



Owner/Business Transition Focus on Family & Personal Dynamics

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Learning Objectives

- Understand why beginning to plan early is important to keep dynamics as stable as possible
- See how the business success circles interact with each other
- Hear tips and tricks to a successful transition



Does the next generation understand how much work it is to run a business?

Can this business even support a next generation?

Will my team members feel that I abandoned them?

Who has the knowledge I do?

Do my kids even want to be in the business?

Is the next generation ready to run the business?

Does my leadership team understand the values I started the business on?

Will I be able to fully step away?

Where do I even start?

How much is my business worth?

What will be my primary driving force / motivation when I retire?

Will anyone want to buy my business?

What if the next generation can't run it and I have to step back in?

What if my kids can't afford to buy the business?

How much money do I need to retire?

Is my leadership team strong enough?

How will my customers handle me not being here?

How do I know when it's time to transition?

Will the next owners expect me to work in the business after I sell?

Will my relationship be okay if I'm home more?

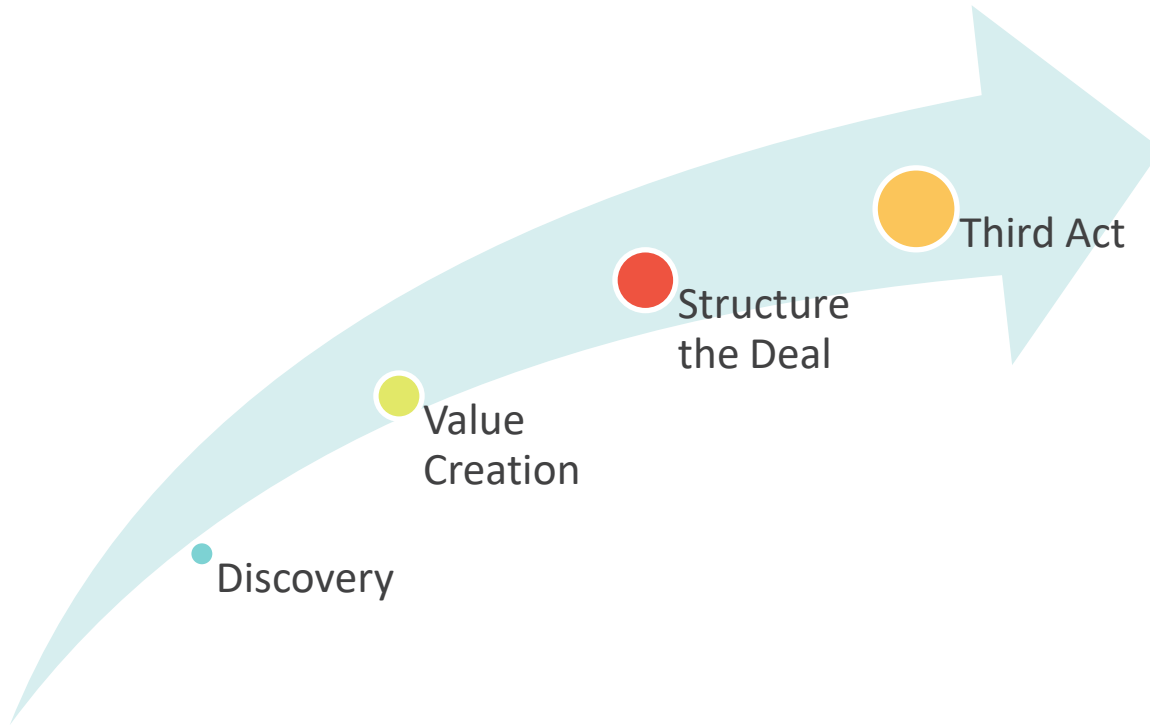
If I sell the business how will I know the next owners will take care of my team?



Bringing Owners “Peace of Mind”



Stages of a Transition





Why Plan Early?

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Why Start Planning Now?

- Transition planning is a process, and it can be complicated
- It is good business strategy



The Truth Is:

- Your business should be prepared for an exit at anytime
- The fixes are not usually quick fixes
- There is a lot of emotion tied to your business
- Your business is likely your biggest asset, you do not want to make any mistakes





What Are Your Options?

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What Are Your Transition Options?



General Categories (Options)

Inside

- Intergenerational Transfer
- Management Buyout (MBO)
- Sale to Existing Partners
- Sale to Employees (ESOP)

Outside

- Sale to a Third Party
- Recapitalization (Recap)
- Orderly Liquidation



Intergenerational Transfer

PROS:

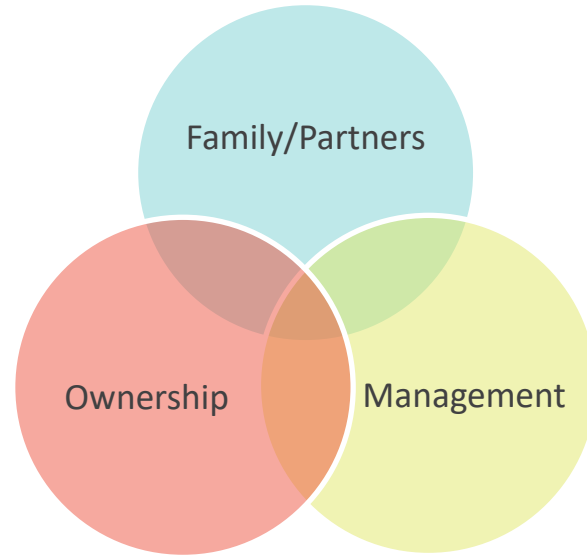
- Business legacy preservation
- Planned
- Lower cost
- Most control
- Less disruption
- Higher buyer/seller motivation

CONS:

- Family dynamics
- Lack of funds/Illiquid buyers
- Lower sale price
- Key employee flight risk
- Traditions may outstrip good strategy
- Path of least resistance – but not always a path to growth or success



Three Circle Model



Tools That Help With Transition

- Shareholder agreements
- Decision making matrix
- Estate planning
- Lifestyle plan
- Strategic planning
- Meeting structures



Management Buyout (MBO)

PROS:

- Continuity
- Highly motivated buyers
- Preserves key human capital
- Planned
- Can be combined with private equity for additional growth resources

CONS:

- Management “sand-bagging”
- Distraction
- Threat of flight (coercion of owner)
- Illiquid buyers
- Lower price and unattractive deal terms
- Heavy seller financing
- Managers are not always good entrepreneurs



Sale to Partners

PROS:

- Less disruptive
- Planned
- Well-informed buyers
- Controlled process, if buy/sell agreement in place and funded
- Lower Cost

CONS:

- Lower sale price
- Potential for discord
- Competency gaps?
- Buy/sell may restrict selling options
- Realization of proceeds is often slower



Sale to Employees (ESOP)

PROS:

- Business stays in the “family”
- Shares purchased with pre-tax dollars
- Taxable gains on ESOP shares may be deferred
- ESOP is an employee benefit
- Often causes employees to think more like owners

CONS:

- May be more complicated and expensive than other options
- Requires securities registration exemption
- Company compelled to buy-back shares from departing employees
- Generally suited for a gradual exit





Key Considerations

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Have You Considered

- Your personal goals and personal financial plan
- Your personal readiness
- Business attractiveness



Our Owner Transition Services Team

- Owner Transition Advisors
- Quality of Earnings
- M&A/Investment Banking
- Talent Solutions
- Tax Professional
- Wealth Advisor
- Valuation
- Others as necessary



Successful Transitions, What We Have Learned

- Third Act
- Managing money
- Entrepreneur mindset
- Start early



What Does a Good Transition Consist Of:

The owner feels

- They were treated fairly
- A sense of accomplishment
- At peace
- That they have discovered a new sense of purpose
- Proud that the company carried on



Key Takeaways

- Transitions can be complex
- There are many considerations when planning your future transition
- Surround yourself with the right team of advisors
- Start early



Questions? Thank You!

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