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TABLE OF EXPERTS

Passing the Torch: Mastering Business Succession Planning

Generational wealth is a time-honored reality for family-owned businesses and family offices tasked with protecting assets for current members and descendants. Yet, handing off the reins from a family's elders to their offspring can be uncertain.

How can families grow their business enterprise or wealth to ensure holdings are protected, whether for eventual sale of the company or distribution to family members down the road?

In this roundtable discussion - hosted by First American Bank and held at the South Florida Business Journal office

- entrepreneurs, bankers and advisors explored the importance of succession planning to prepare and protect the family business for future needs. The ideas discussed included employee stock option plans (ESOPs), acquisition by a private equity firm or investor, and strategies to keep the business within the family. Solutions vary depending on whether the

family is seeking to pass the management torch, an exit, a payout, or family-office security. Yet, the decisions made today can have a lasting impact on valuations in the future.

Moderated by Brian Hagan, the Florida Market President of First American Bank, panelists agreed financial education is central to effective planning and future success. Teaching today's members, with a goal of broad understanding of the strategies for wealth preservation, can help prepare family elders and their progeny. It also can align individual expectations for the future of the family organization.

CHOOSING A SUCCESSOR

One such family business is Padrón Cigars. Founded in 1964 by then-recent Cuban immigrant José Orlando Padrón, the company today is led by his son and company president Jorge Padrón. The son is one of five siblings involved in the business, with over a dozen progeny in the family.

As his father aged, he turned leadership to Jorge Padrón - but not before the son worked in the company, learned the business, and came to know his father's intent and wishes, Jorge Padrón told fellow panelists. Like many who take over

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WILLIAM STEWART
PCE Investment Bankers

family businesses, nothing was handed to him. “I had to earn that responsibility,” Padrón recalled.

Padrón watched his father lead, learning along the way how to navigate his own leadership, especially when making big decisions for the business or family.

“It was tough, more so for me than my siblings. He never told me how to act or what to do. I watched. That gave me the opportunity to see how he did things, and appreciate what he did,” said Padrón. He admitted it sometimes gets challenging leading a family business with a large family separated by skills, generations and

individual expectations.

“I never took for granted the power or authority he gave me to run the company,” Padrón said. “Sometimes, in family businesses, we have to make big decisions on how to run things, and that’s where it can get hairy. You have to check your ego at the door and do a little more work than others. But it’s all for the greater good of the family and business...The legacy has to be preserved. Our name is on that cigar.”

Tony Argiz, South Florida managing partner with accounting firm BDO USA, acknowledged that the Padrón family example speaks to how transitions can work well. Whether through the father’s support or the son’s humility, the transition was likely made easier by the brand his father built.

EDUCATING THE NEXT GEN

How can a family business or investment office best manage itself when it has parents, offspring, and even grandkids involved in its operations, financial needs, or succession?

“Planning must consider tax implications from any sale or divestment, as well as how management will carry forward,” said William Stewart, managing director with PCE Investment Bankers. Management makes the decisions, and liquidity ensures the finances are in place to follow through, especially when taxes are due on sale proceeds, distributions, or death.

Mauricio Rivero, national tax partner at Nelson Mullins, noted that companies take different approaches toward family members. Some, like Jorge Padrón, become active leaders.



“This person may be the oldest, the strongest character, have natural leadership skills, or they have an education in management. The oldest may not even want a role; he or she might prefer little to no daily involvement but still receive remuneration or distributions,” Rivero said.

Deciding who is included or excluded, and in what capacity, or whether a sale or reinvestment is in the family’s or company’s best interest, is up to the elders and the family. Rivero’s firm often will consult with clients to ensure the structure is in place, whether for a family office or trust company to manage proceeds should the business be sold.

Roles and structures vary. Some family members are leaders, while others may be shareholders without a managerial role. For family members who are inexperienced or ill-suited for leadership, holding a shareholder role allows them to stay involved without management

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MAURICIO RIVERO
Nelson Mullins

duties, Stewart explained. An ideal leader may possess the traits of an entrepreneur - thoughtful, yet opportunistic, spontaneous or reactionary. They become an extension of the culture.

“You give them a position that keeps the family together, without the tension,” Stewart said. “There are all sorts of dynamics, and these change. Someone has to be in charge. If not, you’re inviting failure.”

The success of such designations, compensation decisions or the choice to bring in outside management “depends on the family dynamic,” said James Cassel, chairman of Cassel Salpeter & Co. Are there people “on payroll” who don’t work, and are there discrepancies in the amounts each person may earn? Are the patriarchs and next generations aligned in their vision for various situations?

If needed, a consultant can be brought in, not to serve as a manager, but as a facilitator to help educate the family members about different situations or to

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Padron Cigars





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TONY ARGIZ
BDO USA



“A friend at the country club may boast they sold for some multiple of revenues or EBITA, when it might have been a fraction of that,” Cassel joked. Numbers vary by industry or performance, and the family may have various assets that would be part of the sale.

Fernando Mello, a certified business broker with Transworld Business Advisors, said it’s best to have “a constant eye on the books” and not wait until an offer comes along.

“The sooner the owner looks at their business, the better,” Mello said. “Most don’t do that until it’s very close to an exit.”

“How are the records?” Argiz asked, rhetorically. Solid financial records can help determine the strength of cash flow or profitability. “Are there add-backs or adjustments, even other financial situations that could increase tax liability,” added Mello.

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Transworld Business Advisors

How is the quality of earnings? This can reveal how well a company’s reported earnings predict future cash flows and is especially important for potential investors seeking an acquisition or merger.

Other paperwork could include formal leadership roles and succession plans, shareholder agreements, even leases or client or vendor contracts. Are key employees under contract?

Again, an outsider - an accountant, attorney or business advisor - can help run these numbers or documents, and “allow the owner to focus on the business,” Argiz said.

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lead discussions - or address concerns.

“The consultant can be the bandleader that puts them in the right place,” Cassel said.

“The consultant can review such topics as compensation, salary, bonuses or distributions,” added Thomas Wells IV, CEO of First American Bank. While a shareholder or family leadership can have those conversations, a third party brings a neutral perspective to the discussion.

KEEP AN EYE ON THE PRIZE

Most successful companies have an eye on their shared future. Sometimes, leadership at growing businesses seeks to reward employees with an ownership stake. An employee stock ownership plan, (ESOP) lets employees acquire and own part of the company they work for. The plan can motivate workers-turned-owners, while also boosting productivity and improving retention.

Maybe they’re growing the business with hopes of an exit, or they have no intention of selling, but a private equity firm or investor comes along with an enticing offer.

In either case, it’s important for the family to position the business in the best possible light, by studying valuations to understand how much the business might be worth in current market conditions.

Wells suggested families explore their true motivation for valuation. Is it for a sale, estate purposes, or insurance valuation to protect against inheritance or “death” tax hits?

“The truest valuation is the market,” Wells said.

Valuation can be a challenge for family businesses. Owners might seek the input of a wealth manager, who may not understand the nuances of valuing a particular industry.



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JAMES CASSEL
Cassel Salpeter & Co.

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Speed Round: How can family offices and small businesses plan today for a stronger tomorrow?



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BRIAN HAGAN
First American Bank

William Stewart, Managing Director, PCE Investment Bankers: “From the education side, it’s understanding the options you have in business. Not everyone is a fit for private equity [acquisition]; not everyone wants to sell to a strategic buyer. ESOPs can work great for some companies. You have to understand the options and how they’ll work for you. And you can’t start early enough teaching the next generation to help them understand their role and how they can participate in building family wealth and the operating company.”

Mauricio Rivero, National Tax Partner, Nelson Mullins: “Education and understanding options are key to any family operation. They need to understand the history of where their wealth comes from, and some of them don’t. They need to know what the options are going forward, from a business level, and where they are and where they see themselves and the

family in the future. If somebody comes knocking on the door looking to buy, is this something they want to do, or will it disintegrate family unity?”

Jorge Padrón, President, Padrón Cigars: “A lot of this applies to everyday operations. We as a company, and I, within it, must work toward a more efficient company, with better communication between our family and employees, and understanding of our roles. Who knows what will happen in the future? But if the people involved in the business are well- educated and understand the dynamics, it creates a much stronger company.”

Fernando Mello, Certified Business Broker, Transworld Business Advisors: “The key person from the business - the entrepreneur - is not necessarily the one to drive this. They need to be smart enough to surround themselves with the right people and advisors. When

something like this is considered, we require an investment of time and money.”

James Cassel, Chairman, Cassel Salpeter & Co.: “There are those family businesses where the people at the top look at their family members and really believe they’re not the right people to run the business going forward. This fork in the road leads to the question, ‘Do we bring in professional management, or do we sell the business, leading to wealth created in a different fashion?’ That kind of planning needs to be considered, and you have to be very honest about it.”

Tony Argiz, South Florida Managing Partner, BDO USA: “Education within the family is critical. They need to understand where their money came from and how those pennies were earned and saved. ‘Where did that money come from?’ That’s hard work. You have to pass it from generation to generation, and the only way to do that is by being smart and aware of everything you’re doing.”

Thomas Wells IV, CEO, First American Bank: “There’s not a stone tablet that

says, ‘You should be rich.’ That’s a really important concept for the next generation. It means, you’re going to have to learn, participate and figure out how to manage your money. Because your wealth, which you have been blessed to receive, is transitory and ephemeral. It will disappear if you don’t take care of it. That takes work. ‘How did you invest it? How did you make it happen?’ That’s the education. If you sit down with a bunch of 20- and 30-year-olds, the second and third generations, they don’t know what a trust vehicle is, what a beneficiary is, what a shareholder is. It’s basic stuff that needs to be thought through. The family can’t buy that. It must be ingrained as part of the culture.”

Brian Hagan, Florida Market President, First American Bank: “We help educate our customers on this. For many families, whether it’s early in the process or they’ve been educating the next generation from the beginning, it’s an ongoing effort and comes in many forms. First and foremost, it starts with good advisors.”



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