



cutting through complexity

Family Business Story

Case Study 3 Planning ownership for future generations: shareholders' agreement

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Part 1: The story

Caroline said goodbye to her brothers Louis, Charles and Timothy, and rushed to her car, very satisfied with the decision that had been made. They had agreed to develop a shareholders' agreement to secure the future ownership of the family business while giving some flexibility to individuals to sell shares. She could now go and visit her father Thomas Sages to share the good news.



Thomas Sages was a very successful entrepreneur who had transformed his first grocery store into a large supermarket chain over the past decades. He was in his late 80s now, and had initiated a conversation with his four children about the future of the family business.

Contrary to what he had expected, each of them had expressed the wish to become, or remain, a shareholder in the business as they wished to be in a position to pass on some shares to the next generation. The Sages family circumstances (Thomas' two marriages and prior distribution of shares to his second wife and their children; Caroline's husband David's ownership; and a transaction between David and Timothy), would result in an uneven distribution of the shares between the four children upon the demise of Thomas and his second wife Martina.

Future projected ownership	Louis	Charles	Caroline + David Jr.	Timothy
%	11%	23%	30%	26%

NB: the managers of the group owned 10%



Part 1: The story



The four siblings were aware that there may be a requirement for them, or their children, to sell part or all of their shares in the future. It was therefore important to plan ahead, while at the same time trying to avoid the entry of an external investor. They had considered the following:

- What would be the process if someone wanted to sell his/her shares?
- How would the transaction price be established?
- Would other family shareholders have a pre-emption right? How would that work if there were more buyers than sellers? Would shares be allocated in proportion to the existing stakes, or would priority be given to those with fewer shares?
- What would happen if there were fewer buyers than sellers? Would the company buy the shares?

While they had listed their preferred options, they now needed to further discuss the matter with their trusted advisor.

- *What advice would you give the Sages siblings regarding their shareholders' agreement?*
- *What is your own experience in this area? Do you have examples of best practice?*

