



Business Succession Planning through a Minority Shareholder Buy In

If you are like many successful entrepreneurs, after running your business for many years or perhaps even decades, you find yourself contemplating succession planning. Over the years, your business has grown, and considerable enterprise value may have been created along the way. For that matter, your company may very well be your single largest personal asset. With so much of your personal net worth tied to your company, business continuity and succession planning should be critical aspects of your strategic plan. Even if you plan to be involved in the business for the next 5-10 years, establishing a strong succession plan is an essential step towards ensuring the successful diversification of your private business wealth to assets outside of the business.

A first step in business succession planning is identifying key management, family, or employees that are especially important to your business's continued success. Once identified, it is important to understand the long-term goals of these key individuals. A further aspect of that conversation needs to gauge their interest in, and ability to, purchase a stake in the business.

Most minority shareholder transactions range from 20% to 30% of the outstanding shares. In order to encourage your key management or employees to purchase an interest in the company, shares can be offered at a discounted price. In advance of a transaction, bonuses can be paid to these key individuals to help fund at least a 20% down payment of the stock's purchase price. Either the majority shareholder, or a bank, can finance the balance of the stock purchase. An advantage of bank financing (versus the selling shareholder financing the transaction), is that the repayment obligation borne by the minority shareholder is to a third-party. This arrangement allows the relationship between buyer and seller to remain as is with the additional dynamic of minority partner status (versus a borrower/lender relationship).

Chuck Owston, CM&AA
Managing Director
407.540.5802
cowston@flcb.com

Peter Allport, CEPA
Director
407.540.5806
pallport@flcb.com



Underwriting a minority shareholder stock purchase typically includes the following:

1. A bank will underwrite to the earnings of the minority shareholder (including salary, bonuses and distributions from the newly acquired stock) in order to repay the loan.
2. A dividend policy by the company would be implemented so that the after-tax distributions to the minority shareholder are sufficient to repay the loan over a maximum of five years.
3. In addition to underwriting repayment ability, the bank may need collateral beyond the stock being purchased with loan proceeds. The purchasing shareholder may need to provide personal assets and/or the company may need to pledge certain corporate assets as collateral.
4. The company will need to provide a guarantee or enter into a stock repurchase agreement in the event that the purchasing shareholder defaults.
5. The bank will also review the stock purchase agreement, shareholder agreements, and other corporate documents for the company as part of underwriting the loan.
6. A business valuation may be required.

Minority shareholder stock purchases are an effective business succession planning tool when properly implemented. The advisory team to execute a minority shareholder stock transaction should include, an attorney well versed in preparing shareholder agreements, your CPA and an experienced banker. Florida Capital Bank has many years of experience handling these types of transactions for owners of private business seeking to achieve their long-term financial plan and goals.