

# Blending Succession and Exit Planning

National Trust Closely Held Business Association  
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# Agenda

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To share planning ideas that business owners/beneficiaries who may be (or should be) considering an exit, need to understand

## Balancing Exit Options

*Where do I start and what determines success?*

## Pre-Exit Planning

*What steps should be undertaken and when?*

## Exit Options

*Who are the investors and what are the differences between these options?*

On the Cover:

*Pittsburgh's Monongahela Incline, the oldest operating funicular in the U.S.*

# Ownership Readiness

*If you are not talking to your customers about an exit, someone has been or, will be, soon...*

## Recent Surveys



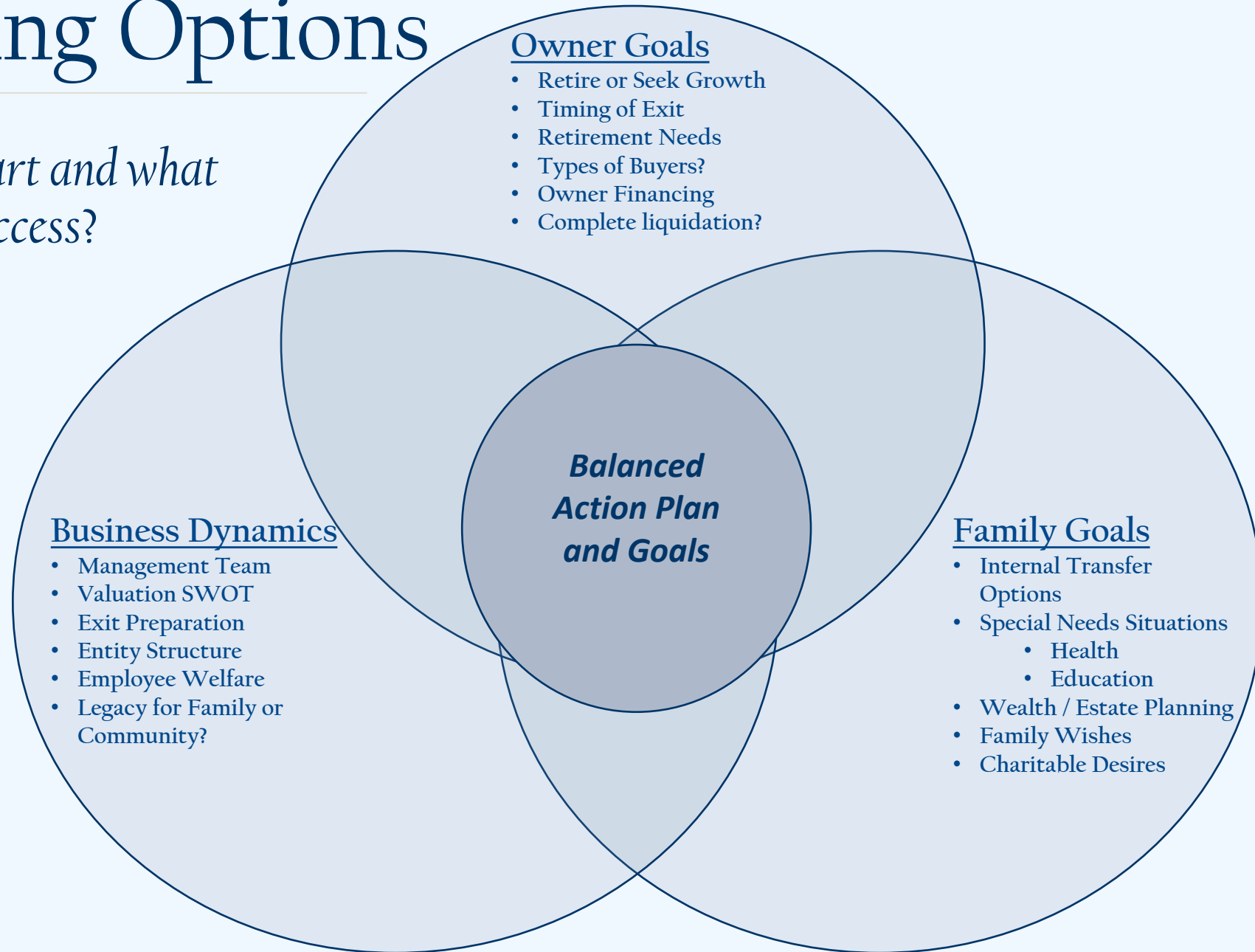
- 2023 Private Capital Markets Report (“PCMR”) by Pepperdine University
  - [https://digitalcommons.pepperdine.edu/gsbm\\_pcm\\_pcmr/16/](https://digitalcommons.pepperdine.edu/gsbm_pcm_pcmr/16/)
  - Originated in 2004, the 2023 update had over 1.000 business owners and professional service firms responding
  - Nearly 50% of the respondents are planning for ownership transfers within 5 years



- 2023 National State of Owner Readiness Report (“SOOR”) by Exit Planning Institute
  - <https://exit-planning-institute.org/2023-national-state-of-owner-readiness>
  - Originated in 2013, PNC - being a founding leader
  - The 2023 update had over 1.200 business owner responses
  - It was estimated that over 70% of privately held companies in the U.S. plan to transition within the next 10 years, equaling an ~ \$14 trillion transfer opportunity
  - Financial advisors are now the most trusted source for succession planning based on the business owner responses

# Balancing Options

*Where do I start and what determines success?*



# Exit Options

*Who are the buyers and what are the differences?*

| OWNER QUESTIONS                 | EXIT OPTIONS      |                   |                   |                   |                       |                       |                       |                       |
|---------------------------------|-------------------|-------------------|-------------------|-------------------|-----------------------|-----------------------|-----------------------|-----------------------|
|                                 | INTERNAL          |                   | ESOP              |                   | FINANCIAL BUYERS      |                       | STRATEGIC BUYERS      |                       |
|                                 | Family            | Employees         | Direct            | Hybrid            | Search/Sponsor        | Established PEG       | Horizontal            | Vertical              |
| Valuation                       | FMV/Flexible      | FMV/Flexible      | FMV               | FMV               | Highest/Market Based  | Highest/Market Based  | Highest/Market Based  | Highest/Market Based  |
| Continued Involvement/Ownership | Flexible          | Flexible          | Flexible          | Flexible          | Buyer Determines      | Buyer Determines      | Buyer Determines      | Buyer Determines      |
| Family / Employees Involvement  | Flexible          | Flexible          | Flexible          | Flexible          | Buyer Determines      | Buyer Determines      | Buyer Determines      | Buyer Determines      |
| Timing of Transaction Process   | Flexible          | Flexible          | Flexible          | Flexible          | Market Based          | Market Based          | Market Based          | Market Based          |
| Negotiated Deal Terms           | Flexible/Friendly | Flexible/Friendly | Flexible/Friendly | Flexible/Friendly | Competitive/Combative | Competitive/Combative | Competitive/Combative | Competitive/Combative |
| Debt Financing Needs            | High/Flexible     | High/Flexible     | High/Flexible     | High/Flexible     | High                  | High                  | Possibly None/Low     | Possibly None/Low     |
| Due Diligence Intensity         | Low               | Low               | Moderate          | Moderate          | High/3rd Party        | High/3rd Party        | High/Internal         | Hi/ Internal          |
| Certainty of Closing            | High              | Debt Driven       | Debt Driven       | Debt Driven       | Debt/Diligence Driven | Debt/Diligence Driven | Diligence Driven      | Diligence Driven      |
| Confidentiality of Deal         | High              | High              | High              | High              | NDA Based             | NDA Based             | NDA Based             | NDA Based             |
| Family / Community Legacy       | Owner Decision    | Owner Decision    | Owner Decision    | Owner Decision    | Negotiated            | Negotiated            | Negotiated            | Negotiated            |
| Tax Planning Opportunities      | Flexible          | Flexible          | Flexible          | Flexible          | Limited               | Limited               | Limited               | Limited               |
| Planning in Advance for Sale    | Limited           | Limited           | Limited           | Limited           | Intense               | Intense               | Intense               | Intense               |
| Field of Buyers                 | Small             | Small             | Company Only      | Limited           | Limited               | Many                  | Market Based          | Market Based          |

# Pre-Exit Planning

*What steps should be considered and when?*

| Suggestion   | Description/Rationale   | Ideal Initiation Date |
|--|---|-----------------------|
| Initiate Operating Expense Reduction / Profit Enhancement Strategies | Insurance savings utilizing captives, reviews of: merchant processing fees, utilities, telecommunications, transportation, payroll processing, excess real estate   | ASAP                  |
| Wealth/Tax/Estate Planning   | Ownership transfers, trust formation, entity structuring, confirm retirement goals  | 5 years               |
| Legal Reviews  | Key contract/agreement review, IP filings, regulatory filings, corporate minutes and stock ledger   | 2-years prior         |
| Minimize Avoidable EBITDA Add-Backs                                  | Owner lifestyle spending, excess compensation, this cleans P&L in advance and substantiates prior-years' required add-backs   | 2-years prior         |
| Evaluate HR Improvements   | Personnel improvement and optimization, key person agreements, compensation arrangements, employee manual   | 2-years prior         |
| Clean-up Balance Sheet   | Remove non-operating assets, clean up fixed asset schedule to reduce depreciation recapture   | 2-years prior         |
| Sell-Side Quality of Earnings (QOE) Analysis                         | Confirms & finds EBITDA add-backs, speeds DD by confirmatory v. investigatory activities, demonstrates seller commitment, achieves quality offers, assists with obtaining RWI coverage, uncovers accounting or tax issues, provides efficiency for developing marketing materials | 1-Year in Advance     |
| Penetration / Cyber Security Testing                                 | Always a concern for buyers and lenders and RWI coverage  | 1-Year in Advance     |
| Key Employee/Stakeholder Communications                              | Which employees are needed in the process, formulate communications and cover story for others  | 1-Year in Advance     |

# Cost Saving/Profit Enhancement Opportunities

- **Utilities**
  - Electricity
  - Natural Gas
  - Other fuels
  - Water and Sewer
- **Communications**
  - Telecom – Local Long-Distance Services, Data
  - Wireless Services – Cellular Phones and Devices
- **Technology Spend Savings**
- **Shipping/Transportation**
- **Waste Removal**
- **Merchant Credit Card Processing Fees**
- **Payroll Processing Fees**
- **Employee Benefits**
- **Human Resources / PEOs**

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### Professional Associations

American Institute of Certified Public Accountants (AICPA) – Former Council Member

Federal Accounting Standards Advisory Board (FASAB) - Former Board Member

Maryland Association of Certified Public Accountants (MACPA) - Former Board Chair

### Experience

Graylin (Gray) is Managing Partner of SB & Company, LLC (SBC). In his capacity as Managing Partner, Gray is responsible for the firm's quality control program and the overall management of the firm. Gray has over 40 years of public accounting experience, including years as a partner at Arthur Andersen and Ernst & Young. Gray's clients at SBC range from start-up entities to multibillion dollar organizations. He has significant experience assisting clients raise capital through banks, private placements, venture capital, and public stock and debt offerings. Gray has assisted numerous clients with merger and acquisition transactions.

Gray received his Bachelor of Science in Accounting at Hampton University. Gray is active in many civic and business organizations. Gray serves on the Board of Directors of the Carson Scholars Fund, Inc., Homes for America, and the Capital Region Minority Supplier Development Council. He is also a graduate of the Greater Baltimore Committee, Baltimore County, and Maryland Leadership programs and a frequent speaker on accounting related topics.





## David J. Pieton

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### Licenses and Certifications

- Certified Public Accountant - 1987
- Certified Valuation Analyst - 2001 (idle)
- Accredited Senior Appraiser - 2005
- Collaborative Dispute Resolution Professional - 2010
- Series 82 - Limited Representative-Private Securities Offerings - 2011
- Series 63 - Uniform Securities Agent State Law Examination - 2011
- Series 65 - Uniform Investment Adviser - 2018

### Experience

Dave delivers a unique blend of business expertise based on a life-long career in the public accounting profession and as a practice owner. Dave has gained the skills and knowledge required of a multidisciplinary firm which is on the leading edge of the profession. These include deep experience with accounting and tax compliance, retirement planning, wealth advisory, valuation advisory, owner succession and exit planning and managing the sale process of companies, including one as an owner himself.

Dave currently consults with business owners and their advisors to prepare for, and, act on an exit whether to family members, management teams or third-party sales. Some of these are illustrated on the attached sheet which span many different industries and locations across the U.S. and internationally.



# Sampling of Exit Planning Transactions

Sell-Side Advisory  
Representing:



On its Sale to:



Apparel Manufacturing

Sell-Side Advisory  
Representing:



On trustee  
representation of  
closely-held  
businesses

Retail, equipment leasing and  
insurance agency

Sell-Side Advisory  
Assisting:



On its Sale to:



Industrial & Commercial  
Liquidations

Sell-Side Advisory  
Representing:



On its Sale to:



Industrial Product  
Manufacturing

Sell-Side Advisory  
Representing:



On its Sale to:



Food Product Processing and  
Distribution

Sell-Side Advisory  
Representing:



On its Sale to:

Audax Private Equity  
Industrial Product Manufacturing

Sell-Side Advisory  
Representing:



On its Sale to:



Transportation, Logistics, Storage  
and Military

Sell-Side Advisory  
Representing:



On its Sale to:



HVAC Contracting

Sell-Side Advisory  
Representing:



A Brand of Fine Quality  
Since 1959

On its Sale to:



Food Processing Retail and  
Distribution

Sell-Side Advisory  
Representing:



On its Sale to:



Reverse Logistics, On-Line Retail

Sell-Side Advisory  
Representing:



On its Sale to:



Industrial Equipment Calibration  
and MRO Distribution

Sell-Side Advisory  
Representing:



On its Sale to:



Oil & Gas Equipment  
Manufacturing and Repair


# Thank you!

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Please reach out to either of us for additional information.




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