



Succession Planning: Ensuring the Future of Your Used Machinery Business



LYKON
MACHINERY

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42 years of Machinery Moving and Sales Businesses
Lived through the sale of A&A Machinery Moving Inc.

What is Succession Planning ?

Succession planning is a process of identifying and developing individuals within an organization with the potential to fill key leadership positions in the future.

What is the Purpose of Succession Planning?

Retention of Key Employees: A succession plan can help to retain key employees, as they see a clear path for career advancement and know that their contributions are valued.

Personal Goals: An owner may have personal goals for their retirement, and a succession plan can help them to achieve those goals. For example, they may want to ensure that the business remains in the family, or they may want to maximize the value of the business for their retirement.

Increased Value of the Business: A well-executed succession plan can increase the value of a business. By identifying and developing key employees and creating a clear plan for their future roles, an owner can demonstrate to potential buyers that the business has a strong leadership team in place.

Smooth Transition of Ownership: A succession plan can help to ensure a smooth transition of ownership, whether it's to family members, employees, or an outside buyer. This can help to maintain continuity of operations and preserve the value of the business.

Why is Succession Planning Important ?

Continuity of Operations: Succession planning ensures that an organization has a pipeline of qualified and capable individuals who can step into key leadership roles when needed. This helps to minimize disruptions and maintain continuity of operations, even during times of unexpected turnover.

Retention and Development of Talent: Succession planning provides opportunities for employees to grow and develop within the organization. This can increase employee satisfaction and retention, as they see a clear path for career advancement.

Identification of Skills and Competencies: Succession planning requires an organization to identify the skills and competencies required for key leadership roles. This process can help an organization to better understand the capabilities of its workforce and identify gaps that need to be addressed through training and development programs.

Risk Management: Succession planning can help an organization to manage risks associated with leadership transitions. By identifying potential candidates and preparing them for leadership roles, an organization can ensure that there is a smooth transition of leadership, minimizing the risks associated with leadership turnover.

Overall, succession planning is a proactive approach to managing an organization's talent.

Succession Planning Process.

1. Identify key leadership positions:
2. Develop a competency framework:
3. Identify potential successors:
4. Assess potential successors:
5. Develop potential successors:
6. Create a succession plan:
7. Monitor and evaluate the plan:
8. Communicate the plan:
9. Execute the plan:

Common Challenges of Succession Planning ?

1. Fear of change

5. Disagreement of chosen successor

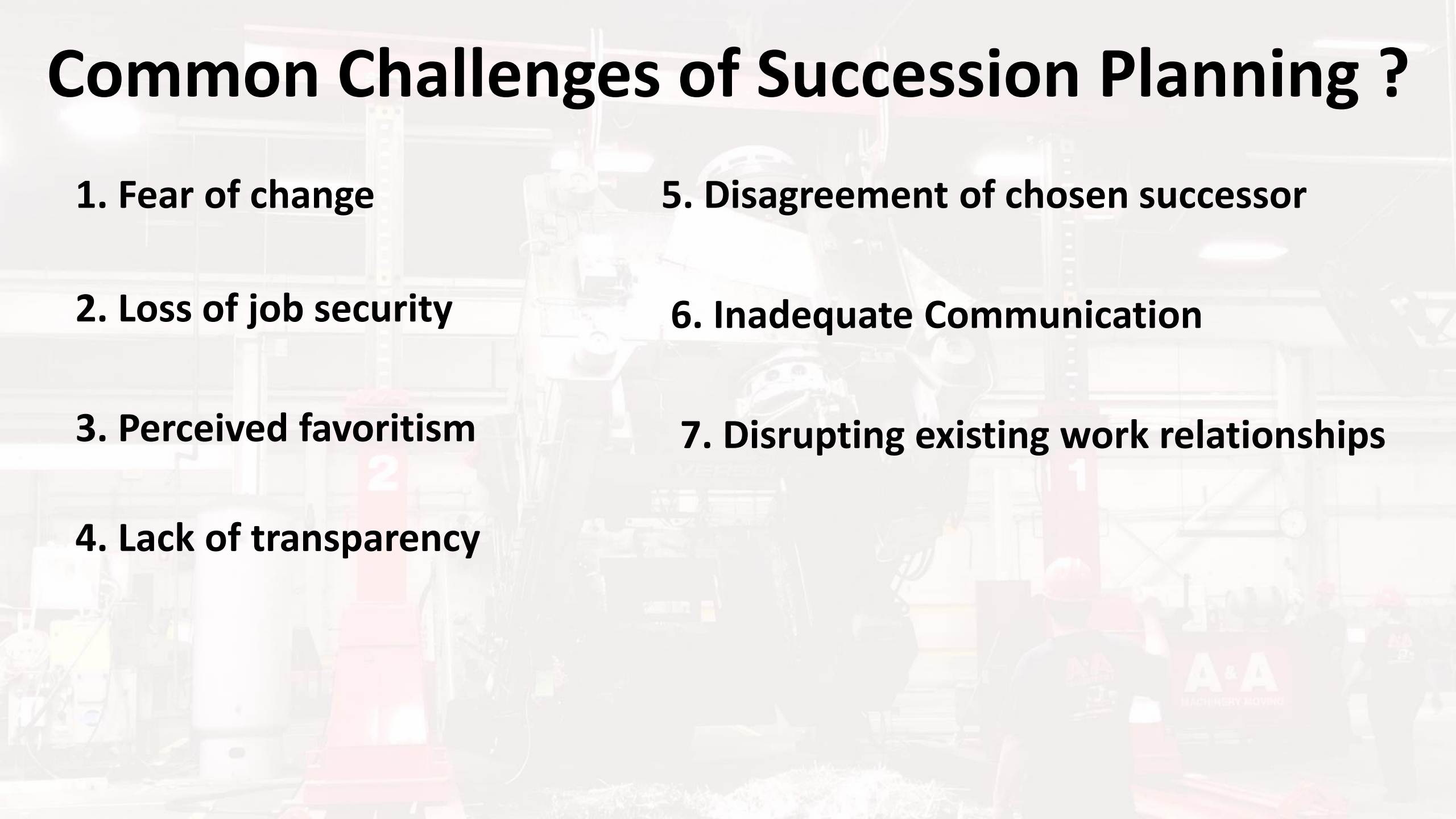
2. Loss of job security

6. Inadequate Communication

3. Perceived favoritism

7. Disrupting existing work relationships

4. Lack of transparency



The Fact Is !!!

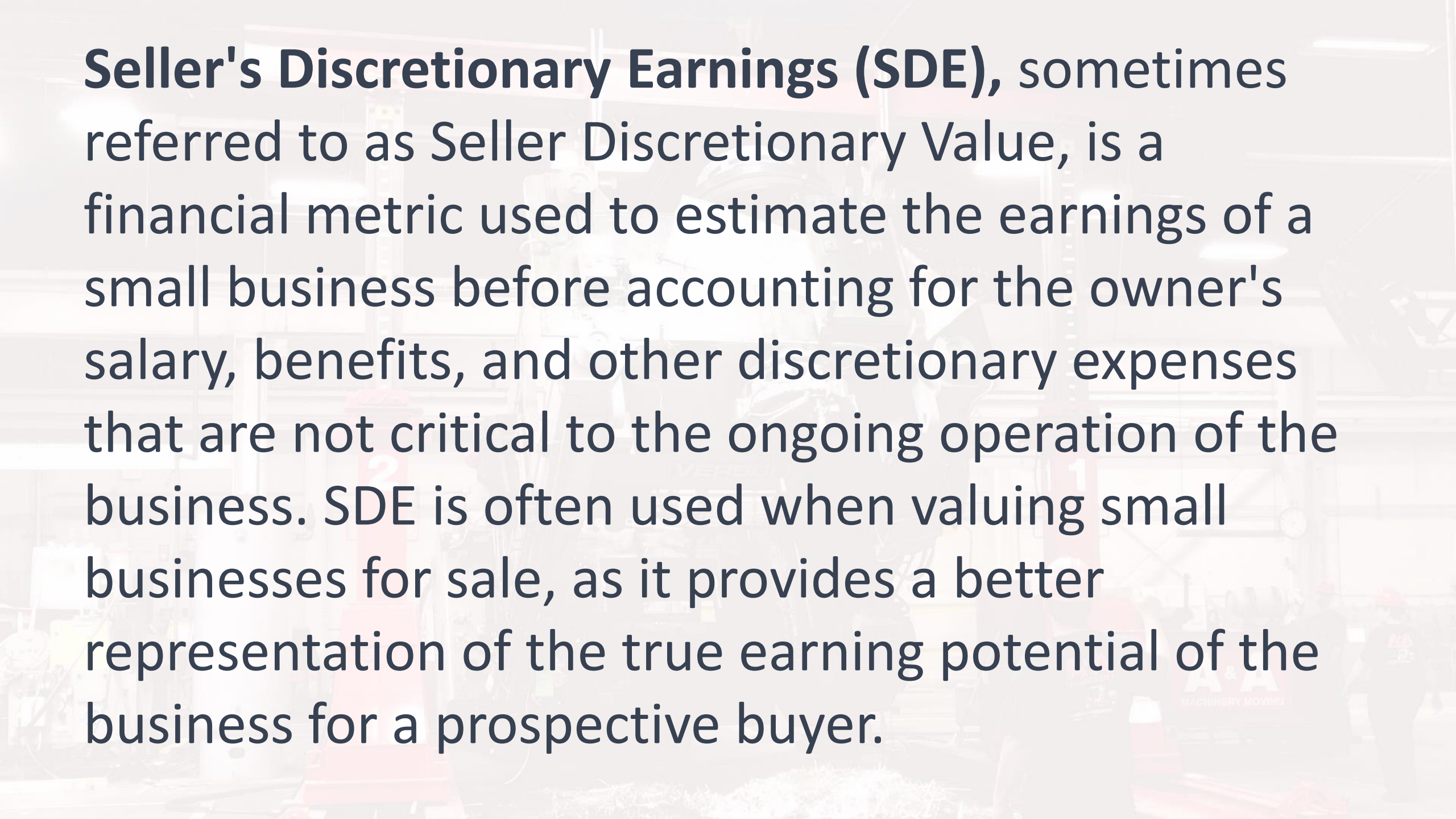
According to various studies and statistics, approximately 30% of family businesses make it to the second generation, while only around 12% make it to the third generation, and a meager 3% to the fourth generation. A lack of proper succession planning is cited as one of the leading factors contributing to these low success rates.

Buy Sell Agreements

1. Minimizing conflict: By establishing clear guidelines
2. Preserving business continuity: By providing a clear roadmap for transferring ownership
3. Valuation clarity: The agreement typically specifies a method or formula for determining the value
4. Protecting the interests of all parties: For the remaining owners by giving them the right to purchase the departing owner's share by ensuring a fair market value for their share and providing liquidity in case of death or disability.
5. Facilitating smooth transitions: By setting out the terms and conditions under which ownership can change hands,
6. Providing financial stability: A buy-sell agreement often includes provisions for funding the purchase of the departing owner's shares, such as life insurance policies or buyout funds.

How do I know what my business is worth?

1.Asset-based valuation: Consider the total value of the company's tangible and intangible assets. For a used machinery business, the primary assets are typically inventory, machinery, equipment, and real estate. Subtract the company's liabilities to arrive at the net asset value. This approach is particularly relevant for used machinery businesses since their primary value comes from their assets.

The background of the slide is a faded, grayscale image of a construction or industrial site. It shows several workers wearing hard hats and safety vests, along with various pieces of heavy machinery and equipment. The scene is somewhat cluttered, typical of a construction area.

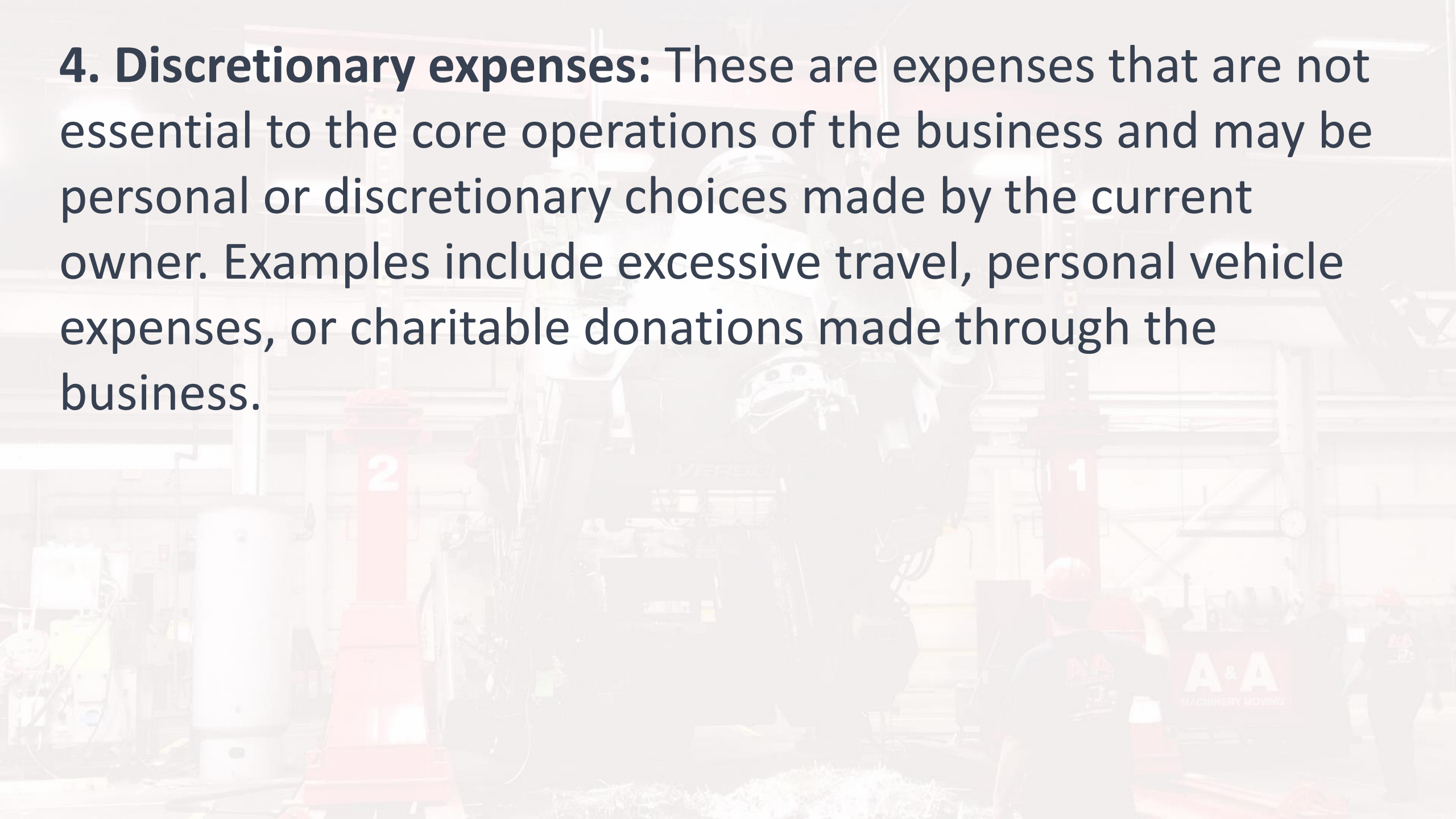
Seller's Discretionary Earnings (SDE), sometimes referred to as Seller Discretionary Value, is a financial metric used to estimate the earnings of a small business before accounting for the owner's salary, benefits, and other discretionary expenses that are not critical to the ongoing operation of the business. SDE is often used when valuing small businesses for sale, as it provides a better representation of the true earning potential of the business for a prospective buyer.

1.Owner's salary and benefits: Since the new owner's salary and benefits may differ from the current owner's, these expenses are added back to reflect the business's true earning potential.

2.Non-operating income and expenses: These are one-time or non-recurring income and expenses that are not directly related to the business's core operations. They may include gains or losses from asset sales or one-time legal settlements.

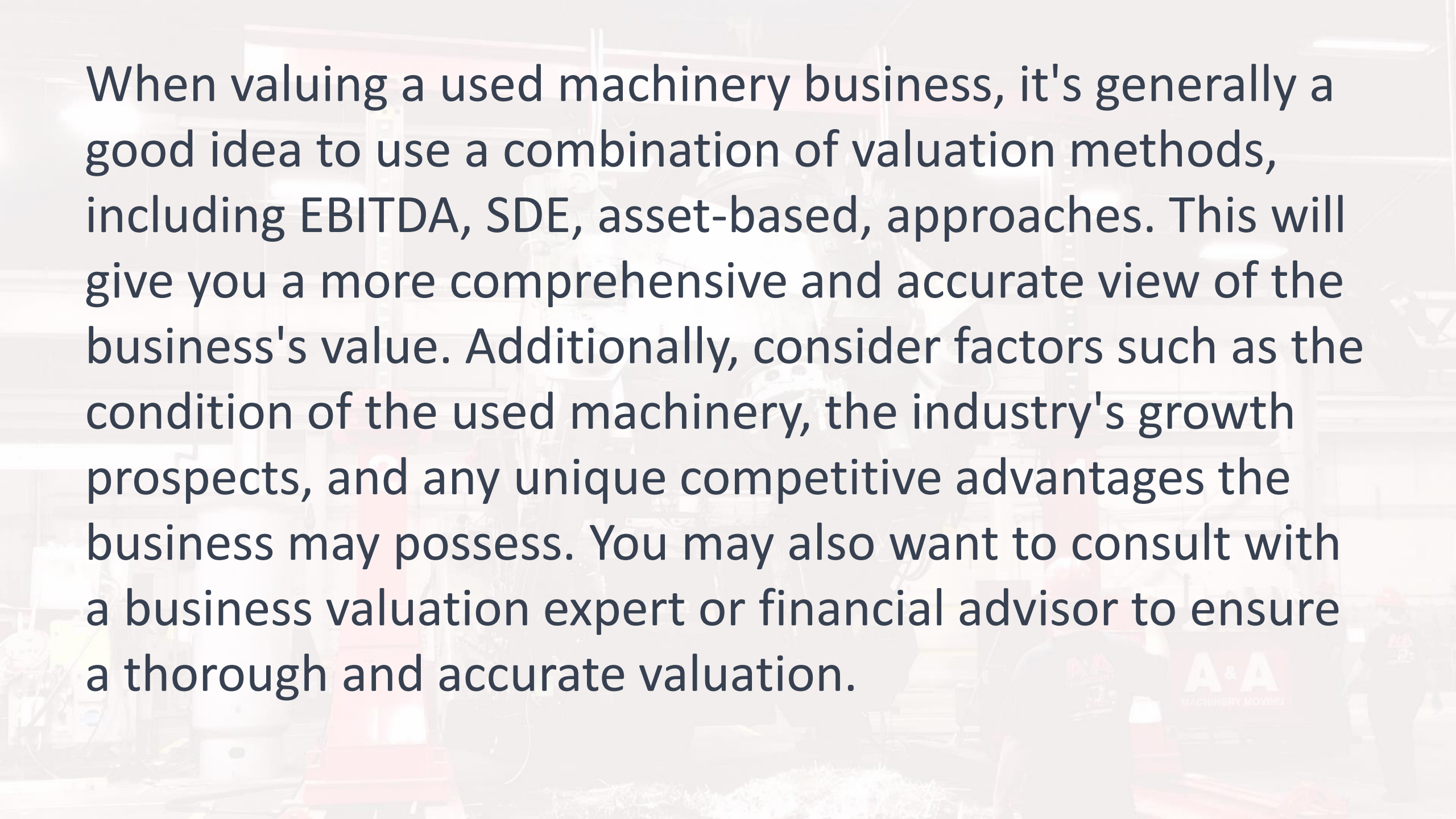
3.Non-cash expenses: Depreciation and amortization are accounting expenses that do not represent actual cash outflows. Adding them back can give a false picture of the business's cash-generating ability, because the equipment does decrease in value as it ages.

4. Discretionary expenses: These are expenses that are not essential to the core operations of the business and may be personal or discretionary choices made by the current owner. Examples include excessive travel, personal vehicle expenses, or charitable donations made through the business.



EBITDA (Earnings Before Interest, Taxes, Depreciation, and Amortization) is a financial metric that measures a company's operational performance without considering the effects of financing, tax structures, or non-cash accounting items like depreciation and amortization. EBITDA can be used in valuing businesses, including a used machinery business, by providing a standardized measure of profitability that can be compared across different companies or industries.

However, relying solely on EBITDA for valuing a used machinery business might not be sufficient, as it does not fully capture the specifics of this type of business. Here are a few considerations when using EBITDA for valuing a used machinery business:

The background of the slide is a faded, grayscale image of a warehouse or industrial setting. It shows various pieces of machinery, including what appears to be a large crane or hoist system, and several workers in safety gear. A logo for 'A&A MACHINERY MOVING' is visible in the lower right corner of the background image.

When valuing a used machinery business, it's generally a good idea to use a combination of valuation methods, including EBITDA, SDE, asset-based, approaches. This will give you a more comprehensive and accurate view of the business's value. Additionally, consider factors such as the condition of the used machinery, the industry's growth prospects, and any unique competitive advantages the business may possess. You may also want to consult with a business valuation expert or financial advisor to ensure a thorough and accurate valuation.

Summary

1. Succession planning is the process of developing people
2. Understand the purpose for succession planning
3. The Importance of Succession Planning
4. You must know your planning process
5. The Facts survival rate 30% 1st generation, 12% 2nd generation
3% 3rd generation
6. Challenges along the way
7. Buy Sell Agreements
8. How do I know the value of my business



Questions ?