



SUCCESSION PLANNING

DESCRIPTION

- Succession planning refers to the strategies and processes a company has in place to identify and develop future leaders, ensuring a smooth transition when key personnel leave.
- A solid succession plan ensures business continuity, reducing disruption from leadership changes, and protecting the company's value post-acquisition.

WHY PRIVATE EQUITY CARES

- PE firms look for businesses that have a clear succession plan to avoid leadership gaps, which can disrupt operations and decrease the company's value.
- A well-prepared succession plan indicates stability and reduces the perceived risk associated with the transition of leadership after the acquisition.

IMPACTS ON SELLER

- **Well-Defined Succession Plan:** Higher valuation due to buyer confidence in leadership stability and continuity.
- **Lack of Succession Plan:** Potential discount due to perceived risks of leadership disruption and the need for an immediate leadership transition.
- **Uncertain Leadership Transition:** Possible delay in the sale or discount if a suitable leadership transition plan is not in place or is unclear.

EXAMPLE

Factors	Weak	Medium	Strong
Leadership Transition	No plan or clear successor	A plan in place but some gaps	Clear plan in place
Valuation Impact	-20-40% discount to EV	-10-20% discount to EV	+0-10% of EV
Buyer's Risk Perception	High	Moderate	Low

