BEST PRACTICES

GOVERNANCE AND GENERATIONAL TRANSITION PROCESSES

for FAMILY BUSINESS ENTERPRISES

Zurich, Switzerland   .   May 24, 2016
“SHIRT SLEEVES TO SHIRT SLEEVES IN THREE GENERATIONS”
TOTAL FAMILY WEALTH

Operating Businesses

- Core Businesses (10+ years of continuous ownership)
- Other Middle Market Businesses
- Operating Assets
- New Direct Investments

Other Investments

- Cash / Highly Liquid Assets
- Brokerage or Trading Accounts
- Public Investment Funds (Domestic & Int’l)
- Private Investment Funds (Domestic & Int’l)
- Real Property
- Insurance & Annuities
- Art & Collectibles

Family Net Worth

- Business Equity Value = 30%-to-90% of Personal Net Worth

Family Income

- Business Generates 25%-to-95% of Annual Income

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ATTRACTION THEORY = DESIRE TO CONTINUE

Plan to Keep Ownership in the Family for the Next Generation

Source: Mass Mutual survey of 3,000 family business CEO’s

<table>
<thead>
<tr>
<th>YES</th>
<th>NO</th>
</tr>
</thead>
<tbody>
<tr>
<td>66%</td>
<td>34%</td>
</tr>
</tbody>
</table>
A CLOSER LOOK AT GENERATIONAL TRANSFER STATISTICS

On average, 50% of Generational Transition Plans Fail

Plan to Keep Ownership in the Family for the Next Generation

- **YES**: 66%
- **NO**: 34%

Source: Mass Mutual survey of 3,000 family business CEO’s

U.S. Generational Transfer Statistics

- Never Gets Past 1st Generation: 70%
- Never Gets Past 2nd Generation: 20%
- Never Gets Past 3rd Generation: 15%
- Make it to 4th Generation and Beyond: 3%

Source: Mass Mutual survey of 3,000 family business CEO’s
WHY THE HIGH FAILURE RATE FOR GENERATIONAL TRANSFERS?
Is the Goose at Risk?
FIVE PRINCIPAL CAUSES FOR UNSUCCESSFUL GENERATIONAL TRANSITIONS

1. Uncoordinated Financial Demands on Business Profits
2. Unclear Boundaries
3. Lack of Non-Financial Capital Development
4. Inadequate Operating Business Oversight
5. The Elephant in the Room – Internal & External Risks
1. Uncoordinated Financial Demands on Business Profits

Business Needs:
- Business Growth, People, Systems, Capital, Inventory, Strategic Risk

Owner Needs:
- Older Generation Reward and Security
- Taxes and Estate Costs
- Younger Generation Development, Compensation, Distributions, Lifestyles

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2. Unclear Boundaries

Boundaries Blur When Family Members Serve in Different Roles

Shading Represents Areas of Role Confusion That Can Lead to Conflict

**FAMILY**
Concerned with:
- Human, Social, Intellectual & Financial Capital
- Family Value & Legacy
- Relationships
- Communication
- Children
- Fairness
- Philanthropy
- Generational Transition

**OWNERSHIP**
Concerned with:
- Valuation
- Dividends & Liquidity
- Working Capital
- Estate Planning
- Ownership
- Transfer
- Management Succession
- Social Responsibility
- Risk Mitigation

**BUSINESS**
Concerned with:
- Governance
- Leadership & Management
- Growth & Profits
- Capital
- Strategy
- Employees
- Policy
- Strategic Risks
- Business Continuity
- Compensation & Incentives
3. Lack of Non-Financial Capital Development

Sustainable Wealth Preservation lies in accepting the correlation between the growth of a family’s human, intellectual, and social capital and its financial capital:

**SUCCESSFUL GENERATIONAL TRANSITIONS REQUIRE A BROADER UNDERSTANDING OF CAPITAL**

**HUMAN CAPITAL**
The knowledge, talents, values, passions and aspirations of an individual family member

**INTELLECTUAL CAPITAL**
Alludes to the individual’s learning aptitude and the family’s capabilities to communicate, resolve conflicts and make joint decisions

**SOCIAL CAPITAL**
The networks of relationships among people who live and work in a particular society, enabling that society to function effectively

Consequently, understanding and allocating your family’s human and intellectual capital will allow you to sustainably enhance the family’s financial capital:

Family Wealth = Human + Intellectual + Social Capital (+ Financial Capital)
4. Inadequate Operating Business Oversight

**Generational Transition Often Increases Business Disruption Risk**

<table>
<thead>
<tr>
<th>Time Span</th>
<th>Growth Period</th>
<th>Generational Transition</th>
<th>Outcome</th>
</tr>
</thead>
<tbody>
<tr>
<td>Performance</td>
<td>Successful Transition</td>
<td>Value Erosion or Exit</td>
<td></td>
</tr>
</tbody>
</table>

- Growth & Competitive Factors
- Capital Funding Factors
- Transition & Continuity Factors
Successful Generational Transition for Entrepreneurial Families requires a Generational Transition Process that takes into account factors other than business profits, which can negatively impact the successful transfer of a business from one generation to the next:

<table>
<thead>
<tr>
<th>Death &amp; Divorce</th>
<th>Poor Trustee / Beneficiary Relationships</th>
<th>Lack of Generational Transition Process</th>
<th>Unresolved Intra-Family Conflicts</th>
</tr>
</thead>
<tbody>
<tr>
<td>Talent Gap and/or Lack of Succession Management</td>
<td>Failure of Sound Family Governance and Multi-Generational Stewardship</td>
<td>Unhealthy Dependency</td>
<td>Geopolitical &amp; Macro-Economical Developments</td>
</tr>
</tbody>
</table>

**Internal & External Risks**
HOW DO SUCCESSFUL FAMILIES BEAT THE ODDS?

BEST PRACTICES: Family & Business Governance Systems
**FUNDAMENTALS OF FAMILY GOVERNANCE**

**PRINCIPLES**
1. Family Vision
   - Mission
   - Values

**POLICIES**
2. Family Constitution / Charter
   - Rules of Communications & Decision Making
   - Rules for Family Business
   - Expectation for Family Participation

**PRACTICES**
3. Family Meetings & Committees
   - Family Office / Co-Ordinated Advisors
   - Family Wealth Education Programs
   - Charitable Giving

Source: P. Angus; Family Governance: A Primer for Philanthropic Families, 2004
**EXAMPLE OF GOVERNANCE SYSTEM STRUCTURES & PLANS**

**OWNERSHIP**

Concerned with:
- Valuation
- Dividends & Liquidity
- Working Capital
- Estate Planning
- Ownership
- Transfer
- Management
- Succession
- Social Responsibility
- Risk Mitigation

**FAMILY**

Concerned with:
- Human, Social, Intellectual & Financial Capital
- Family Value & Legacy
- Relationships
- Communication
- Children
- Fairness
- Philanthropy
- Generational Transition

**BUSINESS**

Concerned with:
- Governance
- Leadership & Management
- Growth & Profits
- Capital
- Strategy
- Employees
- Policy
- Strategic Risks
- Business Continuity
- Compensation & Incentives

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**The Family System**

**STRUCTURES**
- Family Assembly / Family Council
- Sibling Partnership – Cousin Consortium
- Family Meetings/Retreats
- Group & Individual Training

**PLANS**
- Family/Individual Life Plans
- Career Plans
- Family Values/Constitution
- Philanthropic Plan

**The Business System**

**STRUCTURES**
- Business Model
- Business Board & Committees
- Executive Management Team
- Organizational Structure
- Management Meetings/Retreats
- KPIs & Innovation Metrics

**PLANS**
- Leadership & Team Development
- Culture & Succession Development
- Strategic Planning System
- Direct Investment Plan

**The Ownership System**

**STRUCTURES**
- Ownership Board & Committees
- Shareholder & Beneficiary Meetings
- Ownership By-Laws
- Shareholder Agreement
- Financial Administration

**PLANS**
- Governance Process Development
- Business Modeling
- Values & Standards Development
- Exit/Transition Plan

**PLANS**
- Continuity Plan
- Estate & Distribution Plan

**Local & Foreign Taxes**

**Compliance**

**Geopolitical & Global Macro Mega-Trends & Risks**

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MOST SUCCESSFUL MULTI-GENERATIONAL FAMILY BUSINESS ENTERPRISES DEVELOP PARALLEL GOVERNANCE SYSTEMS

Family/Ownership Governance

Today’s Owners, Beneficiaries & Influencers

Tomorrow’s Owners, Beneficiaries & Influencers

Business Governance

Today’s Business Board & Executive Team

Tomorrow’s Business Board & Executive Team

GREATER

Shareholder Value

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“Best Practices” Relationship Between Family / Ownership Governance & Business Governance Systems

Family / Ownership Governance
- Family/Heirs
- Owners Board

Business Governance
- Business Board
- Executive Team

- Human Capital & Emotional Development
- Preparation for Good Stewardship
- Mission & Guidance
- Current Results & Future Strategy Reports
- Oversight & Development Data
- Operating Results / Operating Data

- Group Learning
- Cooperation
- Consensus / Direction

Patient Capital
- Operational Confidence

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BEST PRACTICES SUMMARY OF FAMILY AND BUSINESS GOVERNANCE ACTIVITIES

Family / Ownership Governance

- Owner Cohesiveness
- Owner Governance Process
- Owner Mentoring
- Business Understanding & Boundaries
- Trusts & Estates
- Business Related Philanthropy

Business Governance

- Value Creation Know-How
- Business Governance Process
- Corporate Development Capacity
- Risk Measurement
- Family / Business Boundaries
- Transition Preparation

Source: PitchBook Platform 2014
CREATE GENERATIONAL TRANSITION PROCESS

Here is what a typical generational transitioning planning process timeline looks like

- Process Design Development
- Process Testing
- Process Changes
- Process Confirmation
- Initial Process Implementation

18 – to – 24 months
3 – to – 5 years
GENERATIONAL TRANSITION PROCESS TOOLS
**BOARD OF DIRECTORS AND EXECUTIVE OFFICERS TRANSITION OVERVIEW**

<table>
<thead>
<tr>
<th>Name</th>
<th>Title</th>
<th>Date of Birth</th>
<th>Age Today</th>
<th>Age at Year-End</th>
<th>Board of Directors</th>
<th>Executive Officers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Russell</td>
<td>President and Chief Executive Officer</td>
<td>4/17/59</td>
<td>59</td>
<td>58</td>
<td>56</td>
<td>42</td>
</tr>
<tr>
<td>Ed</td>
<td>President- Residential Business</td>
<td>7/26/60</td>
<td>59</td>
<td>57</td>
<td>56</td>
<td>42</td>
</tr>
<tr>
<td>John</td>
<td>President- Commercial Business Unit</td>
<td>9/21/60</td>
<td>54</td>
<td>49</td>
<td>52</td>
<td>48</td>
</tr>
<tr>
<td>Jonathan</td>
<td>President- Antarico International</td>
<td>5/23/61</td>
<td>51</td>
<td>50</td>
<td>50</td>
<td>49</td>
</tr>
<tr>
<td>David</td>
<td>Senior Vice President and Chief Financial Officer</td>
<td>6/14/62</td>
<td>49</td>
<td>47</td>
<td>50</td>
<td>49</td>
</tr>
<tr>
<td>A. McGuire</td>
<td>Senior Vice President- Human Resources</td>
<td>1/15/63</td>
<td>49</td>
<td>46</td>
<td>49</td>
<td>49</td>
</tr>
<tr>
<td>Hite</td>
<td>Senior Vice President- Capital Business</td>
<td>9/15/63</td>
<td>50</td>
<td>49</td>
<td>50</td>
<td>49</td>
</tr>
<tr>
<td>Zachary</td>
<td>Senior Vice President- Distribution Network &amp; Customer Service</td>
<td>6/14/63</td>
<td>42</td>
<td>39</td>
<td>41</td>
<td>40</td>
</tr>
<tr>
<td>Kurt</td>
<td>Senior Vice President- Commercial Sales</td>
<td>7/16/63</td>
<td>55</td>
<td>52</td>
<td>55</td>
<td>52</td>
</tr>
<tr>
<td>Robert</td>
<td>Senior Vice President- Commercial Rubber</td>
<td>1/15/65</td>
<td>50</td>
<td>47</td>
<td>50</td>
<td>47</td>
</tr>
<tr>
<td>Klein</td>
<td>Vice President- Treasury, Taxation and Administration</td>
<td>8/14/65</td>
<td>51</td>
<td>50</td>
<td>51</td>
<td>50</td>
</tr>
<tr>
<td>James</td>
<td>Vice President- Corporate Information Technology</td>
<td>2/8/66</td>
<td>54</td>
<td>52</td>
<td>54</td>
<td>52</td>
</tr>
<tr>
<td>Joseph</td>
<td>Vice President- Retail Operations</td>
<td>6/11/66</td>
<td>55</td>
<td>52</td>
<td>55</td>
<td>52</td>
</tr>
<tr>
<td>Dorothy</td>
<td>Vice President- Financial Planning &amp; Reporting</td>
<td>1/11/69</td>
<td>56</td>
<td>54</td>
<td>56</td>
<td>54</td>
</tr>
<tr>
<td>Natalie</td>
<td>Vice President- Commercial Brand Development &amp; Creative Product</td>
<td>5/26/70</td>
<td>49</td>
<td>47</td>
<td>50</td>
<td>47</td>
</tr>
<tr>
<td>Jay</td>
<td>Vice President- Corporate Accounting</td>
<td>3/28/73</td>
<td>46</td>
<td>44</td>
<td>46</td>
<td>44</td>
</tr>
<tr>
<td>Glenn</td>
<td>Vice President - Sales</td>
<td>1/10/73</td>
<td>50</td>
<td>48</td>
<td>50</td>
<td>48</td>
</tr>
<tr>
<td>David</td>
<td>Vice President- Commercial Hard Surfaces</td>
<td>7/24/74</td>
<td>49</td>
<td>47</td>
<td>50</td>
<td>47</td>
</tr>
<tr>
<td>David</td>
<td>Vice President- Employment</td>
<td>2/10/75</td>
<td>57</td>
<td>55</td>
<td>58</td>
<td>55</td>
</tr>
<tr>
<td>Curtis</td>
<td>Vice President- Supply Chain</td>
<td>6/30/75</td>
<td>50</td>
<td>48</td>
<td>50</td>
<td>48</td>
</tr>
<tr>
<td>Douglas</td>
<td>Vice President- Operations, Hard Surfaces</td>
<td>4/24/76</td>
<td>49</td>
<td>47</td>
<td>50</td>
<td>47</td>
</tr>
</tbody>
</table>

* Daniels Family Member

**Transition Color Code**
- > 71
- 55 to - 70
- <55
- Recent Successor
- Successor Trial
- Successor Full Time

**Directors Color Code**
- > 65
- 55 to - 65
- <55
- Recruit Successor
- Successor Trial
- Successor Full Time

**Sample of Process Tool**

<table>
<thead>
<tr>
<th>Example of Process Tool</th>
<th>Example of Process Tool</th>
<th>Example of Process Tool</th>
<th>Example of Process Tool</th>
</tr>
</thead>
<tbody>
<tr>
<td>Example 1</td>
<td>Example 1</td>
<td>Example 1</td>
<td>Example 1</td>
</tr>
<tr>
<td>Example 2</td>
<td>Example 2</td>
<td>Example 2</td>
<td>Example 2</td>
</tr>
<tr>
<td>Example 3</td>
<td>Example 3</td>
<td>Example 3</td>
<td>Example 3</td>
</tr>
</tbody>
</table>

**NOTE:** Family names have been changed to protect their privacy.
DESIGNING THE BUSINESS GOVERNANCE MODEL

- BOARD & ORGANIZATIONAL DESIGN
- SHAREHOLDER INVOLVEMENT
UNDERSTAND HOW THE BUSINESS CREATES VALUE

Company Strategy & Execution Perspective
- Production Strategy
- Implementation Plan & Adequate Funding to Create Long-Term Shareholder Value
- Growth Strategy
- Improve Cost Structure
- Increase Asset Utilization
- Expand Revenue Opportunities
- Enhance Customer Value

Company Customer Value Proposition Perspective
- Strategic Perspective, Capital Alignment, Growth Support, Value Monitoring & Shareholder Liquidity
- Price
- Quality
- Availability
- Selection

Core Internal Processes That Drive Value Creation
- Product/Service Attributes
- Functionality
- Service
- Partnership
- Brand
- Relationship/Bonding
- Image

- Innovation Processes
  - Opportunity ID
  - R&D Portfolio
  - Design/Develop Launch

- Customer Management Processes
  - Selection / ID of customers
  - Acquisition
  - Retention
  - Growth

- Operations Management Processes
  - Process Variation
  - Productivity / Cost of Production
  - Process Supervision & Controls
  - Order to Cash

- Supply Chain Processes
  - Sourcing & Supply
  - Risk Management
  - Transportation & Logistics

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STRATEGY FRAMEWORK FOR BUSINESS PORTFOLIO

The allocation of resources and associated set of decisions and actions that will make the entire company **worth more than the sum of its parts** and will **maximize stakeholder value**

**Family Office / Holding Company Strategy**

The allocation of resources at SBU level and associated set of decisions and actions that enable one to **better serve its customers, gain competitive advantage** and **enhance returns**

**Strategic Business Unit “SBU” Strategy**

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Design a Governance Process to Sustain Value

- Decide Future Direction for Business, Shareholder Goals & Capital Requirements
- Grow & Operate
  - Liquidity Needs?
- Update Growth Strategy
  - Strengthen Value Drivers?
- Periodically Evaluate Performance & Risk
  - Capital Allocation & Investment Priorities?
  - Change Governance Or Strengthen Value Drivers?
  - 100% or Partial Liquidity?
- Sell
- Keep
  - Generational State & Goals
  - Market Size & Growth Limits
  - Business Life Cycle Stage
  - Change Governance Or Strengthen Value Drivers?
- Implement Growth Plan
  - Are Changes in Governance Required?
- Economy / Monetary Policy / Capital Markets
  - Competitive Capabilities & Development Positioning
  - Customer Needs / Competitors
  - External Growth
    - Alliances
    - Acquisitions
    - Mergers
    - Licensing
    - Joint Ventures
  - Internal Growth
    - Improve Organizational or Process Changes
    - Improve Product Development
    - Reduce Costs
    - Improve Sales & Marketing
- Is New Capital Needed?
<table>
<thead>
<tr>
<th></th>
<th><strong>Entrepreneurial CEO Model</strong></th>
<th><strong>BOD Oversight of CEO Model</strong></th>
<th><strong>Active BOD Model</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Board member selection</strong></td>
<td>By CEO</td>
<td>BOD recruits and recommends Board members to shareholders</td>
<td>BOD recruits and recommends Board members to shareholders</td>
</tr>
<tr>
<td><strong>CEO role</strong></td>
<td>Runs BOD agenda; controls operations; determines information to convey to shareholders</td>
<td>Develop strategic direction and implement strategy; create growth plan and select management team</td>
<td>Develop growth strategy in conjunction with BOD or Strategy Committee</td>
</tr>
<tr>
<td></td>
<td>CEO typically has voting control (outright or through trusts) or de facto control of shares</td>
<td>CEO does not have voting control</td>
<td>CEO does not have voting control</td>
</tr>
<tr>
<td><strong>BOD role</strong></td>
<td>Advisors or confidants of CEO</td>
<td>CEO selection (should be proven and seasoned), oversight and monitoring</td>
<td>CEO selection, oversight and monitoring; active involvement with future growth plans</td>
</tr>
<tr>
<td></td>
<td>Typical 1st Generation Model, but does sometimes repeat in future generations</td>
<td>Typical Public Co Model</td>
<td>Typical Multi-Gen Family Business Enterprise Model</td>
</tr>
<tr>
<td><strong>CEO/BOD interaction</strong></td>
<td>Less formal or structured</td>
<td>More formal and structured, less active involvement</td>
<td>More formal and structured, more active involvement</td>
</tr>
<tr>
<td><strong>Committees</strong></td>
<td>Few, if any</td>
<td>Active</td>
<td>Active, especially Strategy Committee</td>
</tr>
<tr>
<td><strong>Average CEO tenure</strong></td>
<td>20-30 years</td>
<td>3-5 years</td>
<td>8-15 years</td>
</tr>
</tbody>
</table>
GLOBAL MEGA-TRENDS

POTENTIAL IMPACT ON FAMILY BUSINESS ENTERPRISES
GLOBAL MEGA-TRENDS

A Mega-Trend is a large-scale pattern or movement that has a major, long-lasting impact on business or society.

1. Demographic & Social Change
2. Shifts in Global Economic Power
3. Rapid Urbanization
4. Climate Change & Resource Availability
5. Technological Breakthroughs
Ten North America Mega-Trends

1. The Transition Wave℠
2. Unprecedented Population Migration
3. Shift of Human Capital Map
4. Transition to Methane Economy
5. Emergence of Mecha-Facturing
6. Opportunity in the Americas
7. Realignment of Supply Chains
8. Disruptive Technology Advances
9. Re-emergence of Private Sector
10. Return to Direct Investments

Source: Headwaters Research Group
CASE STUDIES
Early Growth
High Steel was primary business

Expansion
Purchased Concrete business and started Real Estate investments

Diversification
Started Hotels, split out Service Center, added 7 Affiliated businesses,

Heavy Growth + Refocus
Exited Affiliated businesses and aggressively grew current portfolio

Stabilize
Current portfolio, heavy turbulence fairly flat overall

Revenue ($M)
GOVERNANCE KEY QUESTIONS
<table>
<thead>
<tr>
<th>VISION</th>
<th>OWNERSHIP</th>
<th>LEADERSHIP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Why do we want to remain in business together?</td>
<td>Who will be allowed to participate in ownership?</td>
<td>What leadership attributes will be required to provide stewardship for the business in the future, and to manage the business?</td>
</tr>
<tr>
<td>Do we want to work together at all?</td>
<td>How can ownership be transferred most effectively?</td>
<td>What leadership attributes will be required to best manage and develop the Future Ownership Base to assure we maintain the strategic advantage of “patient capital”?</td>
</tr>
<tr>
<td>What do we expect the business to look like in the future?</td>
<td>What can be done to ensure future owners are prepared for this great responsibility?</td>
<td>How might this change as the business grows and evolves?</td>
</tr>
<tr>
<td>What role should the owners play?</td>
<td>Are any owners dependent upon dividends or liquidity for their shares?</td>
<td>What are the processes and policies needed to ensure that the next generation of owners and business leaders will be prepared?</td>
</tr>
<tr>
<td>What do you expect from other family members to enable the owners to operate effectively and inter-dependently together?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>What values and principles will guide the owners and the business?</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
**BUSINESS GOVERNANCE**
- What business governance model, and oversight structure and processes are needed to ensure ongoing business success?
- How will the owners interact with the current/future board members to assure that the Company has an effective board of directors and executive management team in the future?

**OWNERSHIP GOVERNANCE**
- What structure and processes are necessary for effective development of a capable group of owners and to best assure effective group decision making?
- What decisions will the owners oversee, and who will be allowed to participate?
- How should the boundaries be determined to assure separation of ownership issues from business operational issues?

**CULTURAL CONTINUITY**
- What role should history, traditions and culture play in helping to ensure continuity?
- What are the history and traditions of the past that remain relevant today?
- What must be reexamined or reemphasized to embrace the future?
GENERATIONAL TRANSITION RISK ASSESSMENT SURVEY
### Generational Transition Plan

<table>
<thead>
<tr>
<th>Question</th>
<th>Yes</th>
<th>Not Sure</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Do you have a phased generational transition plan for your business(es) and other direct investments?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Have you created a process with clear steps to implement your transition plan?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Do you have a development program for helping potential future leaders build the appropriate skills?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. Do you have criteria for vetting future leaders?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. Has your generational transition plan been structured to avoid conflict or tension between the capital needs of the business versus the liquidity needs of the shareholders?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6. Can your business operate effectively over a long period of time without the active involvement of your current CEO or President?</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Business Growth

<table>
<thead>
<tr>
<th>Question</th>
<th>Yes</th>
<th>Not Sure</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Is your business increasing shareholder value on a non-leveraged basis by 10% or more each year when considering adjusted EBITDA?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Does your strategy take into account the mega-trends that will shape the US economy during the next decade?</td>
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<tr>
<td>3. Can your current executive team take the business successfully to the next level of growth?</td>
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<tr>
<td>4. Would your family members, who work in the business, be successful in comparable jobs at other companies?</td>
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</tbody>
</table>
### Company Capitalization

<table>
<thead>
<tr>
<th>Question</th>
<th>Yes</th>
<th>Not Sure</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Do the capital markets view your industry favorably?</td>
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<tr>
<td>2. Do you benefit from a low cost of capital?</td>
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<tr>
<td>3. Are you managing your patient capital base?</td>
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</tbody>
</table>

### Shareholder Liquidity

<table>
<thead>
<tr>
<th>Question</th>
<th>Yes</th>
<th>Not Sure</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Does your business have a formal liquidity plan for shareholders?</td>
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<tr>
<td>2. Is the business adequately financed relative to future liquidity demands from shareholders or their estates?</td>
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<tr>
<td>3. Have the future financial needs of the business and the personal liquidity needs of each shareholder been properly assessed to be certain that neither derails the other?</td>
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<tr>
<td>4. Is there a clear exit strategy for older generation shareholders?</td>
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<tr>
<td>5. If one of the principal shareholders died last week, would the company be faced with an unmanageable financial burden?</td>
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</tbody>
</table>
1. Does your family have a mission statement that addresses all aspects of your family enterprise?

2. Have past conflicts been settled without build-up of ongoing resentment or negative feelings?

3. Do you have a clear committee structure and process for decision making for your business and for your family wealth?

4. Does your governance process include integrated risk measurement relative to both your operating business(es) and direct investments, and your other investment holdings?

5. Are family members who will inherit business ownership trained to be responsible owners and partners with other family members?

6. Will your family and business governance processes support a successful generational transfer?

7. Have boundaries and processes been put in place that enable separation of family relationships versus exercise of good business judgement?

<table>
<thead>
<tr>
<th>Governance Process</th>
<th>Yes</th>
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<th>No</th>
</tr>
</thead>
<tbody>
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<td>investment holdings?</td>
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</table>
### Philanthropy

<table>
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<tr>
<th>Question</th>
<th>Yes</th>
<th>Not</th>
<th>Sure</th>
<th>No</th>
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</thead>
<tbody>
<tr>
<td>1. Do you have a philanthropic mission statement that the family embraces?</td>
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<td>2. Do you have an efficient vehicle for administering your charitable intent?</td>
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<td>3. Do you have more than one generation involved in your philanthropic efforts?</td>
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<td>4. Do you have a well-defined process for deciding how to allocate funds each year?</td>
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<tr>
<td>5. Do you consider a growing business, which employs more people, to be part of your family’s philanthropic initiatives?</td>
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### Wealth Administration

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<tr>
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<th>Yes</th>
<th>Not</th>
<th>Sure</th>
<th>No</th>
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</thead>
<tbody>
<tr>
<td>1. Do you have a process for identifying errors and fraud in the management of your daily business or personal finances?</td>
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<td>2. Do you perform periodic insurance coverage reviews?</td>
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<tr>
<td>3. Are your accounting systems (general ledger, portfolio, trust) integrated to support efficient administration?</td>
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