

Part 2

Transferring Your Family or Closely Held Business

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Wednesday, June 24, 2020



Preparing the Business for Sale

Is The Time Right For Sellers?

- Private Equity Market
 - Over a trillion (1.0 trillion) dollars available for business acquisitions
 - Private equity is sitting on record levels of cash
 - Expansion of number of private equity funds formed
 - Significant competition has driven multiples



Is The Time Right For Sellers?

- Growth & Strategic Buyers
 - Corporate buyers had over \$1.6 trillion of cash on their balance sheets
 - Low organic growth rates are driving buyers into the marketplace



Is The Time Right For Sellers?

- Continued Low Interest Rates & Alternative Debt Providers
 - There are a number of debt capital providers providing alternatives to borrowers
 - Lenders are active in looking for opportunities to lend money to quality buyers
 - Rates are at historic lows

Is The Time Right For Sellers?

- Price Paid or EBITDA Multiples Have Increased
 - Valuations have been at record highs over the last 4-5 years, because of:
 - high leverage levels
 - un-deployed private equity capital
 - shortage of high quality companies for sale
 - Increased competition between financial and strategic buyers
 - Seller needs based on investment redeployment

Is The Time Right For Sellers?

- Short Term Prospects & Covid-19; Supply & Demand May Change Long Term
 - Over 10,000 people per day are reaching retirement age
 - Business owners who missed the 1999 or 2006 selling windows have re-emerged
 - Buyers & sellers will calculate EBITDA differently
 - Sellers will require a Covid-19 add-back
 - Lenders will be less aggressive and will not offer high leverage debt
 - Private equity will likely depend on alternative lenders or structure low leverage or all equity deals and recapitalize at a later date
 - Valuations will likely decrease over the next nine months
 - In 5 to 7 years there may be more sellers than buyers in the marketplace

Corporate Hygiene

- Ownership documents
- Corporate Minute Book
- Intellectual property – patents, trademarks, licenses
- Business licensing and registration compliance
- Review leases or prepare leases

Corporate Hygiene

- Employee agreements
 - Non-compete
 - Non-solicitation
 - Confidentiality
 - Deferred Compensation Agreements
 - Employee Manual
- Buy sell agreements
- Customer contracts
- Insurance policies

Financial Hygiene

- Financial Statements (review deductions and salaries)
- Tax filings
- Retirement plans
- Structure of entity for tax planning
- Estate tax planning
 - Gifting
 - Installment Sale
 - Charitable Planning
 - SLAT



Planning for Sale

- Retirement planning
- Psychological aspects

Prepare Your Business For Sale & Maximize Cash

- Retain a Quality Investment Banker
- Build a Good Management Team
 - Important to private equity or financial buyers
 - Key to running the company post-closing
- Key executives should be subject to assignable non-compete agreement
- Resolve outstanding liabilities and contingencies prior to marketing your business

Prepare Your Business For Sale & Maximize Cash

- Resolve Legal Issues Relating to Key Assets
- Improve Profitability and Growth
 - by product or service
 - by customer
- Customer Diversification
- Develop Credible and Positive Financial Statements
 - no debt; minimal owner salary and perks
 - minimize working capital
 - audited financial statements
 - consider a “quality of earnings” report

Prepare Your Business For Sale & Maximize Cash

- Determine Structure & Key Terms Before Negotiating
 - Asset Sale
 - Purchase Price Allocation
 - Stock Sale
 - Sale to an ESOP
 - Tax-Free Reorganizations
- Consider Change of Residence to Low Income Tax States

Delay Sale While Building Your Business

- Retain Ownership and Delay Sale of Stock or Assets
 - Longevity Risks

Probability of Survival at age 65

Age	Female	Male	At least one member of the couple surviving
70	93.90%	92.20%	99.50%
75	85%	81.30%	97.20%
80	72.30%	65.90%	90.60%
85	55.80%	45.50%	75.90%
90	34.80%	23.70%	50.30%
95	15.60%	7.70%	22.10%
100	5%	1.40%	6.30%

- Create Incentives for Professional Managers
 - Stock Appreciation Right Plans
 - Phantom Stock Plans
 - Deferred Compensation Arrangements

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