

FAMILY BUSINESS

Transition Options

JARED BYAS | COMMON GOOD

FAMILY BUSINESS ADVISORS

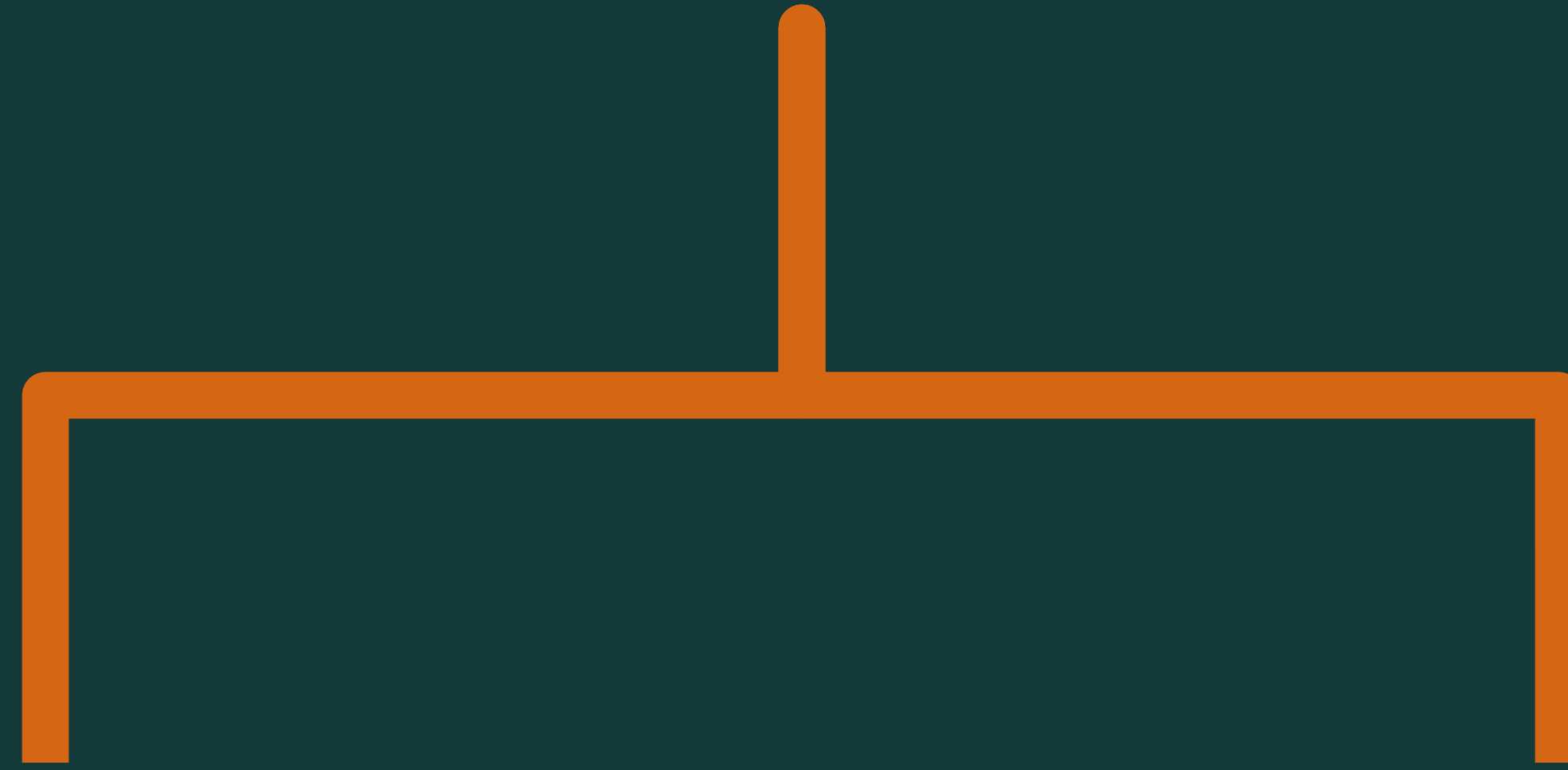


Over 10 Years Experience Working with Over 200 Families



 **Common
Good** ADVISORS
FOR FAMILY BUSINESSES

FAMILY BUSINESS TRANSITION



Management
Transition

Ownership
Transition

FAMILY BUSINESS Ownership Transition

- 1 Family Options**
- 2 Considerations if Multiple Successors**
- 3 Major Pitfalls to Avoid**
- 4 Non-Family Options**
- 5 Questions**

Ownership Transition Family Options

- **Rising Gen Financed**
- **Leading Gen Financed**
- **Company Financed**
- **Real Gift**
- **Company Financed/Gifted *On Paper***
- **Mix & Match**

Rising Gen Financed | Rising Gen brings outside capital (bank, savings) up front

Leading Gen Financed | Leading Gen holds a formal note payable over a defined period of time that is paid by the Rising Gen outside of the business (bank, savings)

Company Financed | Leading Gen holds a formal note paid by the company (either through straight distributions or reclassified distributions)

Real Gift | Rising Gen is given the business with no capital coming out of the business to pay for it (full discounted value put on gift tax return)

Gifts On Paper | Technically gifting (for taxes) while putting some kind of company financing in place

Mix & Match | Some combination of the methods above

**Gifts On Paper
Mix & Match
Most Common Options**

- **Retained Earnings Loanback**
- **Deferred Compensation**
- **Rental Income Only**
- **Partial Gift+Sale (Gift Distributions Pay)**
- **Reclassify: Gift Non-Voting & Sell Voting**

Business Vs Family Asset If Multiple Successors

- **Decide as a Family**
- **Family: Part of Inheritance**
- **Business Asset (Inheritance is the *opportunity* and those who work there have *earned* ownership in some way)**

Business Vs Family Asset

If Multiple Successors

Business Asset

No Employment?

No Ownership

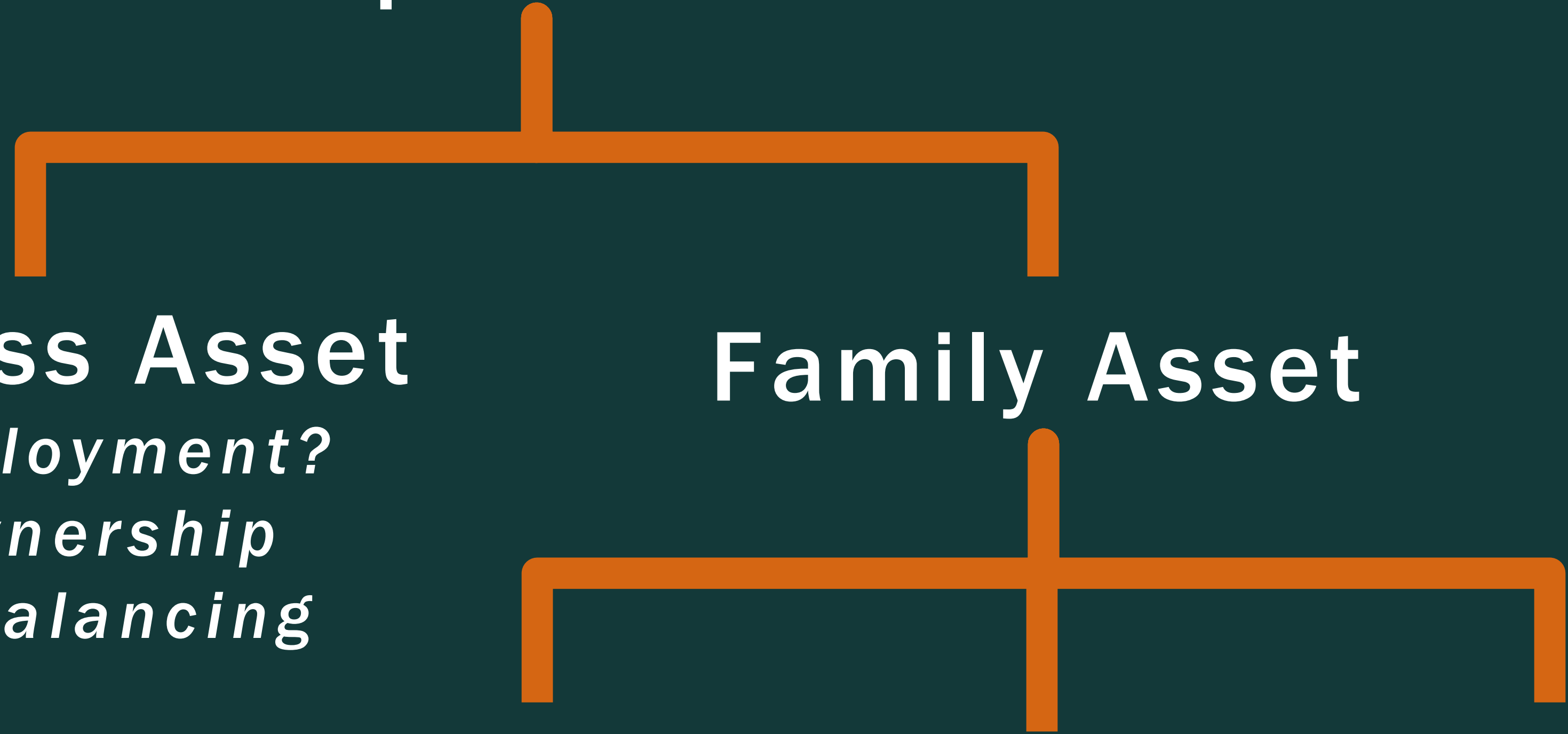
No Rebalancing

Family Asset

Buyout

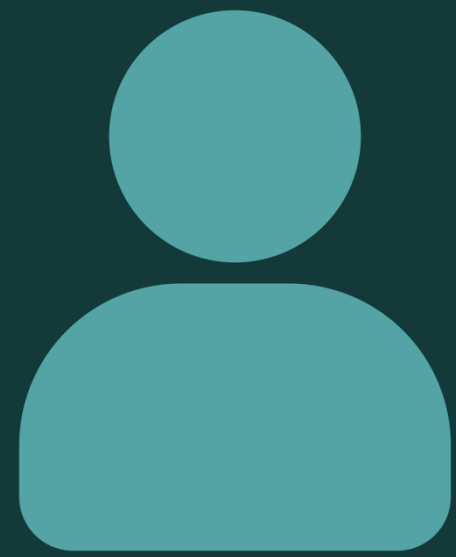
**Estate
Rebalance**

**Non-
Employed
Owner**



Business Asset Example

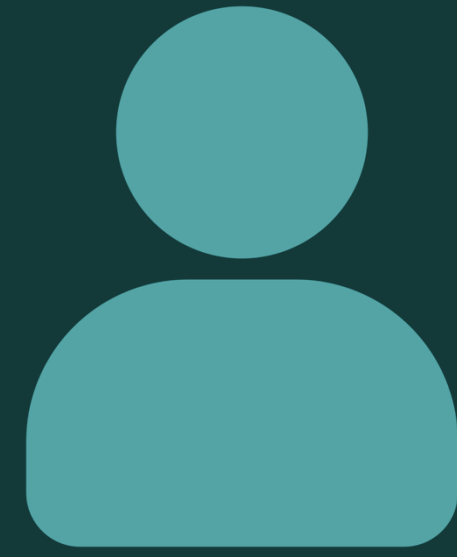
If Multiple Successors



Employed



Employed



Non-Employed



Non-Employed

Shares

50%

50%

0%

0%

**Inheritance
Value**

25%

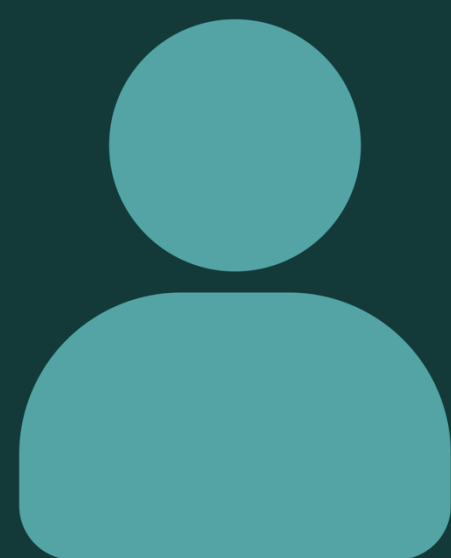
25%

25%

25%

Family Asset Example

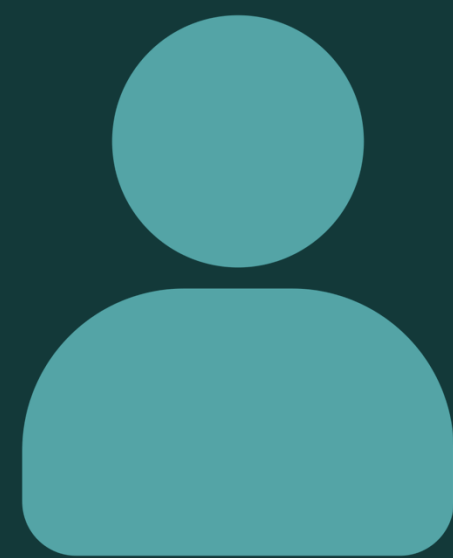
If Multiple Successors



Employed



Employed



Non-Employed



Non-Employed

Shares

50%

50%

0%

0%

Inheritance Value

0%

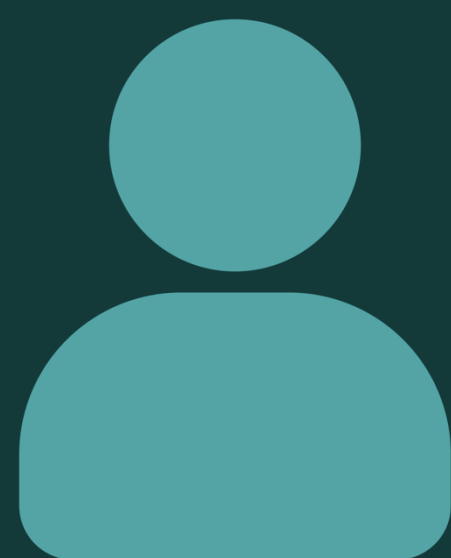
0%

50%

50%

Family Asset Example

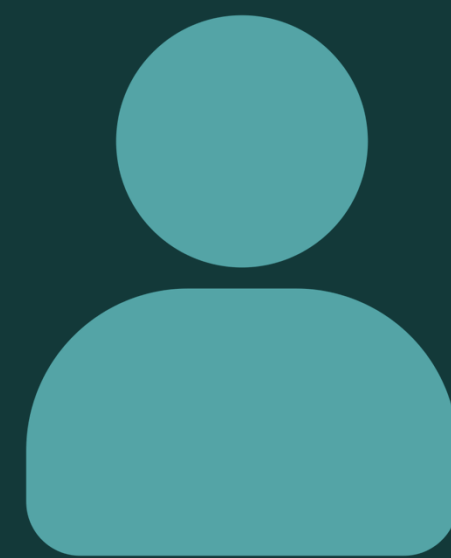
If Multiple Successors



Employed



Employed



Non-Employed



Non-Employed

Shares

40%

40%

10%

10%

**Inheritance
Value**

10%

10%

40%

40%

Ownership Transition

Pitfalls To Avoid

- **Leading Gen Not Being Clear/Honest About Financial Needs/Wants From the Business**
- **Misalignment on Family Vs Business Asset**
- **Rising Gen Entitlement/Lack of Perspective**
- **Lifetime Payments for the Leading Gen**
- **Not Considering Surviving Spouse (Usually Mom!)**
- **No Accountability for Performance (You need a sustain a profitable business!)**
- **Lack of Communication!**

**Ownership
Transition**
Non-Family
Options

- **Traditional Private Equity**
- **Search Fund (ETA) Private Equity**
- **Third-Party Acquisition**
- **ESOP (Employee Stock Ownership Program)**
- **Liquidate & Close**

Questions

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