



Business Exit Options

The art of selling a business and thriving thereafter

RAYMOND JAMES

MEET YOUR TEAM



Randall F. Watsek III, CFA®, CFP®, CEPA®

Financial Advisor

Randall Watsek has managed money for over 25 years, first as a credit portfolio manager at City National Bank and then as an equity research analyst, sector portfolio manager, and quantitative researcher at DGHM, a quality value boutique. He leveraged this experience to start an investment advisory practice at Raymond James.

Watsek earned an MBA from the University of Chicago in Analytical Finance and Accounting, and a BA from Claremont McKenna College in Economics and History. He also earned the CHARTERED FINANCIAL ANALYST (CFA®), CERTIFIED FINANCIAL PLANNER (CFP®), and CERTIFIED EXIT PLANNING ADVISOR (CEPA®) designations.



Diego Kapelusznik, JD, MBA, AIF®

Financial Advisor

Diego Kapelusznik began his professional career as an attorney in California, litigating business and real estate disputes. Diego distinguishes himself by going beyond traditional portfolio construction and management to implement tax-efficient strategies, guiding clients on several aspects of their financial lives.

Diego joined the Global Wealth Solutions Group in 2021. Before that, he served as a financial advisor for Merrill Lynch Wealth Management. Diego earned a bachelor's degree in political science from the University of California, Irvine, a Juris Doctor degree from Southwestern Law School and an MBA from Claremont Graduate University.

What We Do

We have a dual mandate: to care for the business as well as the family





We bring a vast network of internal and external professionals to provide the following:

- Corporate Growth Capital
- Merger and Acquisition Advisory
- Tax Mitigation Strategies
- Complex Estate Planning
- Risk-Adjusted Portfolio Management
- Financial Planning
- Guidance for the Next Generation

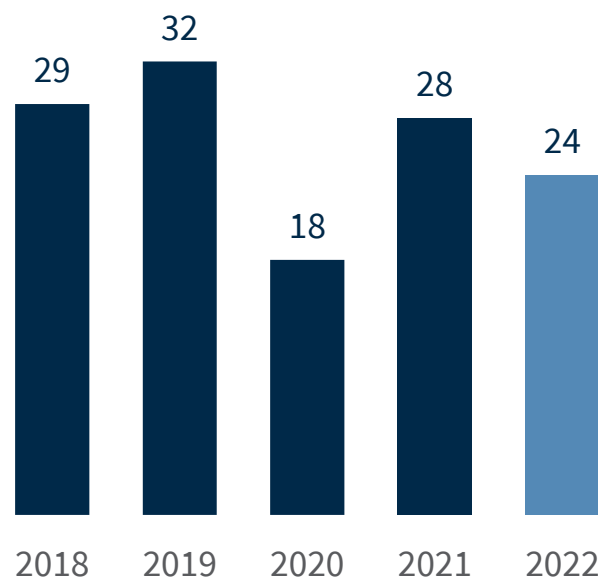
Together we will create, implement, and manage a plan focused not only on your business' needs, but also on your personal goals. And we will make the process as simple as we can.

A Leading Middle Market Advisory Firm

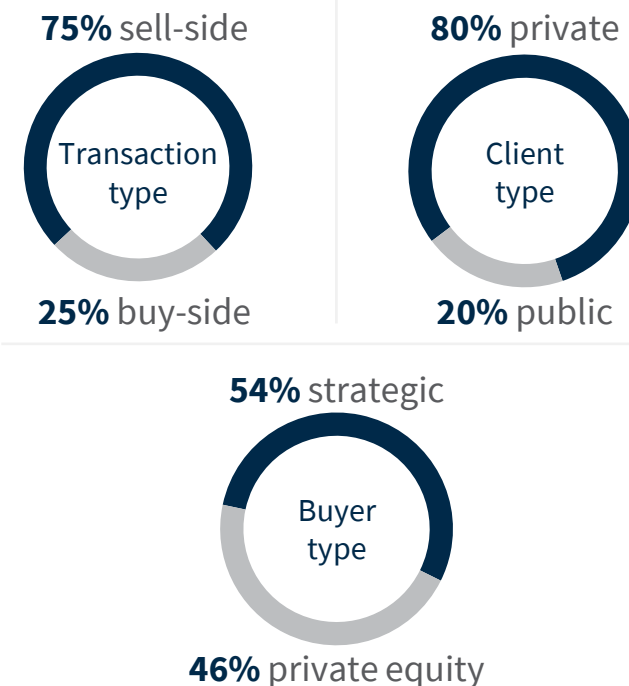
M&A advisory league table⁽¹⁾

Rank	Investment Bank	# of Deals
1	 HOULIHAN LOKEY	1,055
2	PIPER SANDLER	694
3	RAYMOND JAMES	688
4	Jefferies	610
5	 LINCOLN INTERNATIONAL	579
6	STIFEL 	577
7	William Blair	564
8	Goldman Sachs	555
9	 BAIRD	531
10	J.P.Morgan	505

Fairness opinions & other advisory assignments⁽²⁾⁽³⁾



Raymond James transaction metrics⁽³⁾



(1) Source: MergerMarket. Includes deals where target firm is headquartered in North America, deal value does not exceed \$500 million. Ranked by number of deals, from 01/01/17-09/30/22.

(2) Other advisory assignments include solvency opinions, valuations, QIU reviews, rights offerings and poison pill analyses that would fall outside the fairness opinion designation.

(3) Data from FY'17 – FY'21.



Agenda

Selling your business

- Preparing your business for a sale
- Maximizing potential value
- Finding and engaging potential buyers
- Negotiating and closing the deal
- Assembling an advisory team

Wealth Management

- Financial planning after selling your business
- Investment strategies for long-term growth potential
- Estate planning and minimizing tax impact

Many Business Owners Are Not Prepared

- 88% of business owners have no written transition plan and 65% have not formalized any exit planning.

—Source: *Forbes*, February 2017

- Fewer than 40% of business owners have had a formal valuation conducted in the last three years, and 65% have never had their financial statements audited.

—Source: *Exit Planning Institute*

- 50% of all business exits are involuntary, forced by external factors known as the five D's: Death, Disability, Divorce, Disagreement and Distress.

—Source: *Exit Planning Institute*

Businesses Are Seeking to Sell: WHY?

- Experienced a serious COVID-induced disruption and still recovering
- Post COVID valuations remain relatively high
- Both strategic and institutional investors are seeking acquisitions to put capital to work
- Threat of increasing taxes and regulation
- Fear of the unknown, geopolitical risk, etc ...

As a result, business owners have more questions than ever!

It All Starts With Two Simple Questions

- **Do you have all the capital you need to grow to your full potential?**
- **Are you thinking through a potential liquidity event in the next 1-2 years?**

What You Should Be Thinking About (but probably do not have time for it)

1. M&A advisor
2. Accounting / tax strategy
3. Legal / estate planning
4. Wealth management



M&A Considerations

- What is the role of an M&A advisor in the sale process?
- What is value of my business?
- Best practices for increasing value in the near term
- Is capital available to support growth?
- How to best prepare for a sale?
- Developing proper positioning for the company

Legal / Estate Planning Considerations

- What is the role of an attorney during the sale process?
- Is my entity structured correctly?
- Is my legal house in order with respect to key documents/issues?
- What are the legal issues to review prior to a capital raise or sale?

Accounting / Tax Strategy Considerations

- What is the role of an accountant during the sale process?
- Importance of reliable financials
- Importance of a review or audit
- What is a Quality of Earnings report and why does it matter?
- Key strategies to mitigate tax burden

Wealth Management Considerations

- Role of Wealth Advisor in playing quarterback throughout the sale process with other professionals
- Key strategies for mitigating tax liability
- Personal preparation for significant liquidity event
- Moving from active to passive income
- Estate and generational planning

Prepare to Maximize Sale Value

- Prepare clean financials for 3-5 years
- Document all the key roles, responsibilities, and processes
- Prepare the business so that it can run without you
- Clean any reputational hurdles or lawsuits
- Look for opportunities to increase margins and reduce costs
- Look for opportunities to increase organic growth
- Consider strategic acquisition growth

 **The bigger, the more profitable, and the greater the growth potential, the higher the sale multiple.**

What Affects Valuation?

- » Low Growth Prospects
- » Low Margins
- » Little Financial History
- » Volatile Earnings
- » Management Succession in Doubt
- » Concentrated Customers / Suppliers
- » Generic Product or Service
- » Low Market Share

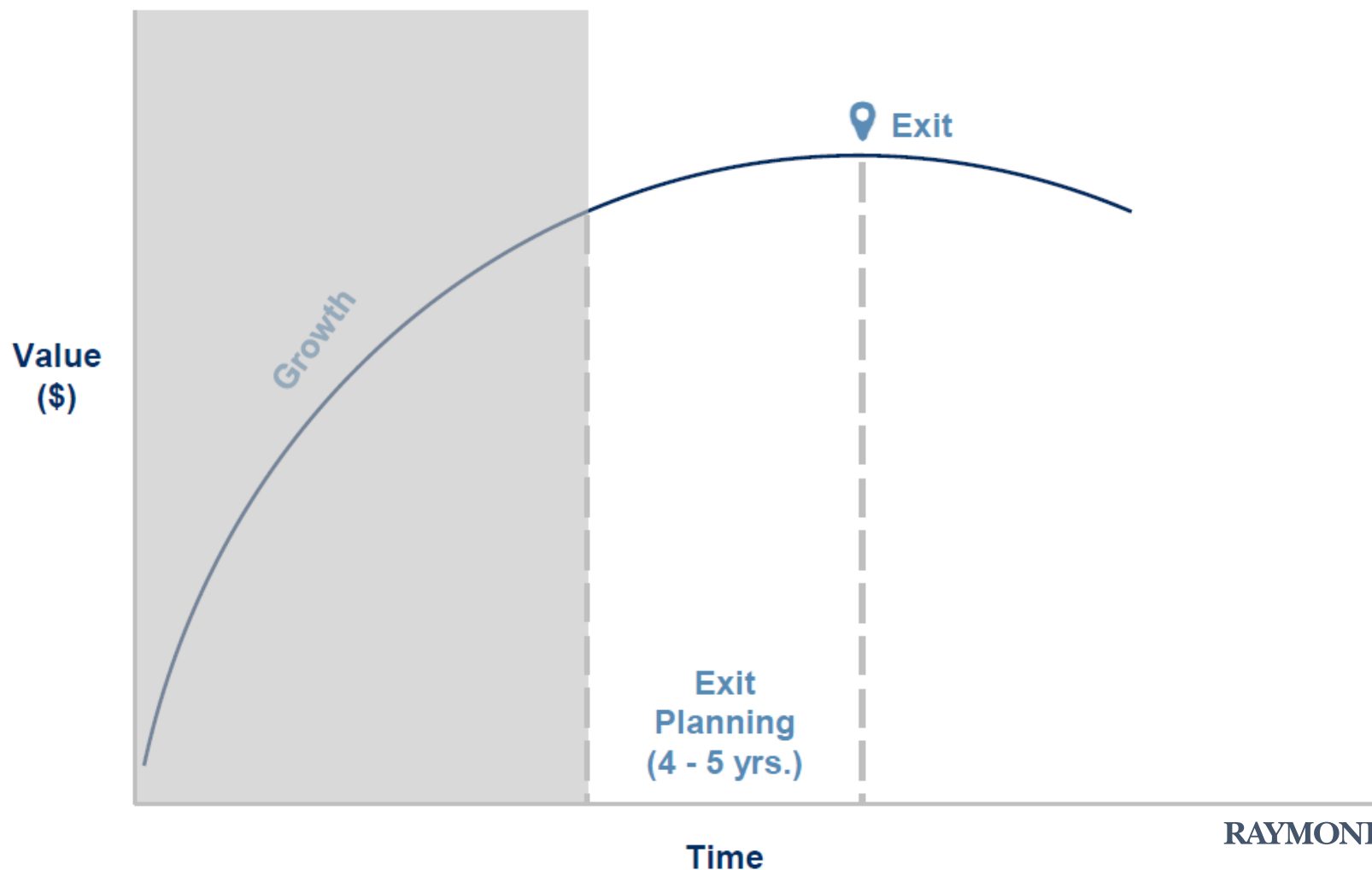
- » High Growth Prospects
- » High Margin
- » Long Successful Track Record
- » Steady Earnings Growth
- » Management Succession in Place
- » Diverse Customers / Suppliers
- » Differentiated Product / Service
- » Leading Market Position



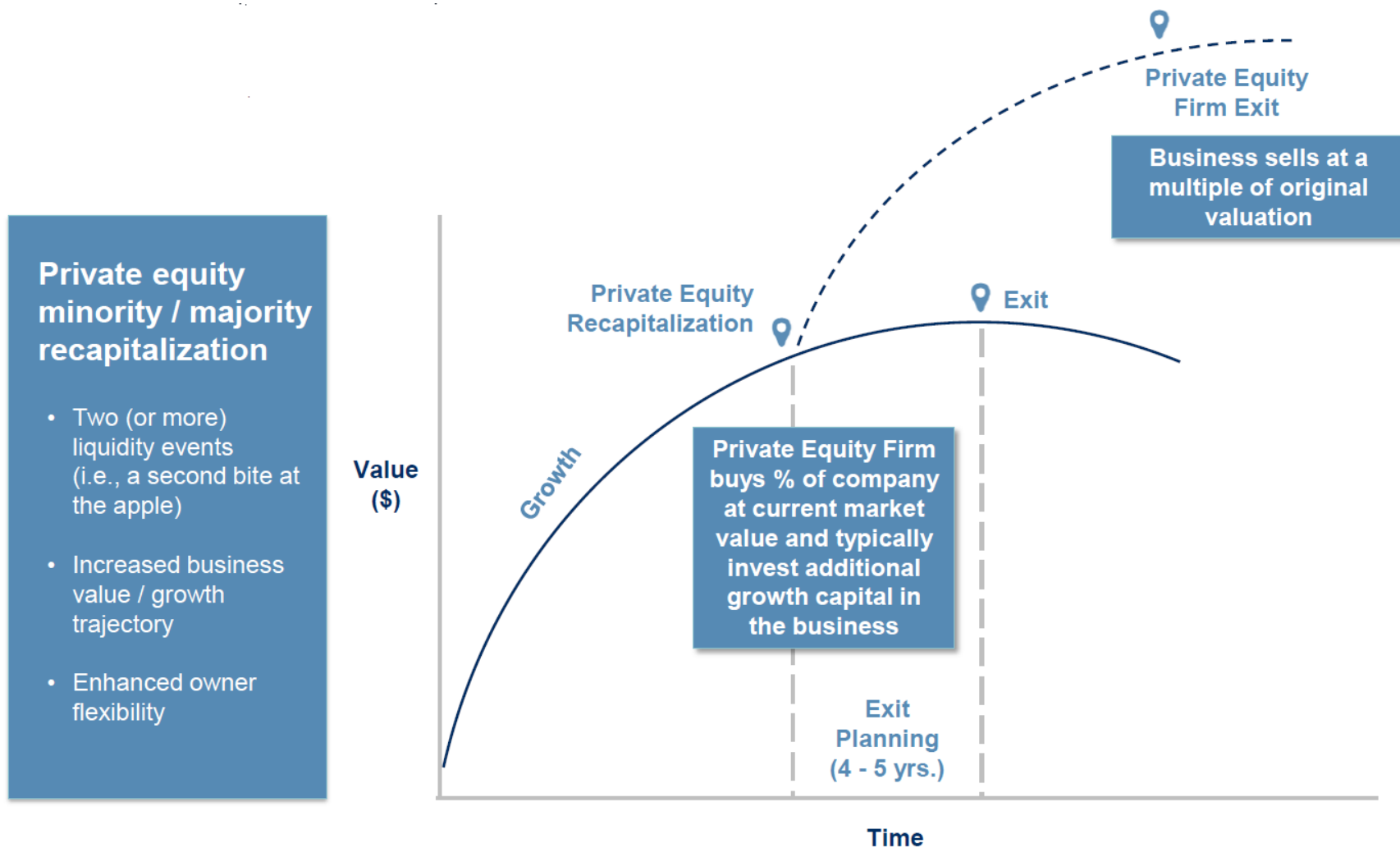
How a Typical Company Plans for Growth

Traditional business owner planning model

- Growth/exit planning begins as early as possible
- Business experiences early, fast growth and then plateaus
- Single liquidity event at exit



How a Partial Sale Can Increase Value



Sale Process & Timeline



Tax Planning Strategies

Timing	Income Tax Mitigation	Transfer Tax Mitigation
Pre-Liquidity Event	<ul style="list-style-type: none"> • Donor Advised Fund • Private Family Foundation • Charitable Remainder Trust 	<ul style="list-style-type: none"> • Donor Advised Fund • Private Family Foundation • Charitable Remainder Trust • Charitable Lead Trust • Recapitalization • Generation Skipping Trust • Bypass Trust / Credit Shelter Trust • Dynasty Trust • Grantor Retained Annuity Trust • Sale to Defective Grantor Trust • Domestic Asset Protection Trust • Beneficiary Defective Inheritor's Trust
Post-Liquidity Event	<ul style="list-style-type: none"> • Donor Advised Fund • Private Family Foundation • Charitable Remainder Trust • Gain Deferral on Sale of QSBS • Gain Exclusion on Sale of QSBS • Opportunity Zones • 1031 Exchanges 	<ul style="list-style-type: none"> • Donor Advised Fund • Charitable Remainder Trust • Charitable Lead Trust

Overview of Buyers

- Strategic Buyers
 - Public corporations or large private companies that operate in the same or a closely related industry as the seller or have a subsidiary operating in the space.
- Financial Buyers
 - Private equity firms, family offices or venture capital firms that are looking to acquire companies as an investment
- Hybrid Buyers
 - Strategic buyers that are backed by a financial sponsor.
- Individual Investors
 - Former executives, serial entrepreneurs, owner-operators, etc.



Wealth Strategy

The best time to plan is well before you exit your business:

Dig the well before you're thirsty

(Quote from Harvey MacKay)

What Does Liquid Wealth Buy?

- True Freedom
- Time
- Lower Risk
- Purpose
- Legacy
- Ability to Do Good

Wealth Management



Selling your business is a major milestone. But preserving your wealth while maintaining growth potential is a challenge in our complex world. Financial planning considerations include:

- Tax efficiency
- Estate planning
- Legacy planning
- Spending vs. investing
- Risk management
- Concentration issues
- Family governance and guidance for the next generation
- Prudent investment strategies

Three Phases of Building Wealth

1. Accumulation
2. Transition
3. Financial Independence

Accumulation Strategy

- Time horizon is more than 5-10 years
- Focus is on business and investment growth
- Maximize business reinvestment and savings
- Two sources of wealth:
 1. Business value
 2. Diversified, liquid wealth

The Power of Compounding Savings

Example: Save \$10k a month consistently (\$ in 000's)

Time Investing	Future Value at a 5% Return	Future Value at an 8% Return	Difference
5 Years	680	735	55
10 Years	1,553	1,829	277
15 Years	2,673	3,460	787
20 Years	4,110	5,890	1,780
30 Years	8,323	14,904	6,581
40 Years	15,260	34,910	19,650
Dividend/Interest Yield at 3%	458	1,047	589

Transition Strategy

- Potentially exiting the business within the next several years but no specific plan in place
- Begin preparing business for sale
- Still need significant growth to fund a long life, provide for heirs, and meet philanthropy goals
- Consider estate planning options
- Begin exploring options for after business exit

Estate Tax Considerations

- Families interested in passing on wealth should keep in mind that the current exemptions expire in 2025.
- Under current law, the estate tax exemption is \$13.6 million per person or \$27.2 million per couple.
- Unless the end of 2025, exemptions will revert back to 2017 levels: about \$7.5 million per person and \$14.5 million for couples.
- We at Raymond James have estate planning attorneys and CPAs on staff that can help you plan.
- By having regular conversations with your financial professional, you can adapt to changes in tax law and your family's situation while helping to preserve your goals and legacy.

Buy/Sell Agreements

If you have a closely held business, a buy-sell agreement funded by life insurance provides the liquidity needed to buy out a partner who wants to exit

Compounding a Liquidity Event

Example: Realize a \$20 million liquidity event (\$ in MM)

Time Investing	Future Value at a 5% Return	Future Value at an 8% Return	Difference
5 Years	25.5	29.4	3.9
10 Years	32.6	43.2	10.6
15 Years	41.6	63.4	21.9
20 Years	53.1	93.2	40.2
30 Years	86.4	201.3	114.8
40 Years	140.8	434.5	293.7
Dividend/Interest Yield at 3%	4.2	13.0	8.8

Retirement Strategy

- Matching income with expenses, gifts, and other cash outflows
- Mapping out a meaningful retirement
- Consider projects that give meaning and purpose to life
- Preparing the next generations

Money Matters When It Comes To Longevity



The wealthiest U.S. men live
15 years longer than average



The wealthiest U.S. women live
10 years longer than average

Investment Income

- **Interest**

- Pros: low principal and interest risk from high quality bonds (taxable or tax-free muni bonds)
- Cons: may not keep up with inflation

- **Dividends**

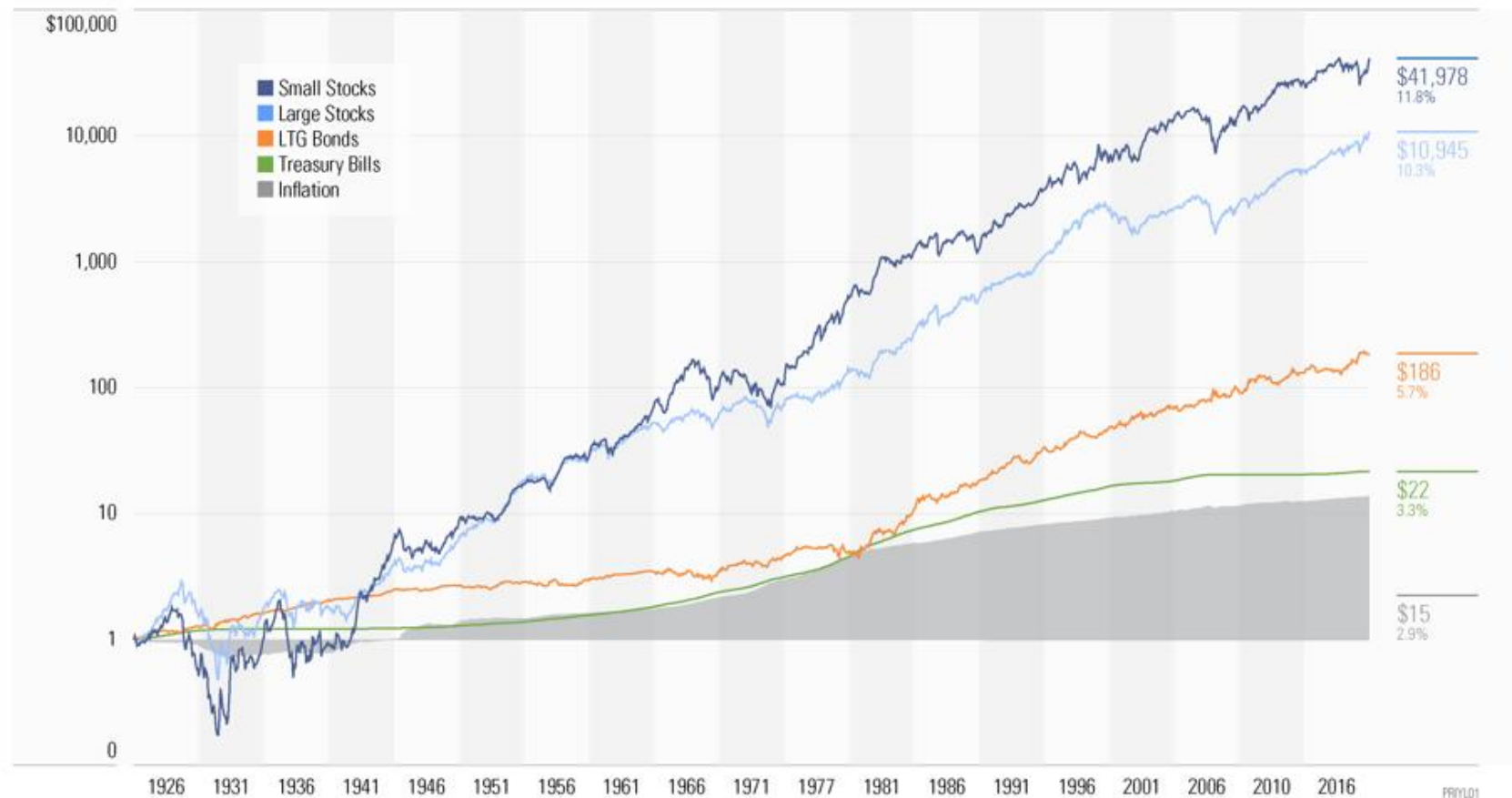
- Pros: yields attractive and may grow faster than inflation
- Cons: risk being cut during a recession

- **Rental property**

- Pros: yields attractive and may keep pace with inflation
- Cons: vacancies, repairs, not liquid / can be hard-to-sell, concentrated wealth, and requires management

Ibbotson® SBBI®

Stocks, Bonds, Bills, and Inflation 1926–2020



- Past performance is no guarantee of future results. Hypothetical value of \$1 invested at the beginning of 1926. Assumes reinvestment of income and no transaction costs or taxes. This is for illustrative purposes only and not indicative of any investment. An investment cannot be made directly in an index. © Morningstar 2021 and Precision Information, dba Financial Fitness Group 2021. All Rights Reserved. Small stocks in this example are represented by the Ibbotson Small Company Stock Index. Large stocks are represented by the Ibbotson Large Company Stock Index. Government bonds are represented by the 20-year U.S. government bond, Treasury bills by the 30-day U.S. Treasury bill, and inflation by the Consumer Price Index. Underlying data is from the Stocks, Bonds, Bills, and Inflation (SBBI) Yearbook, by Roger G. Ibbotson and Rex Sinquefeld, updated annually.

Key Risks

- Rising expenses with inflation
- Protracted market or economic downturns
- Legal risk / asset protection
- Catastrophic or chronic illness within the family
- Children unable to handle wealth

We Can Help You Build a Stress-Tested Financial Plan

YOU HAVE A SIMPLE QUESTION: HOW RESILIENT IS YOUR WEALTH TO MARKET DOWNTURNS?

Unfortunately, **because future returns are unpredictable**, there isn't one simple answer.
We'll consider three different answers: average returns, bad timing and probability of success.



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Calculate probability of success	
<div>WHAT IS THE LIKELIHOOD YOU CAN FUND ALL YOUR GOALS?</div> <ul style="list-style-type: none">• We ran your plan 1,000 times using 1,000 different, and equally possible, return assumptions. Each run is called a trial.• 760 trials were successful in funding all of your goals.• Your probability of success = 760 successes ÷ 1,000 total trials.	<div>ARE YOU IN THE CONFIDENCE ZONE?</div> <ul style="list-style-type: none">• Your probability of success should be high enough to make you feel confident about the future without sacrificing too much today. <div>RAYMOND JAMES</div>

Private Wealth Solutions at Raymond James

Investment Management

- Cash management solutions
- Equity managed accounts
- Fixed income managed accounts
- Passive income strategies
- Asset allocation strategies
- Private investments
- Diversification / concentration risk

Financial Planning

- Retirement planning
- Life transitions
- Executive compensation
- Tax efficiency
- Estate planning
- Risk management
- Custom credit solutions



We welcome the opportunity to work with you

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Disclosures

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