



November 2011

Transition Planning Case Study – Part III of III

This final newsletter in our series of a transition planning case study (*you can find Parts I & II on our website in the 'Events' tab under the topic of transition & exit strategies*) is intended to complete our 6-step process that puts into action the theoretical aspects of transition planning.

Review of Newsletters Part I & Part II

Brewery owner Bill Brown was looking for direction in formulating his transition when transition planning consultant Tom first met him. Tom helped Bill begin by reviewing his goals and measuring his readiness for a transition. Through this process Bill can now see that with a Low Financial and Low Mental readiness, Bill is a 'stay and grow' transitioning owner and best suited for looking at options that are aligned with a longer term transition that suits his personal needs and desires.

In short, Bill is not interested in selling the business today but would very much like to begin the transition planning process so that he is better prepared for this very difficult financial event. By understanding his different options, Bill begins to see that he can make better decisions in his business to better align his resources towards his eventual transition. This means that Bill is running his business more efficiently, leading to the business's lower dependence on Bill's personal involvement in running his Brewery.

The 6-step transition planning process had Bill very engaged in understanding the five (5) major transition options and which ones were the best to begin the conversation with Tom to further shape Bill's thinking. Bill is now ready for the fifth step in the process – figuring out the value that he will receive from each transition option.

Step #5 – The Range of Values of Bill's Business

Bill has always known that his business was worth 'something' but he did not ever really have a firm grasp of what someone else might actually pay him for it. Tom explains to Bill that his Brewery has a number of different values – it depends upon who the future owner of the business will be.

The 'range of values' is very important because it is going to tell Bill whether or not he will reach the financial goals that he established in the first step: goal setting.

Tom explains that sales of businesses to 'outsiders' are measured at 'market value.' In short, this is the value that someone else will pay Bill for his business. If someone in Bill's industry buys his Brewery, he can get the most money because of a concept called 'synergies.' If a financial buyer is to acquire the Brewery, Bill might receive investment/financial value for the business. Tom explains that there are other valuations as well.

Internal Transfers

If Bill decides that he wants to transfer or sell the business to his managers, he will experience a form of financial/investment value which pays him over a long period of time from the cash flows of the business.

Also, Bill can sell shares of his company to an Employee Stock Ownership Plan (ESOP) which is another form of an 'internal' transfer. This valuation is measured at Fair Market Value.

Finally, Bill can gift shares of the business to his children [or to others]. Again, this would be measured at Fair Market Value.

Tom explains that each valuation is different as is the timing and amount of payment from each transition option. Bill is beginning to see that there is much more to a business transition than he originally thought. In order to truly achieve his goals, Bill will need to commit further to this planning exercise and be careful about how and when he will extract the equity from his business.

What Bill is realizing is that it is not necessarily most important that he receive this highest 'value' for his business. Rather, Bill now sees that the most important financial aspect of a transition plan is how much of the 'value' Bill will keep. This leads us to our sixth and final step: Executing the Transition Plan.

Step #6 – Execution of Bill's Transition Plan

In addition to the various values for the different transition options that Bill is learning about, it is also most important for Bill to understand not only what he will get for his business but also what he will keep. This means that Bill needs to incorporate taxes, fees and other areas where his business wealth will be

diminished if he wants to plan his business transition and protect his illiquid wealth.

The areas where Bill needs to focus on in order to best protect his illiquid wealth include his:

- Taxes
- Estate taxes
- Gift taxes and planning for his family's wealth
- Deal structuring for his transaction
- Legal agreement that he will need to sign for the transition, and
- The advisors who will assist Bill with his transition and business wealth protection.

Tom is Bill's consultant for his business transition and wants Bill to understand that these execution items require a great deal of care and need to be addressed far enough in advance of a future transaction for Bill to avoid any unnecessary surprises.

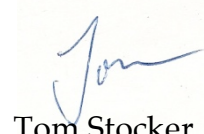
When this final step of analysis is complete, Bill will have a full picture of what a successful transition can look like for him, his family, his employees and all other parties who rely upon Bill's Brewery for their livelihood. Bill has done the hard work to understand his goals, his readiness, as well as the options and 'range of values' for his transition. Bill now needs to take the next and most important step forward – putting the plan in motion by engaging in the process of transitioning his business. Even though Bill will not leave for many years, it is important that he remain focused on his end results.

Having understood the 6-step transition planning process and seeing what areas Bill needed to pay attention to, it is the intention of this series of newsletters that you will now be empowered and encouraged to pursue your own transition plan in order to better your

chances of a successful eventual transition from your business and protect your illiquid wealth.

If you have found this case study has raised questions you would like to discuss or inspired you to find out how a comprehensive transition strategy can fit your situation, you are always welcome to come to one of our Executive Briefings to learn how our process works, or contact Owner's Edge to discuss how transition planning will help you.

Regards,



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Our Commitment to our Customers

We help our owner/clients articulate and execute the strategies needed to make their profits sustainable and their business transferable. This creates true and meaningful value.

About Owner's Edge

Owner's Edge is a business advisory and consulting firm specializing in helping business owners work *on* their businesses by devising and implementing strategies to drive operational excellence every day. We are one of the few advisor firms that can provide a formal and comprehensive Transition Planning service for business owners. Call us for a no-obligation consultation today.

Executive Briefing: *Business Transition Strategy Planning*

Wednesday January 18, 2012 8:00AM – 10:00AM
Southern RI Chamber of Commerce, Wakefield

This educational breakfast briefing is tailored especially for business owners and their key advisors. Learn why it is important to plan your transition, where you should start, what your transition options are, who is involved in the process, and when they need to enter into the process. A continental breakfast will be served. Reserve your seat today and feel free to invite members of your advisory team.

Host: Michael C. Paolino, Financial Advisor, Edward Jones

Co-host & Speaker: Tom Stocker, Managing Director, Owner's Edge

Admission \$25.00

Kindly RSVP by January 16, 2012
to Lauren McCarthy, Newberry PR & Marketing,
401-433-5965 or lauren@newberrypr.com.

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