fringe Benefit 40) Lifestyle Incentives

* Incentives ranked from "Value Now" to "Value Later" (Value Now near top of each of six lists).

** "CinC" refers to Change in Control

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