



A massively successful 56-year old franchise owner/operator of more than 100 QSR (quick serve restaurants) units, valued at more than \$100 million, knew it was time to begin the transition of his business holdings to his 26-year old son. With that decision arose a litany of concerns for which he felt unprepared to handle.

What about his retirement? What about his key employees? This case study addresses these concerns and more as the franchise owner seeks help to traverse the challenges of exiting his business.

Main Challenges

Our franchise owner founded his business at age 26 with the financial help of his parents. He then set out to build a worthwhile enterprise that ended up defying even his high expectations. Along the way, he learned classic lessons of an entrepreneur: leadership, talent-building, fiscal responsibility, market strategies, even real estate development. One area preoccupied him the most. Sustainability. He wanted to be one of those successful entrepreneurs whose efforts in building a substantial enterprise would be sustainable through multiple generations. And now he was at a crossroad: it was time to bring his son into the business.

Working closely with Sage Hill Advisory & Management, his **family office management consultant** for guidance, our franchise owner tackled his challenges one by one:

- Establish family 'dynasty' trusts to reflect his values and desire to assist future family generations.
- Gift or sell franchise assets and real estate into these trusts while maximizing tax efficiency.
- Minimize the need for excessive or poorly structured life insurance to provide estate liquidity.
- Negotiate with QSR parent company to enable ownership of franchise assets to move into the family trust.
- Communicate disposition of assets with family; put the plan into place in the event of owner's sudden death.
- Protect the futures of the key employees responsible for the growth of the enterprise.

Key Employee Challenge

Our franchise owner was well aware of some discomfort among his managers and key employees with the potential shift in leadership from father to son. Although the son was “bright, unassuming, and respectful,” employees had witnessed at franchisee meetings the father-son scenario fail because of differing visions and attitudes. Or the entrance of a private equity firm making an offer the son couldn’t refuse. Or worse, the father dies suddenly, and the company must be liquidated to pay estate taxes. Or the son experiences a messy divorce, and the estranged spouse ends up owning a formidable portion of the company.

In short, the hard-working people who helped build the company didn’t want to be left out in the cold; they wanted to continue to feel motivated and enjoy the opportunity to grow their personal wealth.



The Solution

The family office management consultant to our franchise owner brought in Executive Benefit Solutions (EBS) to create an effective benefit plan for the management team. The engagement required a robust forecasting model, easily understandable by the management team and the owner, one that would lead to a stronger EBITDA and enhanced company value. The managers needed to understand their financial rewards and how and when they would vest in those rewards.

Phantom Stock Plan

By way of plan background, private mid-market companies face a mountain of challenges to recruiting and retaining talent. Major public companies can attract and hold onto top-performers with generous benefits and long-term equity. Smaller private companies can attract talent with innovative cultures, and the promise of ground-floor IPOs.

The solution for mid-market companies? Help a key employee think like an owner. If properly incentivized, employees boost their performance, values align, and ownership becomes leadership.

Phantom stock fills the void for private companies, giving employees a level playing field to build equity, and meet retirement goals.

The Specifics

EBS developed and instituted a phantom stock plan, structured as a stock appreciation rights plan, which we call a “Phantom Stock Accumulation Program.” Below is a sample participant illustration of the plan.

- Participant receives 8,000 phantom shares over a period of four years.
- Vesting of shares over five years provides “glue in the seat” retention.
- Participant invested in the success of the EBITDA growth; motivated to think like an owner without diluting stock.

1	Participant		Phantom Stock Award	Phantom Shares Granted	Share Price	Year									
	Year	Cal Year				12/31/2016	12/31/2017	12/31/2018	12/31/2019	12/31/2020	12/31/2021	12/31/2022	12/31/2023	12/31/2024	12/31/2025
					48.00	65.33	88.91	121.01	164.69	224.15	305.06	415.19	565.08	769.07	1,046.70
1	2016	2.00%	2,000		65.33	34,656	81,823	146,017	233,385	352,293	514,127	734,382	1,034,150	1,442,135	1,997,401
2	2017	2.00%	2,000		88.91		47,167	111,361	198,729	317,637	479,471	699,726	999,494	1,407,479	1,962,745
3	2018	2.00%	2,000		121.01			64,194	151,562	270,470	432,304	652,560	952,328	1,360,312	1,915,578
4	2019	2.00%	2,000		164.69				87,368	206,276	368,110	588,365	888,134	1,296,118	1,851,384
5	2020	0.00%	0		224.15				0	0	0	0	0	0	0
6	2021	0.00%	0		305.06					0	0	0	0	0	0
7	2022	0.00%	0		415.19						0	0	0	0	0
8	2023	0.00%	0		565.08							0	0	0	0
9	2024	0.00%	0		769.07								0	0	0
10	2025	0.00%	0		1,046.70									0	0
			8.00%	8,000	Earned	34,656	128,990	321,572	671,044	1,146,676	1,794,011	2,675,034	3,874,106	5,506,043	7,727,109
					Vested	0	0	0	0	352,293	479,471	652,560	888,134	0	0
					Salary	100,000	103,000	106,090	109,273	112,551	115,927	119,405	122,987	126,677	130,477
					Bonus	10,000	10,300	10,609	10,927	11,255	11,593	11,941	12,299	12,668	13,048
					Total Comp	110,000	113,300	116,699	120,200	123,806	127,520	131,346	135,286	139,345	143,525
					Phantom Stock Value as % of Salary	35%	125%	303%	614%	1019%	1548%	2240%	3150%	4347%	5922%

The Process

As with all successful engagements, communication among the parties is the linchpin to success. With permission from the franchise owner, Sage Hill shared with EBS his complete needs and goals. A conference call with the owner and subsequent face-to-face meeting were arranged to launch the engagement. Importantly, at the meeting, EBS conducted individual interviews with all of the eligible participants in the proposed plan. On request, the owner also provided the company historical and projected P&Ls and compensation census data to EBS.

Now EBS was equipped with the owner’s goals, quantitative data, and a thorough understanding of participants’ dynamics and drivers. With the pre-planning phase complete, EBS embraced the plan design phase with its goal to produce a plan that was consistent with the owner’s objectives.

- EBS established a pro forma plan design and quantitative pro forma, which projected individual incentive compensation, corporate cash flow, and EBITDA ramifications.
- A drafting attorney reviewed the pro forma plan design, drafted the plan, and it was quantitatively stress-tested.
- EBS and Sage Hill role played a presentation with the franchise owner to present to the management team (first alone, then with the leader of the management team).

- A formal management kick-off meeting took place with EBS and Sage Hill present; the franchise owner presented a plan overview, with involvement from his COO.
- EBS and Sage Hill presented an executive plan summary to the participants and demonstrated the EBS Modeler to help them visually project future benefits.

The Results

The main challenges of the father/son relationship to the business resolved themselves in a carefully laid out succession plan, which is now in place. The franchisor signed off on the family trusts as the owner of the franchisee interest. And the father and son were both officially sanctioned as Approved Operators. The son is in line to become a strong operator, and his progress will be monitored by all three, the franchisor, the father, and the son himself.

While the plan has only been in place a short time, not long enough to measure any quantitative change, the operator/owner is encouraged that the plan will succeed in enhancing his corporate culture. In his words:

“When you have a means to help employees think like owners, everyone benefits. With the new EBS phantom stock plan, I see a greater esprit de corps among the management team and key employees. I’m finding from the numbers that productivity is up. And my son is elated to see a clear pathway to his success,” says the franchise owner/operator. *“It’s been a very positive experience.”*

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Executive Benefit Solutions (EBS) innovates supplemental executive benefit solutions for mid-size employers, working in tandem with plan consultants and advisors to deliver highly effective non-qualified executive benefit programs. To our knowledge, no other firm in executive benefits possesses the capability to optimize your plan as we do. For more information, contact Managing Director Chris Rich at EBS: 617.904.9444 ext. 2 or email to crich@ebs-boston.com

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