Succession planning for family-owned businesses
<table>
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<tr>
<th>Moderator</th>
<th>Panel</th>
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<tr>
<td>Stephen Ntsoane</td>
<td>Cheryl-Jane Kujenga</td>
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<tr>
<td>Director</td>
<td>Director</td>
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<td>EY South Africa</td>
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<td>Rob Stretch</td>
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<td>Director</td>
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<td>EY South Africa</td>
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Stakes are high when it comes to succession planning for your business.

Effective planning creates opportunities to:

- Define and address a company’s strategic goals and challenges
- Identify the qualifications and expertise needed to meet current and future leadership needs
- Provide for long-term business value.

Thoughtful planning can:

- Circumvent pressure and reduce uncertainty for business owners and families
- Strengthen stakeholder confidence
- Improve employee morale
- Prevent significant business interruptions.

Succession must be considered a process, not an end point.
Succession planning doesn’t just happen

More than 80% of businesses will change hands within 10 years. While 44% of owners say their businesses are totally dependent on them, 62% have not chosen a successor. Only 3% of all family businesses will make it beyond the third generation.¹

Why do businesses struggle with succession²?

25% referenced inadequately prepared heirs

60% cited breakdowns in trust and communication within the family unit

10% indicated issues related to transfer taxation

12% pointed to lack of a family mission or purpose that clearly defines use of family’s wealth

¹ EY’s succession planning for entrepreneurs.

² Succession, tax and estate planning issues in transferring a family-owned business, Leonard, Street and Deinard, 2010. All rights reserved.
Potential challenges facing succession

Many leading families and family offices and privately owned businesses find that effective management of these key issues are critical success factors for both their companies and their families.

What issues are important to you, your business and your families?

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<tr>
<th>Effective tax management</th>
<th>Succession agenda</th>
<th>Family tax agenda</th>
<th>Business tax agenda</th>
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<tr>
<td>Future management structure</td>
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<tr>
<td>Sustaining growth and profitability</td>
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<td>Managing and retaining talent</td>
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<td>Balancing risk</td>
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<td>Culture and responsibility</td>
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<td>Next-generation planning</td>
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<td>Managing capital</td>
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Succession planning is neither easy nor straightforward
Four dimensions of succession planning

Ensuring a successful transition requires a focus on four dimensions of your succession plan: leadership, ownership, legacy and values, and wealth transition.¹

Those four dimensions sit at the heart of any successful succession plan and are key considerations for all three primary stakeholder groups – owners, families, and the business and investments.

¹ Developed by EY’s Family Business Center of Excellence. Visit ey.com to learn more.
The four dimensions of succession

<table>
<thead>
<tr>
<th>1. Succession in leadership</th>
<th>2. Succession in ownership</th>
<th>3. Define and preserve family legacy and values</th>
<th>4. Transfer wealth to next generation</th>
</tr>
</thead>
<tbody>
<tr>
<td>► Who should lead the business?</td>
<td>► Who should own the business?</td>
<td>► Common values and level of commitment?</td>
<td>► Beneficiaries and fair vs. equal?</td>
</tr>
<tr>
<td>► Family employment and compensation?</td>
<td>► How should governance be structured?</td>
<td>► Family philanthropy?</td>
<td>► Understanding of tax and legal consequences?</td>
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<td></td>
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<td>► How much to retain for the current generation?</td>
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</table>
Planning makes the journey possible

A successful succession journey is possible

Establish goals and objectives for the four dimensions:
► Leadership
► Ownership
► Legacy and value
► Wealth transition

Prepare analysis of options:
► Preserve family ownership
► Consider outside shareholders:
  ► Selling the business
  ► New investors or private equity
  ► Initial public offering
► Consider trusts, foundations and charters

Prepare the plan:
► Identify an advisor
► Consider stakeholder involvement
► Segment assets and leverage financial data
► Address transparency and governance
► Consider tax implications
► Assess infrastructure: people, process and technology

Execute the plan:
► Manage the transition, effective communication, stakeholder involvement
► Formalize governance and family values
► Reorganize and transfer assets
► Maximize value through sale or transfer process

... with a good plan
The Succession agenda
A strategic discussion around family governance and succession planning

Family considerations
- Financial security
- Governance
- Next-generation and family changes

Business considerations
- Control and risk
- Liquidity
- Performance

Purpose and philosophy
- Establish goals and objectives
- Align with family and business goals and objectives
- Strategic alignment with wealth management
- Accurate personal administration

Succession agenda
- Update the plan
- Execute the plan
- Prepare the plan
- Consider changes in purpose and philosophy
- Multigenerational family foundation
- Accounts for changes in the business and tax environment
- Incorporates life changes
- Alignment with risk profile
- Managing the transition
- Involve stakeholders
- Reorganize assets
- Transfer assets
- Segment assets
- Identify options
- Leverage financial data
- Planning, validating and testing
- Transparency and reporting

Africa Tax Conference™ 2015
## Some questions to gauge your readiness

<table>
<thead>
<tr>
<th>Steps toward effective succession</th>
<th>Considerations</th>
<th>Confidence level</th>
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<tbody>
<tr>
<td><strong>Focus on the future</strong></td>
<td><strong>Leadership:</strong> are you ready and willing to transfer control?</td>
<td>Low</td>
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<tr>
<td></td>
<td><strong>Leadership:</strong> have you identified who should lead the business going forward and have a view on an effective governance structure?</td>
<td>Med</td>
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<td><strong>Ownership, wealth transition:</strong> who will own the business, and what plans developed for sharing wealth with family members?</td>
<td>High</td>
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<td><strong>Legacy and value:</strong> will other stakeholders accept the changes and support the business?</td>
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<td></td>
<td><strong>Legacy and value:</strong> what are your family values, and are you confident the next generation will carry them forward?</td>
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<td></td>
<td><strong>Wealth transition:</strong> are you and your spouse or partner confident you will be financially secure after the business is transitioned?</td>
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<td><strong>Explore options</strong></td>
<td>Have you considered an independent view of exit options, including:</td>
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<tr>
<td></td>
<td>► <strong>Preserving family ownership</strong></td>
<td></td>
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<td></td>
<td>► <strong>Considering outside shareholders:</strong></td>
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<td></td>
<td>► <strong>Selling the business; new investors or private equity; initial public offerings (IPOs)</strong></td>
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<td><strong>Prepare the plan</strong></td>
<td>Have you engaged someone to coordinate all stakeholders, advisors and banks?</td>
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<td>What are your objectives concerning business and private assets, and have you considered tax implications?</td>
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<td>Have you documented objectives and determined your succession strategies?</td>
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<td>Have you discussed the strategy with stakeholders or family?</td>
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<tr>
<td><strong>Execute the plan</strong></td>
<td>What change strategies do you have in place to support continuity and preserve value?</td>
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<td>How often do you revisit your plan to ensure it remains current?</td>
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<td>Is there an internal and external communication plan in place to assist your successor?</td>
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At EY, we have the global experience, knowledge and extensive network to help your business flourish. We can assist you and your family to plan successfully for the future.

EY is global market leader in family business, advising 80% of the world’s top 500 largest family businesses.*

Our EY Family Business Center of Excellence is a global network of teams dedicated exclusively to family businesses and the specific challenges they face.

Our EY PCS practice has in-depth tax technical knowledge and experience about succession planning.**

We bring the whole of EY to the table for the benefit of our clients.

Visit ey.com to learn more

* Source: Global Family Business Index (from HSG, St. Gallen and published by forbes.com)
** On 5 January 2015, PCS released “the succession agenda.”
The EY NextGen Academy, our unique and exclusive one-week training event designed for young successors in family businesses, fosters a broad perspective in the family business leaders of tomorrow.

In collaboration with world-leading business schools, the EY NextGen Program supports these next-generation members (ages 16-30+) in managing their individual life cycle of succession.

For more information, go to www.ey-nextgen.com
EY’s perspective on organizational growth
The road to market leadership

- Research points to seven critical drivers for business success and accelerated growth.

- To rise to a position of market leadership, a company must first have a growth strategy for each of the growth drivers.

- One of those key drivers – people, behaviors and culture – comprises succession planning, which is critical for the growth and sustainability of a business.
Next steps

- Visit the Family Business Center of Excellence to discover what resources are available (http://familybusiness.ey.com)

- Staying power: how do family businesses create lasting success?
- EY NextGen Academy 2015
- Coming home or breaking free?
- Worldwide Family Business Tax guide
- Wealth under the spotlight 2015
- Worldwide Estate and Inheritance Tax Guide 2015
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