

Transitioning from Your Business

Your Next Great Challenge

Presented by:

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Ownership Transition

- 59% of company leaders anticipate or are considering transitioning out of their current positions within the next 5 years
- Next Generation Manufacturing Study, 2011
- “65% to 75% of all small businesses will go up for sale in the next 5 to 10 years. Why? Retiring baby boomers.”

- Inc Magazine

Reality Check:

Family-business transition success rates

- 2nd generation success - 30%
- 3rd generation success - 13%
- 4th generation success - 3%

Selling your businesses is no better...

- 20% of business get sold to outside buyers that want to be sold
- The Future: Baby-boomer business glut will probably depress sales prices

Liquidation – 35-40% will use as Transition Exit

Why Business Transitions Fail

Most transitions fail because of...

- Insufficient planning horizon (time)
- Inadequate personal & financial planning
- Lack of successor leadership team preparation
- Mismanaged family communications and values

Studies bear this out

- 64% No exit/succession plan
- 63% No financial exit plan
- 62% Never had a business valuation
- 31% No estate plan beyond a will
- 30% No plans to retire, *Effectively* – “Dying in the chair”
- 48% Family-owned businesses collapse after the founder’s death.

Successful Exits Require Planning

Business Transition Planning is a Process
...It's not an event that occurs one day.

- Self-discovery
- Planning
- Preparation
- Execution

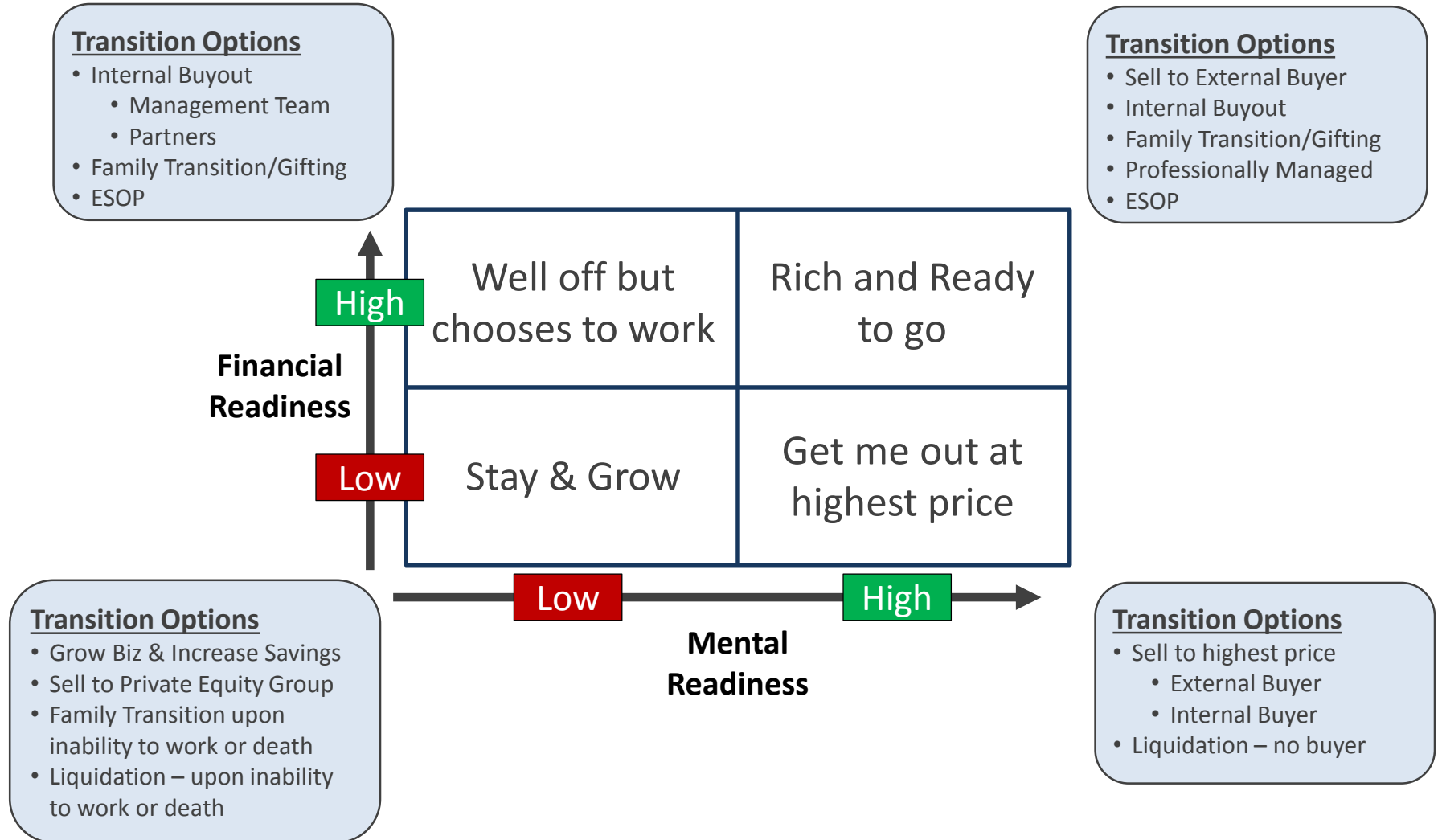
Exit Strategy Development



- Exit Vision & Timing
- Financial Readiness/ Business Value
- Best Transition Options
- Exit Vision Review
- Contingency Plans
- Estate Planning
- Business & Personal Document Alignment
- Value/Business Enhancement

Exit Quadrant Chart

Adapted from Exiting your Business, Protecting your Wealth, by John Leonetti



Readiness & Timing Dictate Options

Transition Options

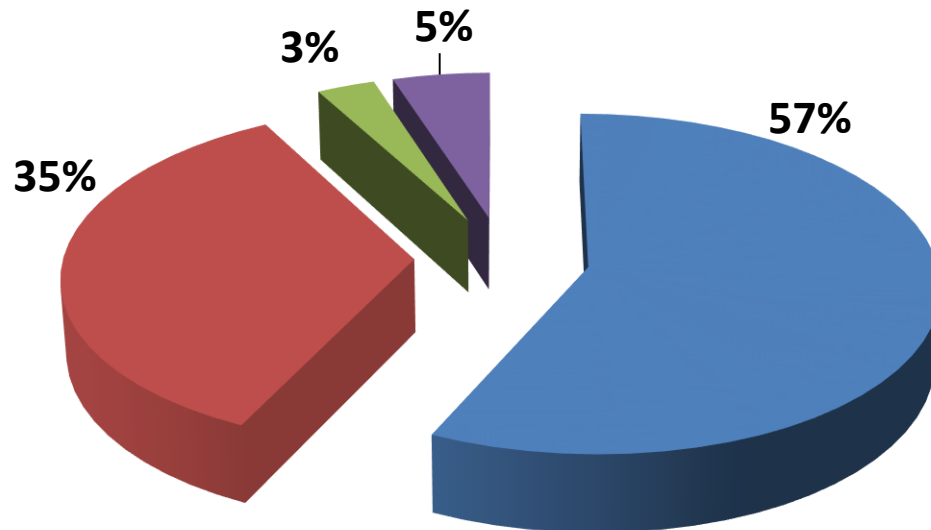
Internal	External	Other
▪ Family Transfer/Sale	▪ Individual Buyer	▪ Liquidation
▪ Shareholder Sale	▪ Strategic Buyer	
▪ Management Buyout	▪ Financial Buyer	
▪ ESOP	▪ Investor Group	
≈ 30-40%	≈ 20-25%	≈ 35-40%

Ownership Transfer Characteristics

Internal Ownership Transfer	External Ownership Transfer
<ul style="list-style-type: none">• Buyer(s) have NO MONEY	<ul style="list-style-type: none">• Buyers bring cash/financing
<ul style="list-style-type: none">• You finance buyout over 5-10 years	<ul style="list-style-type: none">• Get paid immediately
<ul style="list-style-type: none">• Increased risk - possible loan default	<ul style="list-style-type: none">• No/low risk of default
<ul style="list-style-type: none">• Low business value preferred	<ul style="list-style-type: none">• High business value preferred
<ul style="list-style-type: none">• Lower taxes and fees paid	<ul style="list-style-type: none">• Highest taxes and fees paid
<ul style="list-style-type: none">• Transition exit can be gradual	<ul style="list-style-type: none">• Transition exit is immediately
<ul style="list-style-type: none">• Maintain involvement & control longer	<ul style="list-style-type: none">• No future involvement or control
<ul style="list-style-type: none">• Culture & methods maintained	<ul style="list-style-type: none">• Culture/methods will change
<ul style="list-style-type: none">• Buyer(s) successors are known	<ul style="list-style-type: none">• Buyer is stranger/competitor
<ul style="list-style-type: none">• You can determine your successor	<ul style="list-style-type: none">• New owners - new leadership
<ul style="list-style-type: none">• Weak Leaders – BUSINESS WILL FAIL	<ul style="list-style-type: none">• Weak Leaders – NO SALE

Sales Proceeds – What you keep

Business Proceeds



■ Net Proceeds ■ Taxes
■ Transaction costs ■ Intermediary

- **Income Taxes** – Biggest amount goes to Uncle Sam;
 - Stock v. Asset Sale.
 - Best the seller can hope for is for capital gains on the sale of the business.
 - Combining the Feds and Oregon your rate is close to 35%.
 - Depreciation or ordinary income purchase price allocation may push the rate up.
 - Purchase price allocation – important tax implications.
 - C-Corporation entities are bad; some planning strategies exist.
- **Intermediary costs** or success fees rate from 3 to 7% of the selling price depending on the circumstances.
- **Other transactional costs** consist of legal, closing and other costs.

Create a “Turn-key Business”

Can your business run without your leadership?

The bigger question is...

Are you willing to let others lead?

Turn-key businesses are...

- Easier to sell, bring higher values
- Provide successor leadership a roadmap for success
- Answers the key question can the successor lead?



Contingency Plan

If you suddenly die or become incapacitated:

- Will your family continue to have an income?
- Who is capable of running the business?
- Who has the key customer, supplier, and bank relationships?
- Will key leadership and employees leave?

HAVE YOU TOLD ANYBODY YOU HAVE A PLAN?

Estate Planning

Tax efficiently directing your assets to your heirs

- Your Estate Tax Liability – Uncle Sam is waiting
- Federal Exemption \$5.2 mil both you & spouse
- OR state Exemption \$1.0 mil each / rate 10 – 16%
- Will your estate have the cash to pay in 9 months
- Tax liability impact to the business, will it survive?

Business Documents

Align your personal and business documents to support your exit strategy

- Business entity structure, C-corp, S-corp, LLC, etc
- Buy-sell or Operating Agreement language
- Estate Planning, wills, trusts, gifting plan, insurance
- Property ownership structure

Value/Business Enhancement

Drive business changes that close your personal **WEALTH GAP**

- Top line Sales growth
- Operational improvements
- Investments in business
- Leadership development

Identify targeted actions to be taken

Succession Planning – Build Bench Strength

Quality leadership adds to business value & increases your ability to sell the business

- Start early & get the right people on the bus!
- Identify successor skills & competency needs
- Develop OJT learning opportunities with clear roles, responsibilities and outcomes

**Let them lead, let them succeed and let them fail –
THIS IS HOW YOU LEARNED**

You need an Advisory Team

Business Advisor Team

The Experts You May Need and Their Roles

Roles	CPA	Attorney	Valuation Professional	Intermediate /Broker	Consultant	Other
Business Transition Advisor/Family Business Advisor					X	
Executive Coach					X	
Successor Leadership Coach					X	
Family Counseling - Broken/Stressed Family Unit					X	
Estate Planning	X	X	X			
External & Internal Transfer Options Analysis	X	X	X			
Contingency Planning & Insurance Use		X			X	Insurance Broker
Business Value Enhancement			X	X	X	
Financial Planning/Wealth Management						Financial Planner
Advisory Board Members				X	X	
External Selling Process:						
NDA – Non-disclosure Agreement		X				
Buyer Identification				X		
Negotiation		X		X		
LOI – Letter of Intent		X		X		
Transaction Structure		X		X		
Tax Issues and Strategies – Max. Seller's Proceeds	X					
Sale Document Generation		X		X		

Special thanks to Mr. Tom Napier, Napier Business Advisors, for his help developing this information. Mr. Napier provides business valuation, intermediate services for selling businesses, and general business consulting. www.bus-valu.com, (503) 670-8286

BTP Business Transition
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Thank You !

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