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Family Wealth Evaporation Trap

*Strategies for Realizing &
Protecting Family Business Wealth*

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Strategies for Realizing & Protecting Family Business Wealth

By: George A. Isaac, Family Office & Family Business Consultant, Author & Speaker

THE PROBLEM:

Family enterprise principals often inappropriately view the family business as their “operating entity” and all other assets as their “investments.” They confuse business returns on equity with *realized* shareholder returns. Their “conservative” financial management often leads to irresponsible stewardship of a family’s wealth resulting in families unnecessarily taking on unrecognized risks and experiencing lower investment returns and diminished liquidity. The consequence is inevitably the silent and unseen evaporation of family wealth – often over a single generation and the creation of problematic family dynamics from not meeting both business and individual family shareholder needs.

THE SOLUTION:

Recognize that the value of your family business is best described as an “unrealized stock gain”. Value is not “realized” until cash ends up in the owner’s pocket, which is often dependent upon a future liquidity event, such as the sale of the business. During this unrealized wealth creation phase, your family’s business wealth is highly concentrated, illiquid and exposed to significant risks and reduced investment performance. Risks from volatility of earnings, new competition, loss of key employees, customers, or suppliers, and uncontrollable market dynamics, such as interest rates, recessions, government regulations, and valuation multiples, all impact the value of your business. In addition, family “soft issues” relating to individual family member connectivity, communication and compensation are often not met, leading to negative family stakeholder satisfaction. These situations create a compelling need to look at a family business as part of an overall family’s wealth portfolio. Common solutions may include business re-capitalization, distribution of certain assets, and harvesting a portion of trapped family business wealth over time. The primary focus is to protect the family business and its future value creation capabilities. A parallel objective is to address individual and overall family wealth management objectives and any issues with current or future family dynamics that could impact long-term family business longevity.

THE BENEFITS:

By implementing the **FAMILY WEALTH ROADMAP™**, the following objectives can be achieved:

- Quantified and available capital to support the family enterprise’s current and future needs
- Improved Risk Management / Protection Against Unpredictable “Tail” Risks
- Improved Family Wealth Liquidity & Investment Diversification
- Tailored Investments that Meet *Individual* Family Member Needs & Objectives
- Tax Efficient and Custom Business Wealth Transfer while Maintaining Control Positions
- Increased Family Wealth Asset Protection for both business and non-business assets
- Improved Risk-Adjusted Overall Family Wealth IRR’s
- Improved Family Stakeholder Satisfaction with Family Enterprise

Implementing the Family Wealth Roadmap™

I. BUSINESS & INVESTMENT REVIEW

- Analyze Existing Asset Allocation
- Perform Mini Business Operational & Financial Review
- Model Volatility & Sustainability of Business Cash Flows
- Create Scenario & Sensitivity Models of Business Cash Flows & Capital Needs

II. FAMILY & FAMILY ENTERPRISE NEEDS ASSESSMENT

- Interview Family Leadership and Active & Passive Family Stakeholders
- Develop Needs Assessment and GAP Analysis
- Prepare Key "Term Sheet" Options
- Build Family Consensus around Preliminary Term Sheet

III. CAPITAL STRUCTURE REVIEW

- Analyze Business Capital Structure
- Rationalize Working Capital & Fixed Assets
- Test Revised Capital Structures & Shareholder Distribution Strategies Against Key Sensitivities

IV. REVISED PORTFOLIO ANALYSES

- Develop Five-Year Business Wealth Realization & Shareholder Distribution Plans
- Revise Wealth Asset Allocation & Investment Plan
- Model Investment Portfolio Returns, Yields, Risks & Volatility
- Finalize Family Wealth Investment Plan

V. ASSET PROTECTION & GIFTING/ESTATE PLANNING

- Review/Revise Family Gifting & Estate Plans
- Custom Design Family Asset Protection Plan
- Design Special Purpose Entities (SPE) & Review/Create Shareholder Agreements

VI. EXECUTE WEALTH REALIZATION PLAN

- Prepare & Sign Legal Documents
- Finalize Financial & Investment Plans; Update Gifting and Estate Plans
- Distribute "Trapped" Family Business Equity
- Prepare Summary Report Documenting Strategies, New Entities, and Shareholder Agreements

About the author...



George A. Isaac

Isaac is the founder and President of GAI Capital Ltd, a 15-year-old national management consulting and investment firm. Through his GEORGE ISAAC CONSULTING division, he provides specialized management consulting services to family businesses and family offices. The Firm's specialties include:

- TRANSITION PLANNING AND SUCCESSION MANAGEMENT
- CORPORATE AND FAMILY GOVERNANCE
- FAMILY WEALTH REALIZATION STRATEGIES
- PROBLEMATIC FAMILY DYNAMICS PREVENTION & RESOLUTION
- BUSINESS STRATEGY/OPERATING PERFORMANCE IMPROVEMENT

His primary focus is assisting business owners create, realize and preserve family business wealth. Based upon Isaac's perspective and skills gained through decades of family business, public company, and capital markets experience, his firm developed the **Family Wealth Roadmap™**, an innovative process to partially realize "trapped" family business wealth to support a diversified family wealth management portfolio.

Isaac has served on 14 public and private corporate boards for companies ranging in size from \$30M to \$1B and has consulted on over 100 client engagements in a variety of industries. As a result, he has a rare understanding of all aspects of starting and maintaining a family enterprise, from the technical to the behavioral. His prior experiences as a family business CEO and Director, Deloitte management consulting partner, corporate board member, and a private equity investor provides him with the unique perspectives of an operating executive, management consultant, and investor. The result is an ability to deliver pragmatic, strategic and implementable counsel to his family enterprise clients.

Isaac is also the co-managing member of the Isaac family office, GeoZac Holdings, Ltd. In addition, he currently owns a metals recycling company and serves as co-managing member of two of his family's 2nd generation operating companies, and is on the board of directors (prior CEO) of his 4th generation family business, The Isaac Group. His prior investment experience includes the formation of a fund of funds hedge fund and actively investing in private equity, early stage and public security transactions.

Isaac is a frequent speaker at national and international business meetings and conferences and has had over twenty articles published on family enterprise issues in the past few years. He is a Senior Advisor and Advisory Board member Chair for USC's Marshall School of Business Family Business Program. He is an active member of Young Presidents' Organization (YPO) and its Family Business and Family Office Networks, the CNBC-YPO Chief Executive Network, the National Association of Corporate Directors (prior member), and a recent International Board Member of Chief Executives Organization (CEO). Isaac is a credentialed Certified Management Consultant (1984) and holds an MBA *with distinction* in Finance and a BS Industrial & Operations Engineering degree from The University of Michigan.

Additional information is available at www.Georgelsaac.com; follow him on Twitter: @Georgelsaac888.