

# Intentional Perpetuation

*Plan and Create Your Future*

*Brett Rosen, Principal  
Rosen Advisory  
404-992-5541  
[brett@rosenadvisory.com](mailto:brett@rosenadvisory.com)*

# Contact Information

**Brett Rosen, Principal**  
**Rosen Advisory**

[brett@rosenadvisory.com](mailto:brett@rosenadvisory.com)

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# The Goal: Intentional Perpetuation

*The Right Option*

“Right”

*For the Right Reasons*

*At the Right Time*

*With the Right Financial Metrics*

# The 5 Star Planner

The owner who is positioned to engineer an aspirational versus a practical event

# Be a 5 Star Planner

1-2 = ★

3-4 = ★ ★

5-6 = ★ ★ ★

7 = ★ ★ ★ ★

8-9 = ★ ★ ★ ★ ★

# 5 Star Planning



Business continuity plan in the event “something happens to you”



Financial plan blends personal investments, assets including business value



Collaborate with board, an advisory board, and/or top executive such as CFO, leader of Corp Development and other internal confidants



Clarity about what you are optimizing for in your business – cash flow or equity value (and taking corresponding action)

# 5 Star Planning

- ★ Business Advisor specializing in business planning, perpetuation, and exit issues who you engage in periodic discussions
- ★ An understanding of the ROE for your business
- ★ Point-in-time, formally or informally ranked perpetuation strategy
- ★ Corporate Development mindset and strategy for interacting with the market (of buyers and sellers)

# How Are You Doing?





# What Trips Up Owners?

- ✓ Important but not urgent
- ✓ Dabble, versus making perpetuation a core competency
- ✓ “Close to the vest” style that inhibits learning
- ✓ Don’t have the right advisor(s) or confidants

A young child with blonde hair, wearing a red jacket, is riding a red go-kart on the left. An older man wearing a white cap, sunglasses, and a blue jacket is riding a blue go-kart on the right. A blue speech bubble is positioned between them, containing white text. The background is a blurred green field.

*When I get  
old you can  
take over  
my agency!*

# Return on Equity

Your Salary\* + Other Financial Benefits\* + Earnings

Equity Value (your portion)

\*Assumes a closely held business. CEO /Shareholder would not use their income and other benefits in an ROE calculation

# 3 Steps to Intentionality

*1. Be a Five Star Planner*

*2. Know Your Options*

*3. Maximize Your Opportunity*

- Things That Trip Up Owners*
- Know Your Persona and Unlock Your Potential*

# The 5 Star Planner

The owner who is positioned to engineer an aspirational versus a practical event

# Be a 5 Star Planner



# 5 Star Planning

- ★ Business continuity plan in the event “something happens to you”
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- ★ Collaborate with board, an advisory board, and/or top executive such as CFO, leader of Corp Development and other internal confidants
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# How Are You Doing?





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**When I get  
old you can  
take over  
my agency!**

# Exit Routes – Choosing the Right Option

# 8 Exit Routes

- Sell to a 3<sup>rd</sup> Party – Strategic
- Sell to a 3<sup>rd</sup> Party – Financial
- Sell to Key Employees
- Sell to Current Co-Owners
- Retain Equity and Hire Your Replacement
- Transfer to Family Members
- Sell to Employees Using an ESOP
- IPO

# Your Persona Impacts Your Options

1. Producer – Consultant
2. Boutique Agency Owner
3. CEO or Managing Partner

# Owner - Producer – Consultant

## Pure Lifestyle Business

You may search for a replacement, but it is going to take an intense level of networking, planning and work

Financial flexibility is required to create financial opportunity for an heir apparent or partner

Majority of these businesses ultimately fold into a larger organization

# Exit Routes – Producer Consultant

- **Sell to a 3<sup>rd</sup> Party – Strategic**
- Sell to a 3<sup>rd</sup> Party – Financial
- Sell to Key Employees
- **Sell to Current Co-Owners or add an heir apparent**
- **Retain Equity and Hire Your Replacement**
- Transfer to Family Members
- Sell to Employees Using an ESOP
- IPO

# The Boutique Agency Owner

## Most UBA Firms?

- Favor revenue and income growth and let equity growth take care of itself
- Thinking, planning, strategizing and learning focused on your team + client facing issues
- Consider personal financial diversification
- Have or searching for an exceptional #2, probably client facing or operationally focused (vs a succession partner)
- Ability to attract and develop talent to meet immediate needs
- No need or little desire for debt or share “too much” equity to grow
- Outsource everything you can



# Exit Routes – Boutique Agency

- **Sell to a 3<sup>rd</sup> Party – Strategic**
- *Sell to a 3<sup>rd</sup> Party – Financial*
- *Sell to Key Employees*
- **Sell to Current Co-Owners**
- **Retain Equity and Hire Your Replacement**
- Transfer to Family Members
- Sell to Employees Using an ESOP
- IPO

# CEO or Managing Partner

## Largest Firms, Often Multi-Line

- Favor equity growth over income growth
- Thinking, planning, strategizing and learning about the business + teams, systems, finance, equity value creation
- Good personal financial diversification
- Eliminate or minimize dependency on you
- Actively grooming leaders
- Creative compensation / equity plans to attract and retain
- Willingness to take on debt and/or share equity
- Ability to diversify into other lines
- Well-rounded executive team
- Deep organization chart
  - Sales and Marketing
  - Finance
  - IT
  - Operations

# Exit Routes – CEO/Managing Partner

- **Sell to a 3<sup>rd</sup> Party – Strategic**
- **Sell to a 3<sup>rd</sup> Party – Financial**
- *Sell to Key Employees*
- **Sell to Current Co-Owners**
- **Retain Equity and Hire Your Replacement**
- *Transfer to Family Members*
- *Sell to Employees Using an ESOP*
- *IPO*

# Create Owners as a Path to Remain Independent

Profit Interests

Stock Options

Phantom Stock

Earn - Ins

EBITDA Based Compensation

# Decision Framework

Persona

+ Personal Considerations

+ Other Business Considerations

+ Financial Considerations

***It's Never Just a Math Equation***

# Decision Framework

## Personal Considerations

## Business Considerations

## Financial Considerations

Health

Age/Time horizon to work

Family Considerations

Your favorite seat on the bus

Willingness to bring on new partners

# Decision Framework

## Personal Considerations

## Business Considerations

## Financial Considerations

**Current Ownership structure**  
(# of owners, percentages)

Business Environment / Outlook

Organic Growth Rate

**Your Org Chart and Investment Needs**

Ability to Attract Talent

# Decision Framework

## Personal Considerations

## Business Considerations

## Financial Considerations

Return on Equity Comparisons

Level of Financial Diversification

Your Liquidity Needs

Risk Tolerance – Debt

Willingness to Sell Equity and Dilute



# Decision Framework

## Personal Considerations

Health

Age/Time horizon to work

Family Considerations

**Your favorite seat on the bus**

Willingness to bring on new partners

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Return on Equity Comparisons

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Risk Tolerance – Debt

Willingness to Sell Equity

# Return on Equity

$$\begin{array}{l} \text{RETURN} \\ \text{ON EQUITY} \\ \% \end{array} = \frac{\text{Your Annual Income}}{\text{Your Equity Value}}$$

**A formula to compare alternate investments and perpetuation strategies**

# Return on Equity

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Equity Value (your portion)

\*Assumes a closely held business. CEO /Shareholder would not use their income and other benefits in an ROE calculation

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# Return on Equity

**“20% ROE”**

Salary: \$100,000

Other Financial Benefits:

\$100,000

\$400,000

End of Year Profits: \$200,000

Equity Value (your portion): \$2,000,000

**WHAT IS THE PROJECTED GROWTH IN YOUR EQUITY AND YOUR ROE?**