



ST. JAMES'S PLACE
WEALTH MANAGEMENT



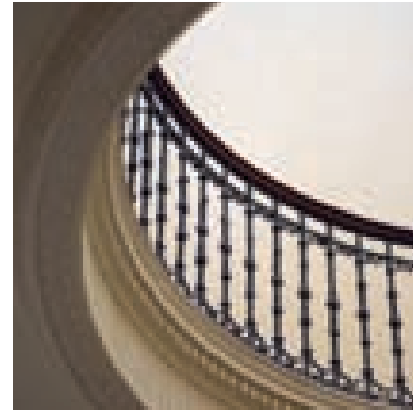
Creating
FINANCIAL INDEPENDENCE

MANAGING WEALTH FOR PEOPLE IN BUSINESS

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A wealth of knowledge

The St. James's Place Partnership is made up of some of the most experienced, able and highly regarded professionals working in financial services today. Our Partners - so called because of their common purpose and shared values - have an average of 17 years' experience in financial services.

The St. James's Place Partnership is part of St. James's Place Wealth Management - a provider of a growing range of financial services of outstanding quality, that are available exclusively through the Partnership. With funds of over £21 billion under management, St. James's Place is one of the UK's leading wealth management organisations.



Challenges for your business

Running a business today takes a great deal of hard work and commitment. The pressures of maintaining the pace in competitive markets mean that the future wellbeing of the business tends to take priority over time spent on planning your own financial objectives.

As well as the challenges you face in the day to day running of your business you will also need to consider:

- Creating financial independence from your business
- Ensuring cash assets in the business are invested to maximise returns and tax efficiency
- Establishing an effective exit or transition strategy
- Structuring your remuneration tax efficiently and cost effectively
- Arranging appropriate agreements and insurance with your fellow shareholders to resolve disputes and maximise tax efficiency
- Identifying and mitigating the liabilities that could be created by the loss of a key person

Rising to these challenges and continuing to run your business successfully isn't an easy task. That is why, by taking time to understand your business, we can help you meet your aims, so you can concentrate on what you do best - managing your business.

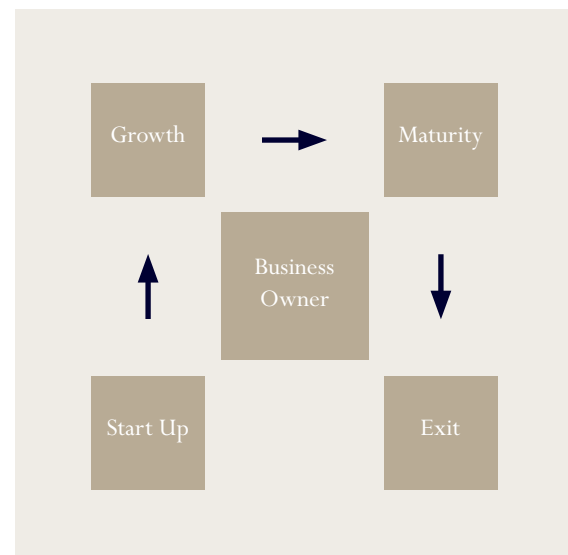
We are not only experts in our chosen field, but we also have access to other specialists, so that, through one relationship, your business can benefit from expert advice in every area of corporate financial planning, helping you to deliver your short and long term objectives.



The business lifecycle

Every business is different and in order to help you to have the greatest chance of achieving your objectives we believe that it is essential to take the time to understand your business, the priorities you have set and the challenges you face in achieving them.

While every business is unique, in the course of our work we notice many generic similarities between businesses at different stages in their lifecycle. We see there being four typical stages in the lifecycle of a business.



Your business lifecycle

It might be interesting for you to consider at which stage of the business lifecycle you are at currently and then think about the development of your own business and the different challenges you have faced as your business has evolved. In order to help you do this we have listed below some of the general characteristics we see in businesses at different stages of the lifecycle and questions we tend to ask business owners in our meetings with them.

Start up

We characterise businesses in this state of their lifecycle as being within two years of start up. Generally the owner is experiencing transition from being in employment to owning their own business resulting in working long hours and pressure on their personal life. They may have invested substantial private funds in the start up, either through their own cash or guarantees from their bank. Generally, we find the biggest challenge these businesses face is juggling the management roles of marketing, finance, operations, sales and HR with little external support. They may also be dependent on one major customer or contract at this stage in the lifecycle.

Key Questions for Business Owners in the Start Up Phase

What inspired you to start your own business and how have you found the transition from employment to being your own boss? How has it affected your home life and your family?

Did you produce a written business plan before you started? How did what actually happened compare with the plan? What was your biggest mistake in the start up process?

How did you fund your start up? Did you inject personal funds or provide the bank with personal guarantees?

Has your decision to start your own business improved your personal financial situation? If not yet, do you believe it will in the future?

Who deals with things like the accounts, marketing and running the office? How good are you at so called 'spinning plates and multi-tasking'?

How do you see the next phase of business development? If you had a magic wand what would you wish for?

Many businesses evolve from a start up business to a small lifestyle business which meets the objectives of the founder. Some start up businesses evolve into growth and maturity.

Growth Businesses

Following a successful start up of a business we often find that they evolve quickly with rapid growth in sales, profits and the size of their organisation. This brings new challenges in wrestling with the transition from start up to maturity including the building of a management team, possibly moving to larger premises, installing appropriate IT systems, infrastructure etc.

There may also be implications from growth, including an additional requirement for finance, working capital and cash flow together with avoiding the dangers of over-trading. We also find that businesses at this stage of their lifecycle begin to develop reliable management information most usually in the form of management accounts produced by some purchased proprietary provider, to enable them to manage their business more effectively.

Perhaps the biggest challenge that business owners in this phase face is their own personal transition from 'expert tradesman at the coalface' to an effective business leader supported by a strong management team committed to a clear business plan enabling them to complete the business lifecycle. The transition, while necessary, is often a hard one to make.

One of the most important aspects from a wealth management perspective is formulating a policy for extracting profits from the growing business including pensions, bonuses and dividends to ensure that some financial independence is created. It also becomes important to ensure that the appropriate incentives are in place to attract and retain key managers in the business.

As the business grows and takes on considerable scale, a genuinely valuable asset evolves and it is therefore imperative that appropriate agreements are in place between shareholders / partners to avoid

disputes and to secure valuable tax advantages on disposal. Anticipating financial risk associated with 'catastrophe' eg the critical illness or death of the owners and other key contributors to the business is also essential.

Key Questions for Business Owners in the Growth Stage

How much time do you spend working on the business as opposed to working in the business? In other words working on the strategic development of the business as opposed to merely handling the 'day to day activities'. Has this changed in recent times and do you see it continuing to change in the future?

How do you make important and difficult decisions about the future of the business? Who do you talk to?

What would happen to the business if you or any of your co-owners are unable to work?

How do the finances of the business work? To what extent do you rely on your bank to provide support and how does the relationship work?

Have you developed a policy for paying yourself a bonus or extracting some cash to reflect all your hard work to date?

Where do you see the business in three years time? Do you think you could sell it and retire to the beach?

Some businesses will evolve from growth to maturity. Others will enjoy a period of rapid growth followed by a gentler rate of growth.



Maturity

Following a long period of growth, many businesses reach a stage of maturity where they reach a relative plateau in terms of sales, profits and growth. In these cases we often find long-serving or family members in senior management positions and this can lead to conservative marketing and decision making.

We also find that these businesses have more complex financial structures in place such as share holdings, freehold and investment property, cash in the bank and well funded retirement benefits.

There may also be an increased perception of the risks of the loss of key customers, key employees, or changes in the competitive environment which could result in adverse impact on the ongoing success of the business.

The owner of a well-run mature business should have created considerable personal wealth that is outside the company by this stage. However, where there has been explicit or implicit reliance on the business to provide future financial security this may well not be the case. In such circumstances the owner will be assuming greater levels of risk with such an undiversified investment - even if it is their own business.

Finally we find that many mature business owners have at least one eye on how they will ultimately exit their business and will have plans in place to ensure this happens successfully.

Key Questions

What role do you play in the business, what are your key responsibilities and who reports to you?

What are the key issues facing the business and how do you envisage dealing with them?

Are there changes in your industry/trade which cause you concern?

How do you see the question of succession? Who will take on your role when you hang up your boots?

Looking back over the years since you started the business, what was the most enjoyable period?

How does the value of your shares in the business fit into your financial planning for your future and the future of your family?

Exit

Business owners who are at the point of exit, or approaching exit, normally have a clear motivation supporting their intention to realise the desired value in their business. This is often caused by catalysts such as age, change in personal circumstances or an unsolicited approach from a potential buyer.

Of course, where a business is owned by more than one owner and the business is to be sold as a whole as a going concern there will need to be unanimity among the owners. At this stage, involvement of external experts to advise on maximising the value to be realised, including tax and personal financial planning, tend to be key to success.

Business owners at the point of exit should be evaluating the various options including trade sale, management buy out or perhaps even an initial public offering. They should also be very focused on dealing with issues that may impede or reduce the value on exit, managing these matters very carefully prior to exit to maximise exit value.

We also find that, what we describe as lifestyle businesses, where the success of the business is very reliant on the efforts of the owner who is instrumental in the creation of profitability and value, realise much less value on exit than those businesses that have grown and matured effectively where a strong management team, established products, services and customers, allow the business to stand alone without the owner.

Of course, the economic conditions at the time, and in particular the availability and cost of capital, can have a tremendous effect on both the availability of potential buyers and the price they are prepared to pay. Timing of any sale is therefore critical to maximising value.

Exit planning strategy may include some products and services that are separate and distinct from those offered by St. James's Place.

Key Questions

What triggered your decision to sell your interest in the business?

Does the value of the business on exit satisfy your financial planning requirements?

Have you considered a range of options for tax planning to maximise the proceeds net of tax?

Are you happy that the exit process will produce the best results including competitive bids for your business and minimal earn outs or conditional consideration?

What are your plans following the exit?

Will you retire or will you reinvest the proceeds in another business?

Do you intend to distribute part of the proceeds to your family?



How St. James's Place Wealth Management can help

There are a number of ways in which St. James's Place Wealth Management can help dynamic business owners manage their wealth, as well as mitigating the human risks within their companies, whatever their stage in the business lifecycle.

Wealth Management

You will no doubt have spent time and taken advice on ways to maximise current income, minimise costs and taxation. In addition, you will be working hard to ensure that the business operates profitably to maintain the lifestyle you and your family enjoy. We focus our energies on ensuring that you create financial independence from your business through tax-efficient profit extraction and an award winning approach to investment management.

Creating Financial Independence from your Business

Many business owners regard their business as their primary source of retirement planning. They expect to be able to realise sufficient wealth from the sale of their business to secure a comfortable retirement. For some, this will become a reality; for the majority, sadly, it will remain an unrealised dream.

We work with business owners to test the robustness of their planning and for this we use a simple process. To ascertain, through a client's indication of the strength or relevance of particular characteristics of their business, the likelihood that:

- a) value will be created or currently exists;
- b) any such value is capable of being realised at exit;
- c) net of tax, any such realised value will be sufficient to deliver the required financial security.

Some of the majority, who will not realise capital value, accept that their business is essentially a 'lifestyle' which produces an income but will be unlikely to have value to anyone else but them. In other words, it is unlikely to produce a capital value at retirement. If this is accepted early enough, appropriate alternative planning can be established to build financial independence from the business that can provide an income if and when the revenue flow from the business dries up, or when the business owner decides to take retirement.

The tax relief available for directors who choose to plan their remuneration carefully is considerable and, what is more, it is one of the most effective ways of making the business work for you in creating your own financial independence.

Your St. James's Place Partner will be able to guide you through this process and the options open to you.



Making Corporate Cash Work Harder

Many companies carry cash surpluses, generated through successful trading and uninvested profits, on deposit. This money may be earmarked for investment in the business over the short term, however, we find that many businesses can carry deposits for a long period when there is no immediate plan for this capital.

There are alternative options open to companies in this situation and we work with business owners to evaluate the alternatives that, in some circumstances may provide:

- a) greater tax efficiency;
- b) higher degree of security;
- c) potential for superior investment returns.

Your St. James's Place Partner can undertake a corporate investment review to establish the most appropriate options available.

Risk management

Having spent time building your business it is clearly important that you reap the rewards in the future. However, hard work and endeavour alone will not guarantee success, it is also important to understand that careful risk management now can secure your and your family's future financial well-being.

Business Liability Assessment

The Business Liability Assessment is a structured process for assessing the financial risk that an owner-managed business could suffer on the death or serious illness of a key person - one whose financial contribution to the business is strong and identifiable.

Business Intestacy

It is accepted that we should all have an up to date Will that defines how we want our assets treated on our death, or we run the risk of dying intestate where our estate may not go to our desired beneficiaries. Does your business have a Will? Far too many businesses

have no provision for share succession which could result in a 'business intestacy'. Your St. James's Place Partner will help you to understand your risk of business intestacy and the steps you could consider to ensure proper share succession plans.

Business Property Relief

Provided you have owned a share of a business for at least two years then, broadly speaking, your qualifying interest in the business will be free from Inheritance Tax on your death. This is known as Business Property Relief. However, it is easy to inadvertently disqualify yourself from this relief and your St. James's Place Partner can help you to ensure that you qualify for this valuable benefit.

Our guarantee

The St. James's Place Wealth Management Group guarantees the advice given by its representatives, when recommending any of the products or services offered by companies in the Group.

What to do next

As an expert in wealth management, your St. James's Place Partner can talk you through the full range of protection options and create a bespoke solution for you. If you are interested in discussing your options in more detail, contact your St. James's Place Partner.

For further information, please contact your St. James's Place Partner, call St. James's Place Wealth Management on 0800 0138 137 or visit www.sjp.co.uk





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Members of the St. James's Place Wealth Management Group are authorised and regulated by the Financial Services Authority.
The St. James's Place Partnership and the title 'Partner' are the marketing terms used to describe St. James's Place representatives.

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Registered in England Number 2628062

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SJP3094 VR3 (04/10)