

# Business succession planning with a detailed process

The Capital ESOP Group



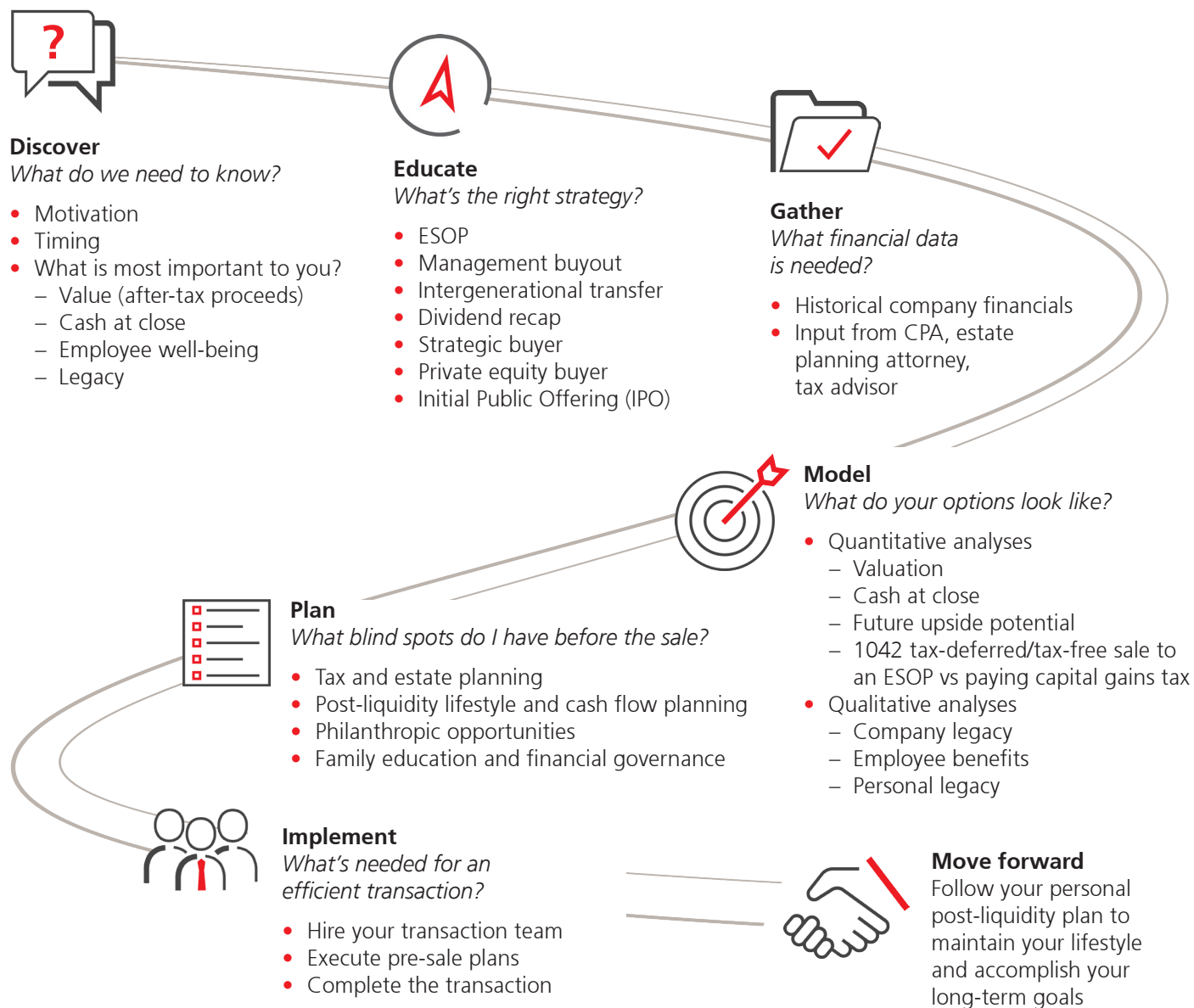
# The focus of our relationship

In addition to advising owners and families of privately held businesses on tax-efficient exit strategies for monetizing their business, we are committed to providing comprehensive post-exit financial planning. This entails helping families both grow and preserve wealth, manage taxes, use liabilities efficiently and ensure that their assets are appropriately managed, allocated and titled to preserve generational wealth.

Our team draws upon the heritage of UBS, the world's largest wealth management firm\* built on a 150-year tradition of serving some of today's wealthiest individuals and families. We combine and leverage the resources of UBS to create customized solutions for our clients.

Utilizing the experience, intellect and disciplined client service model you would expect from a family office, we have cultivated trusted long-standing relationships with our clients. The members of our team have personally completed extensive training in a number of sophisticated wealth management strategies and techniques so we can counsel you on your business succession strategies and post-transaction wealth management needs.

We know that every business—and every business owner—is unique. That’s why our process helps us fully understand your individual situation and work together toward finding the solutions that are best for *you*.



“Our process is to educate business owners and their trusted advisors on tax-efficient exit strategies enabling them to preserve and pass on the wealth they worked hard to create.”

– **Keith J. Apton**, Managing Director–Wealth Management

The Capital ESOP Group is a dedicated team of financial professionals with the highest level of integrity and commitment to their clients. Having helped individuals and families create over \$2.5 billion of liquidity through successful transactions, we know the importance of running a disciplined process while evaluating the most tax-efficient way to monetize a business and plan your post-exit life.

#### **Why clients should choose us**

- We offer a disciplined client service model and a family office-like structure
- We build deep, long-standing relationships with a select group of clients
- We provide access to the global resources of UBS, the world’s largest wealth manager\*

#### **Monetizing your privately held business**

Through our consultative approach, we can educate business owners, CFOs, CEOs, CPAs and attorneys on various ways to monetize a privately held business in a tax-efficient manner. By providing sell-side advisory solutions, we can empower our clients to make educated financial decisions.

Knowing who to work with in your important periods of business transactions can make all the difference.

- **Expanding your business.** When looking to expand, you should have a team of **experienced professionals** to help manage growth, including private capital sourcing and public equity and debt financing.

- **Lending solutions.** Through UBS you can access innovative solutions such as securities-backed lending, pre-IPO credit, mortgages and tailored financing.
- **Selling your business.** Our process offers detailed modeling clearly illustrating what it would look like to sell to a strategic buyer, sell to a financial buyer, utilize a dividend recap or sell to an ESOP.
- **Succession planning.** We can create customized cash flow models comparing the economic benefits of a taxable installment sale and a tax-deferred sale to an ESOP using Section §1042 of the IRC.

“We understand the complexity and planning opportunity that comes with selling a business, moving on from a salary or K-1 distribution, and maintaining your lifestyle with the help of secure cash flow management.”

– **Rob Allred**, Senior Vice President–Wealth Management

### After the sale

Combining our expertise of business succession planning and strategic wealth management, we are able to help entrepreneurs plan for the next chapter of their lives.

We help our clients develop a plan to transition from a K-1 distribution or salary to living comfortably off their investment income. Our comprehensive post-exit wealth management process entails:

- **Providing customized cash flow modeling** for various QRP/§1042 solutions
- **Implementing your strategy** to help defer or avoid capital gains tax
- **Developing a personal financial plan** that integrates your newly created balance sheet with your long-term goals to include:
  - Seller note principal payments
  - Seller note interest payments
  - Warrants/NQDC
  - §1042 cost of carry analysis
  - QRP assets and liabilities
  - Wealth management
  - Cash flow management
  - Estate planning strategies to help minimize the overall estate tax

### A family office-like structure

Utilizing the experience, intellect and disciplined client service model you would expect from a family office, we have cultivated long-standing relationships with our clients.

Whether you are navigating your family's milestones, managing a life transition or planning your legacy, we offer guidance that adapts to your needs.

- **Goal-based planning.** Our process involves asking questions, listening and creating a tailored financial plan that helps meet your specific goals. This is designed to provide both clarity and comfort when transitioning from receiving a K-1 distribution or dividend to having to live off the income created from assets accumulated from the sale of a business.
- **Personalized investment management.** With a focus on risk management, our aim is to preserve our clients' wealth. We'll work with you to design and execute customized investment strategies that help mitigate risk and provide consistent returns.
- **Trust and estate planning strategies.** We have the experience and the network to help protect your assets, reduce estate tax exposure, and transition wealth to future generations.
- **Philanthropy.** We can help you think through and implement a legacy that's meaningful to you and your family. You'll have the opportunity to collaborate with the right charitable organizations so you can make a real and rewarding impact.
- **Expanded services.** We can provide access to the valuable resources and expertise of UBS:
  - UBS Investment Bank
  - UBS Private Bank
  - Advanced Planning Group
  - Portfolio Advisory Group
  - Third-party investment managers
  - UBS CIO Americas, Wealth Management
  - Global family office
  - Banking, mortgages and credit cards

Past successes

# Case studies

# Family matters

## **The client**

- A husband and wife in their mid-50's and their two children. The couple had owned and operated a successful general contracting company in California for over 20 years

## **The background**

- The owners had very different goals and could not agree on a succession plan. The wife wanted liquidity to preserve the family's lifestyle and legacy; the husband did not want to give up control of the business

## **The approach**

- At the request of the family's CPA, Keith Apton and Nick Francia flew to California to work with the business owners and their CFO on ESOPs
- The Capital ESOP Group created cash flow models illustrating what a partial ESOP transaction would look like. This allowed the business owners to decide what was best for them, their company and their employees
- The couple realized that this solution addressed both of their concerns: it would provide significant liquidity while still enabling them to retain control of the company and their legacy

## **The solution and its benefits**

- The couple decided to sell 30% of their stock to an ESOP. This helped them diversify their net worth and preserve their lifestyle
- The ESOP structure allowed them to avoid capital gains tax on the sale proceeds and retain control along with 70% of the equity/upside
- The family now has the flexibility to decide how they want to transition the remaining 70% ownership. They have the choice between an outright sale or gifting the equity to their children
- With the liquidity created from the partial sale to an ESOP, the family was able to build their dream home in the Los Angeles area

# Increasing the thread count

## The client

- An owner and operator of a textile manufacturing company in New York City

## The background

- The business owner met with Keith Apton to learn about his various options to transition the business. While he was intrigued by the option of selling to an ESOP, the client and his advisors decided that the timing wasn't right
- A few months later, he was presented with an unsolicited offer from a strategic buyer

## The approach

- The owner's financial advisor encouraged him to re-engage The Capital ESOP Group to analyze and model the different scenarios, helping to ensure that he received the best deal possible
- Keith Apton advised the business owner to run a dual-track process to simultaneously evaluate the ESOP transaction and the strategic buyer's offer. This allowed him to directly compare the different scenarios and the possible outcomes for the family, the company, and the employees
- The Capital ESOP Group worked with a boutique investment bank who leveraged the tax-advantaged price of selling the business to an ESOP in their negotiations, ultimately leading the strategic buyer to submit a higher offer

## The solution and its benefits

- Thanks to The Capital ESOP Group's dedication and creativity and the investment bank's ability to negotiate, the strategic buyer felt the pressure and made an offer that was *over 30% higher* than his original, unsolicited offer—and higher than the tax-advantaged price of selling to an ESOP
- The owner accepted and closed the deal with significantly more liquidity than he would have received accepting the original offer



# Communications breakdown, solved

## **The client**

- Five siblings who owned a cable, internet, and telecom services provider in the Northeast

## **The background**

- The siblings could not agree on how to manage or transition the business. They tried to sell the company with the help of an investment bank over the previous five years, but had not found a deal that all of the siblings would agree to

## **The approach**

- Anticipating the challenge of getting all of the siblings to agree, the family's trusted advisor thought the flexibility of an ESOP may be worth exploring. Keith Apton and Nick Francia were brought in to discuss business succession planning, specifically ESOPs
- The owners were intrigued and wanted to learn more about how an ESOP would work for their specific circumstances. The Capital ESOP Group provided models comparing various transaction assumptions to help them understand the flexibility of an ESOP

## **The solution and its benefits**

- The Capital ESOP Group helped the business owners sell 100% of their company to an ESOP, managing to make each of the siblings happy with the outcome
- Five years prior, there was no indication that the five siblings would ever be able to sell their company without disagreement from at least one of them
- The flexibility of an ESOP allowed the family to create a structure that accomplished each of the siblings' independent goals through a single transaction



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\*ADV Ratings "Top Wealth Management Firms 2019" rank of global wealth managers by assets under management.

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