



Succession Planning for Business Owners: Know Your Options, Take Your Next Step

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Agenda

1 Succession Planning Process

2 Tools, Taxes & Techniques

3 Succession Planning Options

4 Action Steps

Succession Planning Process



We find Most business owners want

Financial independence, the ability to financially help their kids and future generations

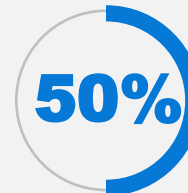
The ability to continue to support the charities they love

Minimize taxes: income, capital gains, and estate taxes.

But here's the reality*

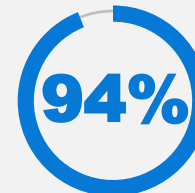


20% of owners who take their business to market transition on their terms



50% of transitions in the U.S. are involuntary

- Death, Disability, Divorce, Disagreement and Distress



94% of owners haven't written a plan for their next chapter

Source: Exit Planning Institute

1. Start and End with a Vision

Identify your goals for today and tomorrow.

	Want to Now <small>(Example: Cashable CD)</small>	Want to Later <small>(Example: Second Home, Retirement)</small>
High to	Goal Name: _____ Goal Amount/Frequency: _____ Time Horizon: _____	Goal Name: _____ Goal Amount/Frequency: _____ Time Horizon: _____
Priority	Have to Now <small>(Example: Personal Support, Current Lifestyle)</small>	Have to Later <small>(Example: College Funding, Retirement)</small>
Low to	Goal Name: _____ Goal Amount/Frequency: _____ Time Horizon: _____	Goal Name: _____ Goal Amount/Frequency: _____ Time Horizon: _____
	Now	Later

2. Prepare a Financial Blueprint

What does a Financial Blueprint look like?

- Next Chapter Planning
- Wealth Gap Analysis
- Profit Planning
- Estate Value Projections & Planning
- Emergency Management Plan

3. Obtain a Business Fair Market Value

Have you valued your business?

- Wealth Gap
- Value Gap
- Identify the universe of buyers
- Understanding the buyer's perspective

4. Build Your Advisory Team

Who is on your team?



1. Services offered by affiliates.

Case Study

Business Overview

Manufacturing, G2 ownership

Planning Focus

Owner Independence

Aligning lifestyle with business value

Advisory Team Collaboration

Best fit buyer

Result

Owner exited the business in his mid 40's with financial independence,
Drove business value from **\$2m to 30m** over 18 years



Tools, Taxes & Techniques



The Basics



Taxes and Business Succession

Buyers pay with **after-tax** dollars

Stock Sales

Taxed at Capital Gains to seller

Buyers do not depreciate & assume liabilities

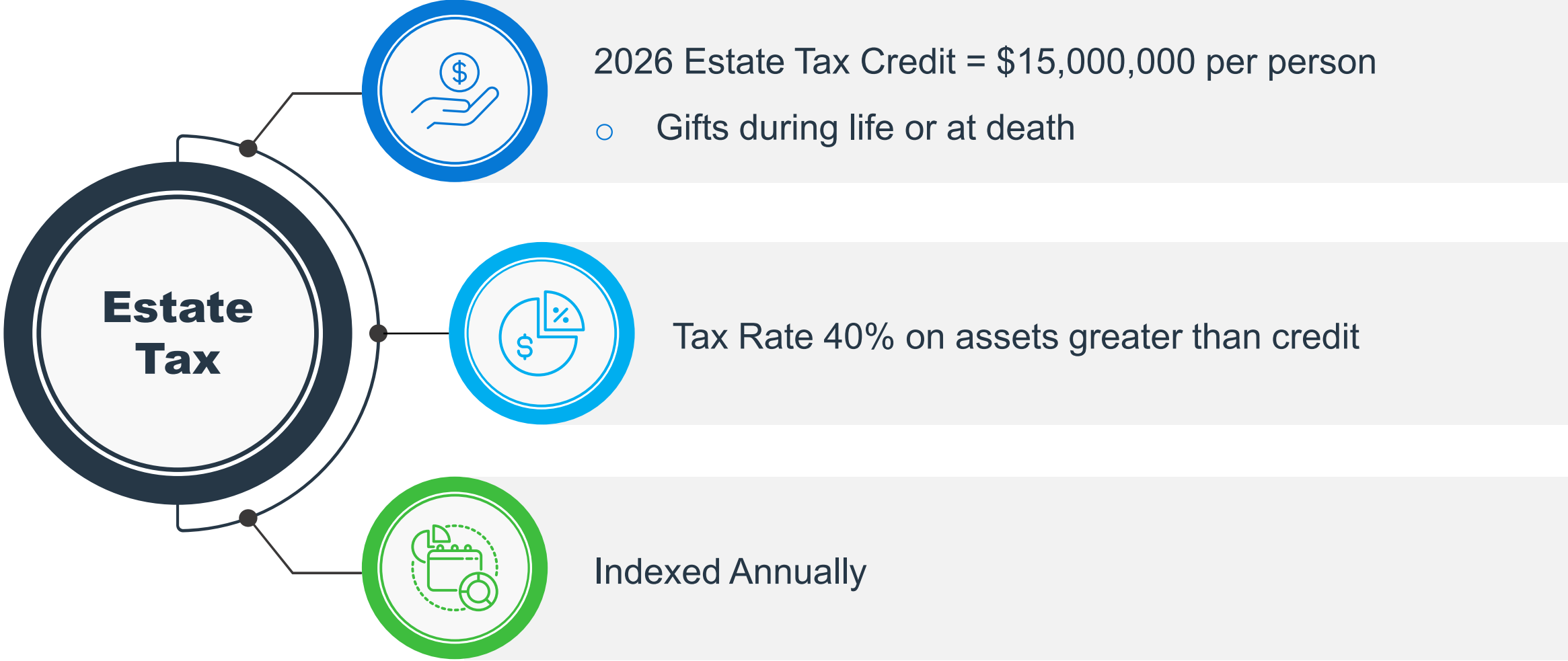
Asset Sale

Taxed at ordinary income to seller / Good Will taxed at Capital Gains

Buyer gets to depreciate & no liabilities



Taxes and Business Succession



Tools of Business Succession



Stock Recapitalization

- Separate Voting from Non-voting Stock

Qualified Plans

- Combine 401K, Profit Sharing, & Cash Balance
- Deferred Compensation / Salary Continuation

Distribution Planning

Stock Discounting for Gifts

The Use of Trusts in Business Succession Planning

Grow Stock
Outside
Your Estate

Provides
Equalization
with Active &
Non-Active Family
Members

Separate
Management
from Ownership

Case Study

Majority Sale to a Private Equity Sponsor

- 2020 Client receives a call
- 60 day review and offer
- Current Team?
- Response, Why and Reaction

Planning First

- Valuation & Gifting to Trust
- Team building
- Modeling

2023 Investment Banking Process

- Sale of 75% to Private Equity Sponsor
- Grantor Trust Benefits

Succession Planning Options



5 Business Succession Options



Transition Your Business to Your Key Employees



Transition Your Business to Your Family



Sell Your Business a Strategic Buyer



Sell Your Business to a Private Equity Buyer



Transition Your Business to Your Employees / ESOP

5 Business Succession Options



Transition Your Business to Your Key Employees



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Sell Your Business a Strategic Buyer



Sell Your Business to a Private Equity Buyer



Transition Your Business to Your Employees / ESOP

Succession Path #1

Transition Business to Key Employees

Biggest Concerns

- Giving up Control
- How Can They Afford Purchase Price
- Age of Key Employees

Tools

- Discounting
- Qualified Plans
- Distribution Planning

Succession Path #1 – Considerations

Transition Business to Key Employees

Business Cycle

- Distribution reduction
- Capital Calls

Value to Owner / Founder through

- Salary continuation plan
- Cash Balance Retirement Plan

With incremental sales, Growth in stock could be problematic

5 Business Succession Options



Transition Your Business to Your Key Employees



Transition Your Business to Your Family



Sell Your Business a Strategic Buyer



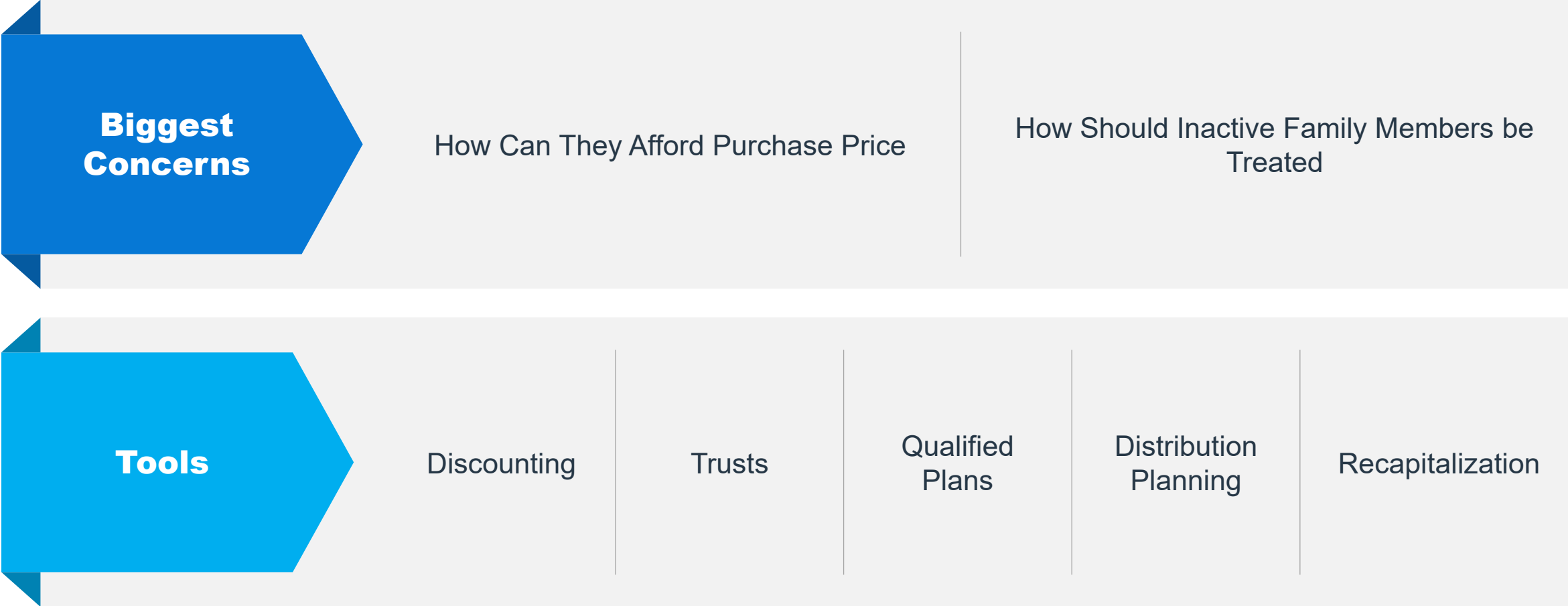
Sell Your Business to a Private Equity Buyer



Transition Your Business to Your Employees / ESOP

Succession Path #2

Transition Your Business to Family Members



Succession Path #2 – Considerations

Transition Your Business to Family Members



**No Two Structures
are Alike**



**Company Earnings
Could Fluctuate**



Control



**Best to Model /
Scenario Plan**

5 Business Succession Options



Transition Your Business to Your Key Employees



Transition Your Business to Your Family



Sell Your Business a Strategic Buyer



Sell Your Business to a Private Equity Buyer



Transition Your Business to Your Employees / ESOP

Succession Path #3 & #4

Transition Your Business to a Private Equity or Strategic Buyer

Biggest Concerns

- Getting into Business with a Stranger
- Amount of Leverage
- Deal Terms / Escrow / Earn Outs
- Preparation is Key
 - “17 Reasons Why”

Tools

- Discounting / Trusts
- Deferred Compensation / Employee Retention

Succession Path #3 & #4 – Considerations

Transition Your Business to a Private Equity or Strategic Buyer

Build Experienced Team

- Investment Banker
- Accountant
- Deal Attorney
- Estate Attorney
- Personal Advisor

Cost of Debt has Increased

Deal Structure – Litigious



5 Business Succession Options



Transition Your Business to Your Key Employees



Transition Your Business to Your Family



Sell Your Business a Strategic Buyer



Sell Your Business to a Private Equity Buyer



Transition Your Business to Your Employees / ESOP

Succession Path #5

Employee Stock Option Plan (ESOP)

Biggest Concerns

- Debt Structure
- Lowest Sale Price
- Dependent on Company Success

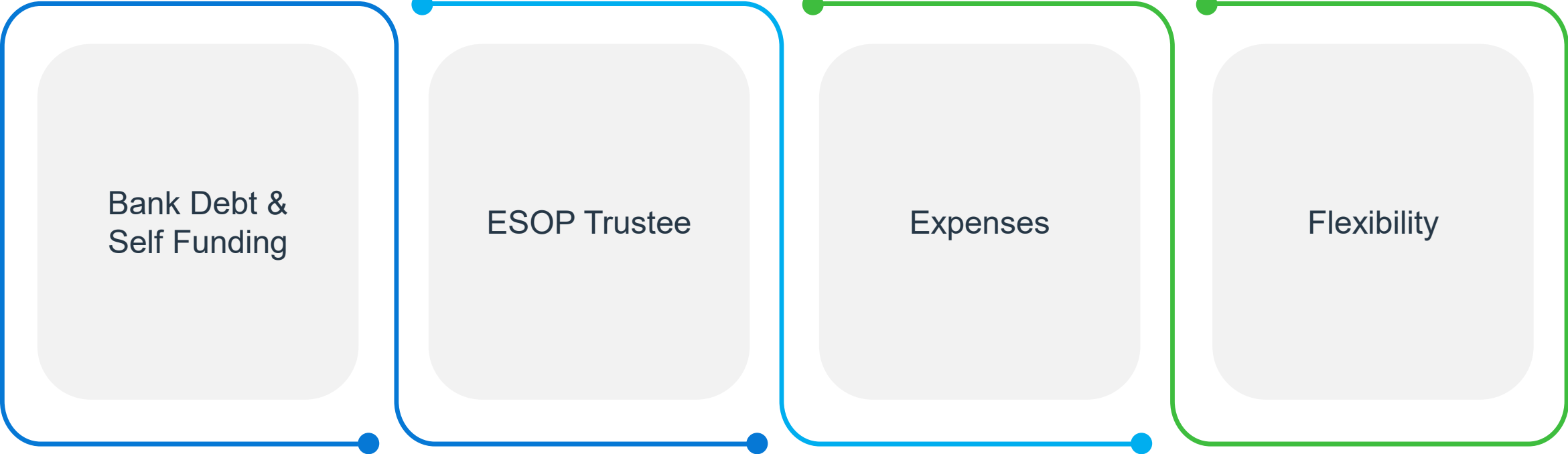
Tools

- Qualified Plans



Succession Path #5 – Considerations

Employee Stock Option Plan (ESOP)



Sales Proceeds vs. Control

	Sale to Family	Sale to Key Employees	Sale to Private Equity	Sale to Strategic Buyer	Sale to ESOP
Sale Proceeds	Discounted	Discounted but higher than family	High Based on action outcome	Highest	Lowest Based on appraised value
Ability to Maintain Control	Absolutely	Absolutely	Rarely	Rarely	Limited

Case Study

Transition Business to Active Family Members / Equalize Inactive

- Dad and Mom equally own a \$60M Business – total Net Worth \$80M
- 3 children – 2 active
- Early 60's – goal to stay active / in control for the next 10 to 15 years

Strategy

- Recapitalization
- Valuation and Gifting
- Trust Planning
- Distribution Planning
- Cash Balance Plan
- Modeling with Tax Team

Action Steps



Action Steps

**No two business owners are alike —
where are you today?**

“I want to understand where I stand.”

- Request a complimentary **Business Owner Readiness Assessment** to identify your current stage and first steps.



**Scan for the Business
Transition Readiness
Assessment**

Action Steps

**No two business owners are alike —
where are you today?**

"I want to know what my business is actually worth."

- Request a range-of-value analysis to see what today's marketplace will realistically bear.



Contact HUB Private Wealth

Action Steps

No two business owners are alike — where are you today?

"I want to make sure my agreements are aligned."

- Request a document alignment review to find gaps between your buy-sell or shareholders agreement and your current exit goals



Contact HUB Private Wealth

Thank you

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