The Search for a Good Exit for Business Owners

VEOC
Vermont Employee Ownership Center

The Silva Group LLC

Hosted by Clute Wealth Management

Clute Wealth Management

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Introductions

Today's presenters

Matt Cropp

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Lynne Silva

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Who is in the room?
What's a key question you're looking to answer?

Vermont Employee Ownership Center

Founded in 2001.

"The mission of the Vermont Employee Ownership Center is to promote and foster employee ownership in order to broaden ownership of wealth , deepen employee participation, retain jobs, increase living standards for working families, and stabilize communities."

12 North St.
Burlington

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Goals for Today

We Will	We May	We Won't
Preview the ownership succession process	Discuss common challenges in the planning process	Dive deep into specific succession paths
Learn about the different paths to selling a business	Develop your questions for further inquiry	Decide which path is right for you and your business

Succession Challenges

Effort
Owners must develop their own exit pathways

Time
Planning takes time away from running the business

Awareness
Owners may be unaware of the available exit paths

Cost
Planning costs money

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Reasons to Plan

Increase Company Value

Boost future salability and selling price

Reduce Taxes

Less taxes nets you more of the proceeds

Set Clear Expectations

Begin preparing for life after the transition

The Planning Process

1

Set Goals

Define plans for the future.

2

Assess Resources

Determine the value of your business.

3

Explore Options

Differentiate the available paths.

4

Select Path

Decide which route to take.

5

Transact

Depart, knowing the business is in good hands.

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Setting Goals

Finances

Your future income and the expected sale price

Timeline

Ideal exit date and plans for after the sale.

Outcomes

Family, employees, other owners, the community, etc.

Values

Do options match or clash with your values?

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Salability

Financial Records

- Are your tax filings current?
- Are monthly P&Ls and balance sheets available?

Cash Flow

- Is there profit?
- Can you pay yourself a market salary?

Operations

- Does the business need you?
- Are customer agreements transferable?

Assessing Resources

Management Succession

Do you have a management succession plan?

Is your staff ready to cover key responsibilities?

Reviewing Daily Tasks

2 Assessing Resources

Define Your "Hats"

What roles do you fill in a day/week/year?

Log Your Activities

Keep records of important calls and meetings.

List Responsibilities

Describe your core responsibilities and their associated tasks.

Map Stakeholders

Map out relationships that are key to business ownership.

Evaluating Successors

2 Assessing Resources

List Skills & Tasks

Note the skills and activities of key employees.

Share Your Vision

Communicate your vision with potential successors.

Job Descriptions

Envision which employees will fill which roles in your absence.

Use Feedback

Revise your plan with feedback from employees.

Investing in Longevity

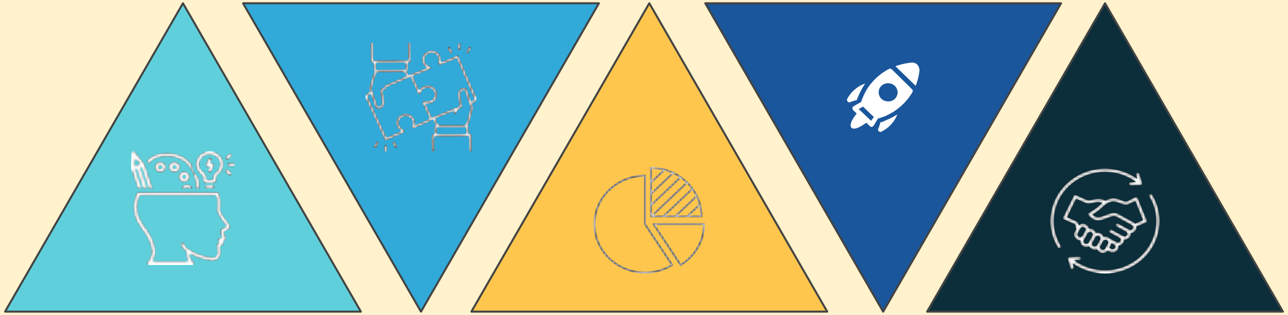
2 Assessing Resources

Collaborative Planning

Include key employees when updating business plans.

Early Start

Prepare employees for new responsibilities.



Professional Growth

Provide professional development opportunities.

Employee Buy-In

Offer key employees an ownership interest.

Connected Partners

Transition owner-managed relationships.

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Assessing Resources

Valuation

Will the sale proceeds meet your financial needs?

Are your expectations realistic?

Value Drivers

2 Assessing Resources

- Well-Trained Staff
- Strong Customer Base
- Revenue Growth

- Consistent Profitability
- Established Processes
- Recognizable Image

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The Valuation Process

2 Assessing Resources

Analysis

Financial statements and tax filings analyzed over multiple years

Normalized Earnings

Earnings calculated omitting nonrecurring charges or gains

Weighting

Recent performance is weighted to show more accurate picture

Capitalization Rate

A realistic rate of return for buyer is estimated.

Discounts

Discounts may increase marketability or compensate incoming minority owners.

Transition Pathways

3 Exploring Options

Third-Party Buyer

Family Members

Key Employees or Managers

All Employees

Sale to a Third Party

3 Exploring Options

Clean Exit

Often minimizes ongoing exposure

Process Intensity

Due diligence, post-transaction contingencies

Price

Can capture max value for company

Staff Impact

More opportunities, but also uncertainty

Third Party Sale: Buyer Types

Strategic Buyer

- Has strategic reasons beyond earnings to want to own your business
  - Competitor
  - Related Industry/Sector
  - Private Equity Group
- Most likely to pay highest price

Financial Buyer

- Purchases anticipated cash flows
- Price based on historic and current performance
- Often includes subordinated seller financing.
- Buyers often are individual investors or PE.

Sale or Gift to Family

3 Exploring Options

Family-Owned

Long-term benefits for family

Successors

Competent and respected individuals

Aligning Goals

Liquidity or opportunity for family?

Involvement

Who gets to be an owner?

Exit to Family Transaction

3 Exploring Options

Seller Financing

Seller serves as bank

Gifting

Opportunity for wealth transfer

Traditional Financing

Lenders can take part

Taxes

Depend on transaction, requires care

Sale to Key Employees

3 Exploring Options

Retain

Increase long-term engagement

Reward

Reward employees for contributions

Successors

Competent and respected individuals

Financing

Seller financing often part of the deal

Exit to Key Employees Transaction

3 Exploring Options

Seller Financing

Seller serves as bank

Bonusing

Priming the pump

Loan Guarantees

SBA and other programs

Buyer Cash

Often necessary

Sale to All Employees

3 Exploring Options

Broad-Based Employee Ownership

- Employee Ownership Trust (EOT)
- Worker Cooperative
- Employee Stock Ownership Plan (ESOP)

Broad-based employee ownership models provide a path to co-ownership for all full-time equivalent employees.

Worker Co-ops

3 Exploring Options

Democratic Governance

One member, one vote

Share Price

The cost of membership

Patronage Dividends

Share in profits

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Sale to a Co-op Process

3 Exploring Options

- Exploration
- Feasibility Assessment
- Presentation to Employees
- Bylaws + Business Plan
- Agree on Price
- Arrange Financing
- Address Seller's Concerns
- Form Co-op
- Former Owner Joins
  If desired

Co-op Conversion Financing

3 Exploring Options

Member Shares

Constitute a small % of purchase amount

Seller Paper

Seller's note, earn-out, etc.

Community Capital

Fill gaps by raising money among friends, family or crowdfunding

Debt & Equity

Conventional or friendly-financing sources (CDFIs, etc.)

Employee Stock Ownership Plans

3 Exploring Options

Retirement Plan

Similar to a 401(K)

Role of Trustee

Governance guided by fiduciary duty

Tax Advantages

For selling owner and ESOP company

Minimum Size

20+ employees and ~$3MM in value

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Sale to an ESOP

Reward, Recruit, Retain

ESOP buys stock for employees

Minimum Scale

~20 employees, ~$3MM in Value

Flexible Transaction

Sell any %, transition fast or slow

Tax Advantages

Advantages for selling owner and company

ESOP Sale Considerations

3 Exploring Options

Employee Base

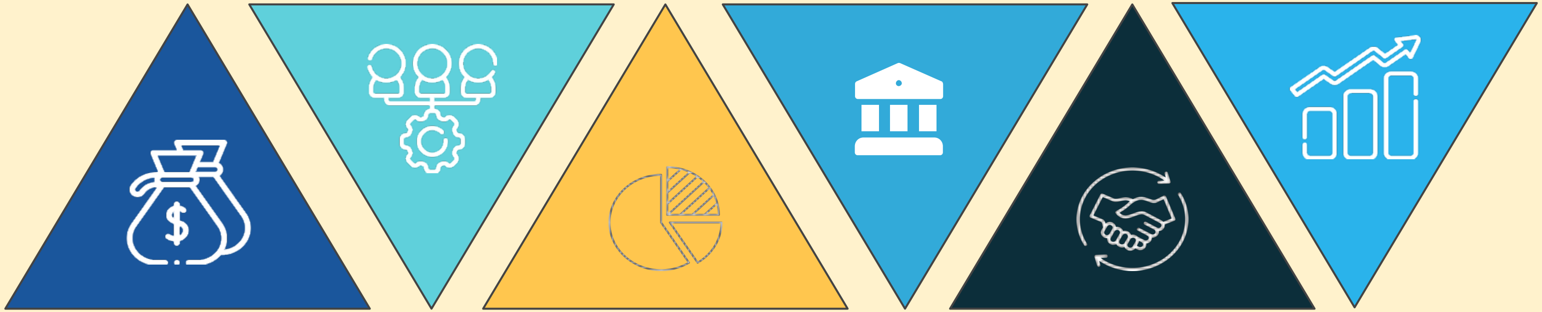
Mix of skills + ages;
good attitudes

Regulation

ESOPs are overseen
by DOL and IRS

Cash Flow

Purchase uses company
debt capacity



Costs

Setup: low 6 figures;
Ongoing: low 5-figures

Complexity

Both real and
perceived

Expertise

Needed, especially
during setup period

Employee Ownership Trusts

3 Exploring Options

Mission & independence

Able to be locked-in

Moderate Cost

Setup and maintenance

Profit Sharing

"Naked in, naked out"

Management & Governance

Can be similar to ESOP or co-op

Sale to an EOT

3 Exploring Options

Reward, Recruit, Retain

Profit sharing is for all employees

Accessible Model

Open to small and large companies

Flexible Transaction

Sell all at once or over time

Financing

Usually seller financed

Negotiations

- Earnouts
- Escrows
- Seller Financing
- Tax-Advantaged Strategies
- Seller Option to Retain Equity

Final Thoughts

Keep sight of your goals

Start right away

Stay flexible

Contact

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Thank You!

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