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Sandeep

One of the
RSM team

Navigating the transition of your business: Why the time is now

Learning objectives

- Identify the significance of early business transition planning, recognizing the potential challenges and risks associated with lack of planning
- Explore the impact of short-term tax and regulatory implications inherent in succession planning strategies
- Utilize best practices for successful business transitions including strategies to manage business disruption and navigate potential family dynamics

Today’s speakers

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Agenda

01	Key regulatory changes – Impacts to Businesses Considering Transition
02	Business transition planning – why, when and how to get started
03	Best practices, hits and misses

Key regulatory changes on the horizon

100% of sunsetting provisions could impact individual tax payers

01

Tax rates may increase

02

Estate exemptions are set to decrease from the 2025 exemptions

03

End of phasedown of accelerated depreciation (bonus)

04

The sum total of anticipated changes will have significant impact on business transition

Business transition planning

Most owners are not prepared

- Most owners have 80%-90% of their wealth and retirement tied up in the business regardless of their control
- Less than half have an idea of what their business is worth
- Over two thirds do not understand transition options with modest attention - if any - dedicated to planning
- Most do not have a Board (advisory, governance)
- Most are solely focused-on income generation, not enterprise value – how is value determined?

And they are at risk

40% have no plans for illness, death or forced exit

50% of exits are not voluntary

50% business owners who have “partners” don’t have a buy/sell in place

25% or less of businesses who want to sell will, most businesses won’t be sold

33% haven’t thought about management succession

25% are comfortable that their managerial team would be successful if the owner wasn’t involved after the transition

* High multiples today are driven less by excellence of the target. More by a lack of quality supply of targets or people.

Fail to plan, plan to fail

01 Early and proactive planning

02 Key considerations

03 Roadmap, communication and other best practices

Let's start with terminology

What terms do you use?

Succession planning	Exit planning	Transaction planning	Transition planning
• Traditionally implies that the business will remain in the family ownership structure • Governance will fall to next generation	• Implies current owners intend to exit ownership/governance, but does not define how	• Too often companies and advisors jump into the structuring of a deal before they know what optimal exit should be	• Conscious effort, over time, to maximize enterprise value and convert that value to financial freedom for owners and other committed stakeholders • Encompasses business, personal, legal, financial and tax issues

Understand your transition options

Exit channel – Third party

Valid options:
- Negotiated Sale
- Controlled Auction
- Unsolicited Offer

Exit channel - Employees

Valid options:
- ESOPs
- Managed Buyout
- Phantom Stock
- Stock Bonus

Exit channel - Public

Valid options:
- IPO
- Reverse Merger
- Direct Public Offering

Exit channel - Family

Valid options:
- Gifts
- Private Annuity
- GRATS
- FLPS
- Sale

Exit channel - Liquidation

Valid options:
- Selective Liquidation
- Orderly Liquidation
- Forced Sale

Exit channel – Co-owners

Valid options:
- Buy-Sell Agreement
- Dutch Auction
- Right of First Refusal
- Purchase Option
- Earnout

Exit channel - Restructuring

Valid options:
- Sell Minority Stake
- Sell Majority Stake
- Refinance Debt

The starting point

- Establish or refine stewardship, values and legacy
- Map your core values to exit options
- Assess business readiness
- Assess owner readiness
- Assess your starting point
- Customize and tailor your plan to individual/owner, family and business goals

Exit readiness – personal plan for an optimal exit

The bigger picture for the business owner

01 What does an ‘optimal’ exit look like

02 Consider ownership structures

03 Consider the post transaction picture - the owner’s personal balance sheet

04 Establish long term financial planning objectives and family wealth requirements

05 Pre and post tax planning

06 Management succession and governance planning

Best practices, hits and misses

What we have learned

Best practices and lessons learned

- **Begin this process now**: the earlier a plan is constructed, the higher the chance that all the objectives will be fulfilled
- **Address the elephants in the room**: not being realistic or honest with oneself during planning will lead to a failed execution
- **Understand the post-exit proceeds**: comprehensive financial planning is critical to inform not only timing but structuring of any transaction
- **Employee involvement is pivotal**: consider key employee retention and perhaps rewards or incentives to entice to stay during any form of transition
- **Engage next generation**: future leaders were identified early, capabilities and commitments were assessed, and a development program was designed to give them the knowledge and tools to be successful
- **Things change**: update plans frequently for the everchanging circumstances you encounter through outside and inside influences, nothing is static

What we have learned

Best practices and lessons learned

- **Family dynamics can be the biggest hurdle**: not addressing family dynamics comprehensively always leads to flawed transitions
- **Know your options**: too many companies jump to an investment banker solution before they have properly planned and considered all their transition options
- **Make sure you know what you are getting into**: selling to private equity companies has specific consequences and obligations post transaction for sellers
- **Be mindful of what happens after your exit**: owners who don't contemplate what life looks like after they leave the company too often experience a form of post transition depression

Case study #1: desperately trying to keep it in the family

- George's dream was for the business to stay in his family for multi generations
- Although some family members were in the company, none of them enjoyed it. They wanted George to sell, but couldn't tell him that
- Company performance has slid. George has aged and should retire, but he is reluctant to leave since no successor has been identified nor ready to take over

Case study #2: everyone gets ownership, but only a few do the work

- Alex has multiple generations of shareholders in the business
- Alex's son-in-law has taken over the CEO role, but has no stock ownership and must contend with demands of heirs not involved in the day-to-day decisions of the business
- Despite growing the company and materially increasing sales and profits, son-in-law is thinking about moving on, especially since he doesn't own the company

Case study #3: buying out Gen 2 leaves successors short on capital

- Company has multiple generations of shareholders and most of Gen 2 wants to be bought out
- The valuation of the company is high, and each buy out creates a major strain on the debt structure and available cash
- Company's current Board consists of mostly Gen 2, and they are not acting as fiduciaries of company
- The current CEO from Gen 3 believes the company will have to sell to fulfil the liquidation expectations of Gen 2

Wrap up

Key takeaways

1

Planning for transition should start early.

Necessary for every phase of the life cycle

2

If family members are involved, embrace and address the emotional issues.

Avoidance has never solved the problem

3

Constantly assess the company and owner state of readiness.

Understand your options and proactively align resources

Thank you