



# Family Business Succession

How to prepare families for the  
greatest transfer of wealth in history

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# New Zealand's Historical Context

- Shallow capital markets.
- Debt driven growth.
- Tax arbitrage between capital and income.
- Victim and beneficiary of globalization.
- Bach, boat and BMW more important than legacy.



# *‘Mittelstand’*

Small to medium sized enterprises in smaller cities and communities in Germany, Austria and Switzerland.

Family-owned, independent, socially responsible and very successful sector of the economy.



# STIHL®

- The first gasoline powered chainsaw.
- Focus on the work force and community.
- Responsibility for employees, nature and society.
- Product diversity and innovation.
- Global player but 100% family owned.





# New Zealand's SME sector in 2018



The lifeblood of the New Zealand economy is our SME and family owned commercial enterprise sector.



The valuations of many of these businesses have increased significantly in recent decades.

# Game Plan

- Any plan is better than no plan
- Develop and agree a Game Plan before taking any substantive steps
- Allow plenty of time!



# Succession: the conundrum

- There is often a disconnect between strategy and execution.
- Inertia is prevalent, opportunities are being lost and value is eroding.
- Meaningful succession discussions are critical.
- Understand the human elements.



# Structure & Governance



- Trusts are not always appropriate vehicles.
- In New Zealand we often conflate governance and advisory roles.
- Good governance and polished administration is more important than “clever” planning.
- Consider testamentary trusts.
- Consider corporate and commercial tools in combo with traditional estate planning techniques.
- If possible, keep it simple.



# Tool Box for Family Business Succession



- Management / Governance / Ownership
- Option Agreements
- Life Insurance Policies
- Golden Shares
- Redeemable Preference Shares v Ordinary Shares
- Family/Employee Share Schemes
- Share Loans/Partly Paid Shares
- Testamentary Trusts
- Wills/Family Trusts/Enduring Powers of Attorney
- Relationship Property Agreements

# Family Charters

- Record the family's history.
- Family Tree and Structure Chart.
- Summarise the present circumstances.
- Guiding principles rather than binding rules.



# Intrinsic value



- View valuations critically.
- Do they properly account for owner-operator salaries?
- Is the balance sheet flattered by underlying property valuations?
- This is the difference between owning a job and owning a business.

# Generational Differences

As families shift from one generation to the next, individual and collective views regarding education, risk and wealth also shift.



# The Best Outcomes



- Involve early engagement
- Are not tax driven
- Require collective involvement and an understanding of family dynamics
- Involve open communication and collaboration
- Are human based, and distinguish between management and governance
- Take time, detective work and intelligence gathering about the family.
- Involve some independent governance.



# *‘Kiwistand’*



**A well designed succession plan can lead to inter-generational prosperity and have tangible public policy benefits.**

**The challenge is to overcome the disconnect between strategy and execution.**

# Questions



Thank you.

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