

*HOW M&A,
SUCCESSION
PLANNING,
AND ESTATE
PLANNING
AFFECT VALUE*



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AGENDA

Economic Update

Value is Relative

- Estate Planning
- Succession Planning
- M&A

Summary

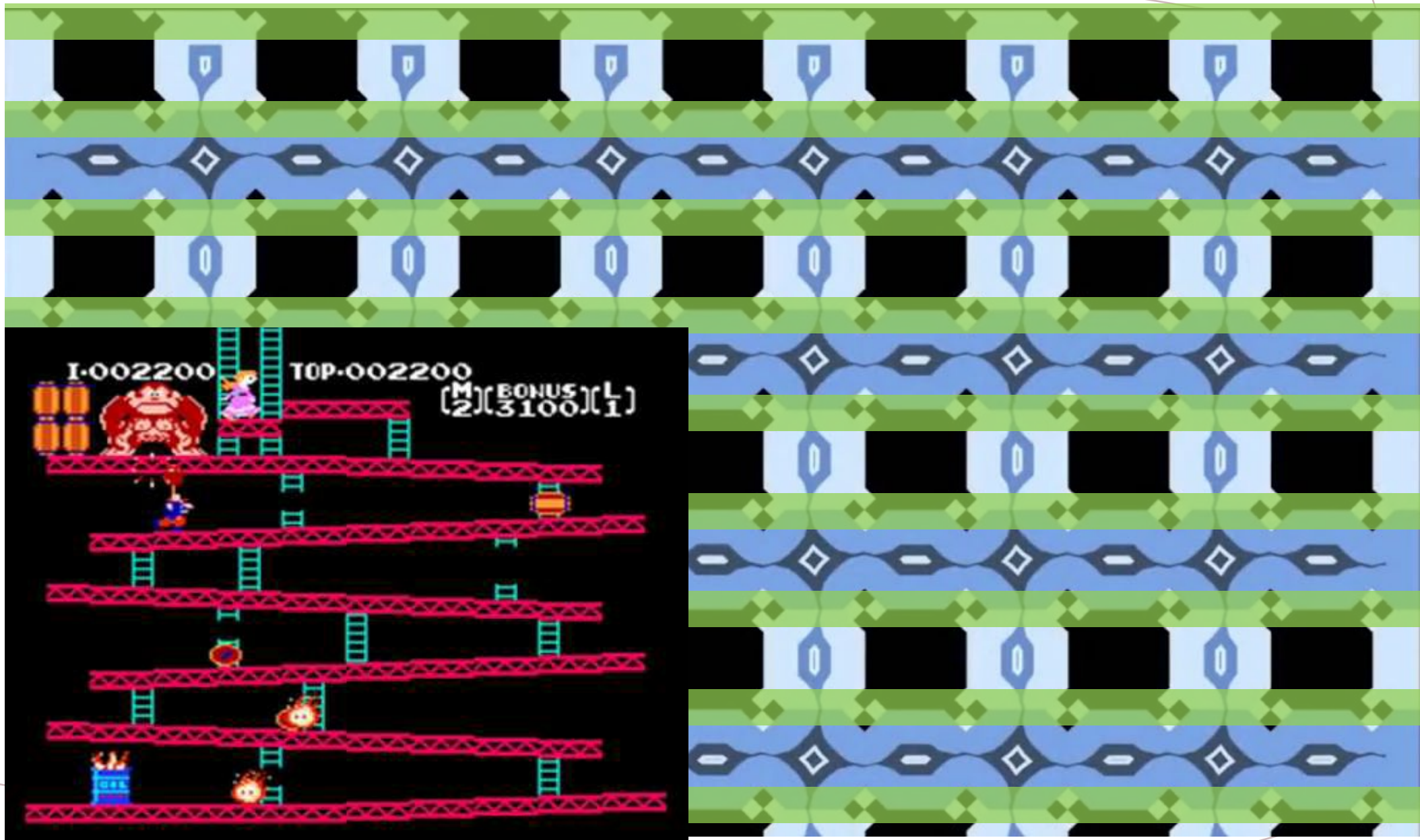




WHAT IS VALUE?

The cynic knows the price of everything and the value of nothing.

- Oscar Wilde

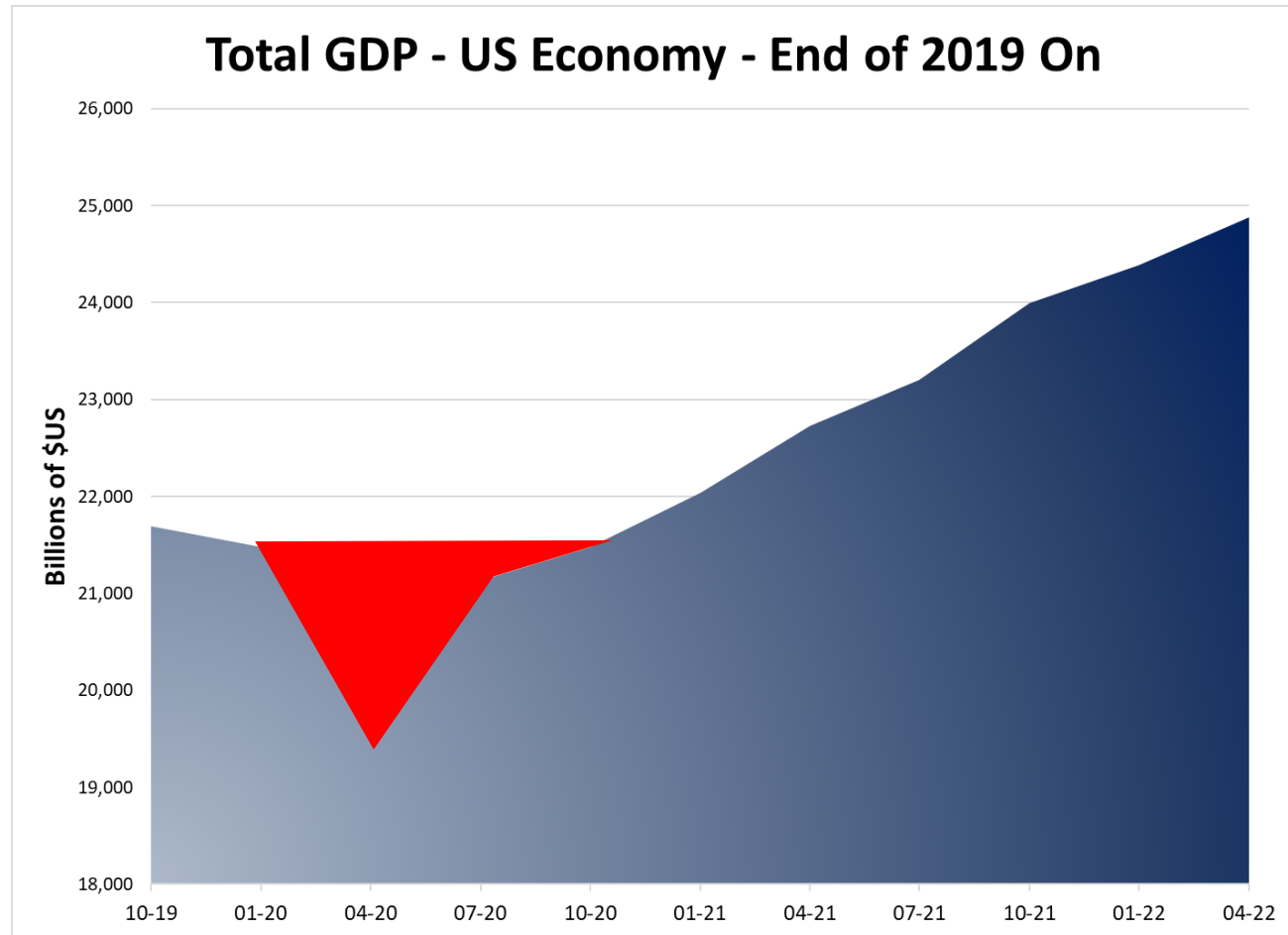


A Quick Recap

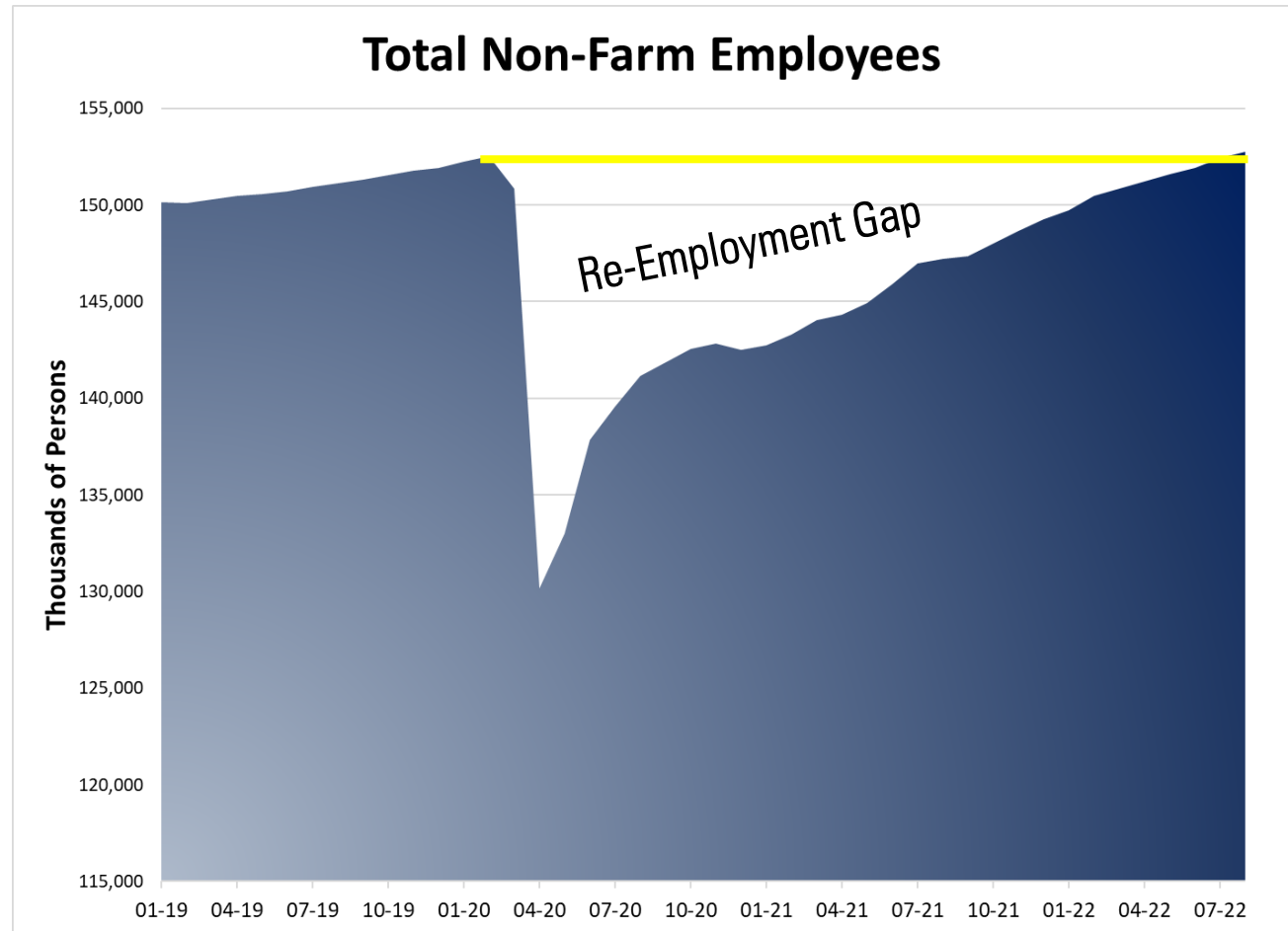
THE ECONOMY



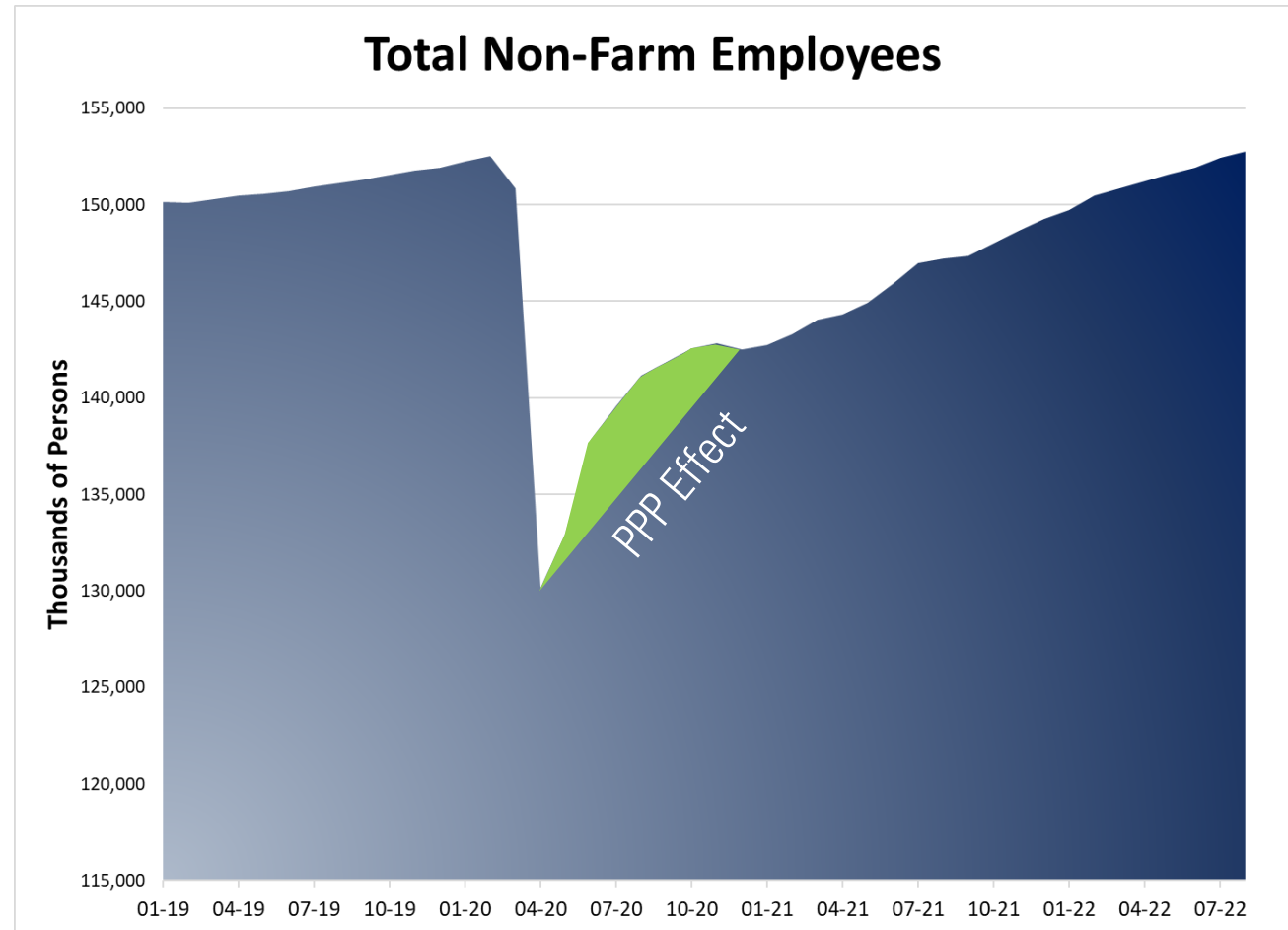
GDP GROWTH



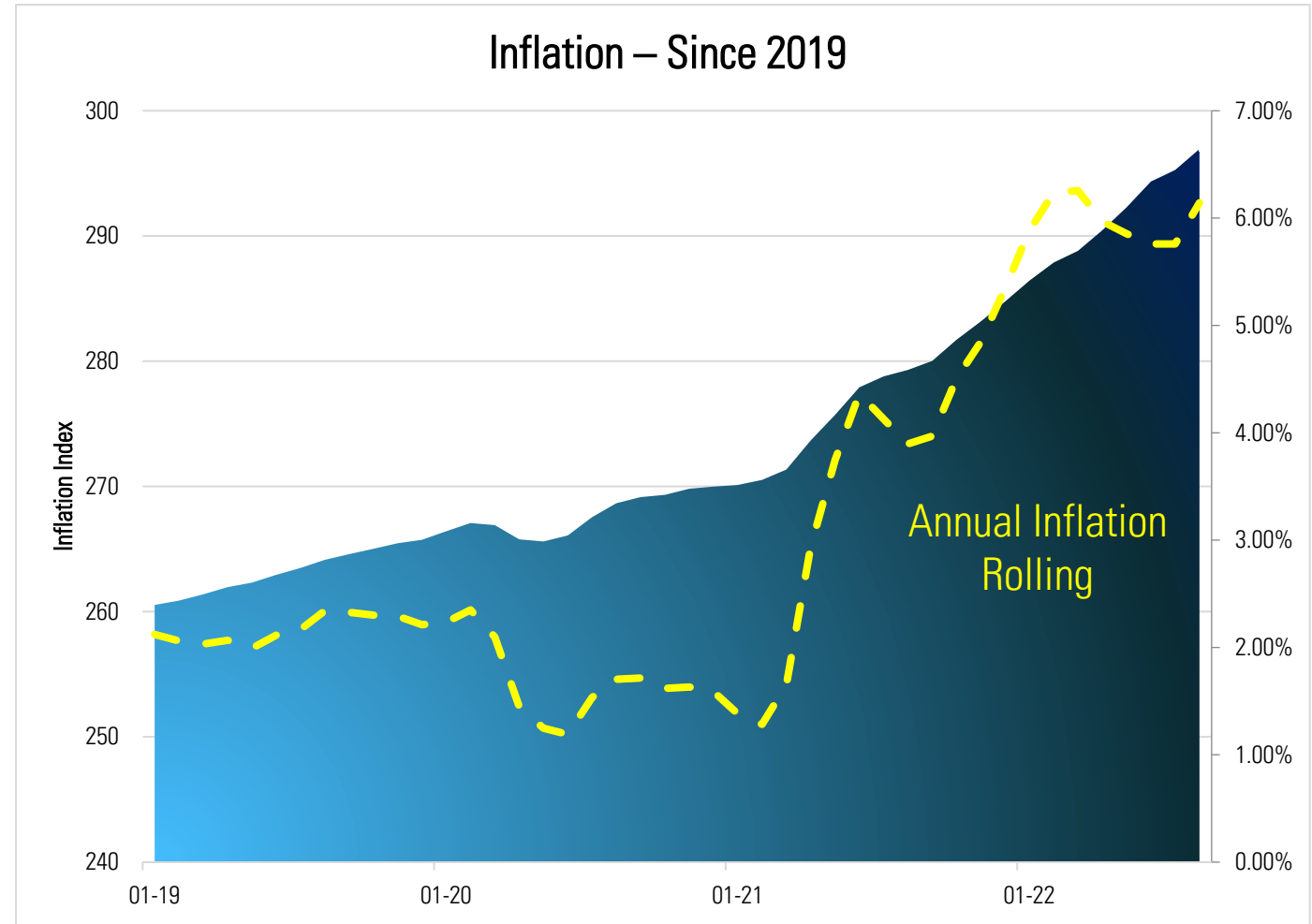
EMPLOYMENT



EMPLOYMENT

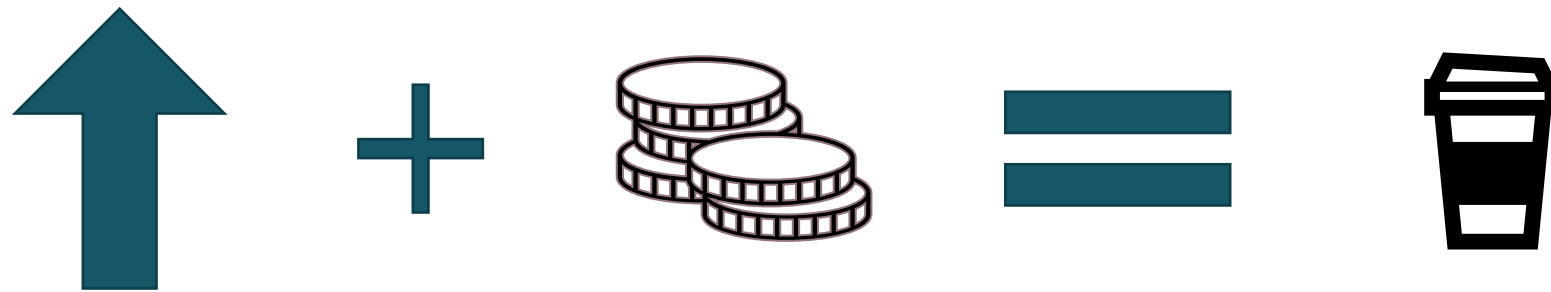


INFLATION



SUMMARY

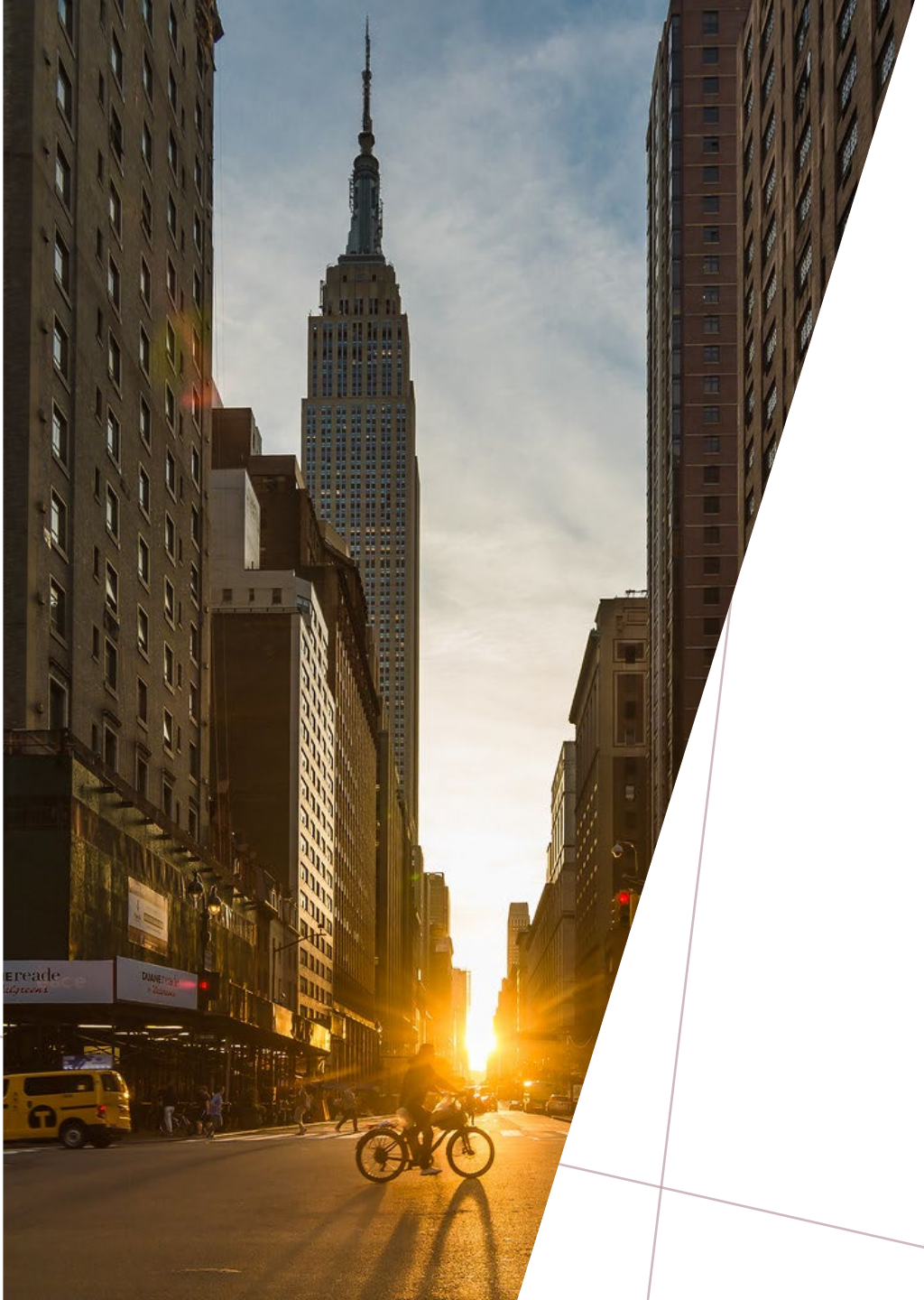
- Likely to enter mild recession soon, if not already
- Interest rate guidance likely to increase further
- Equity values will remain stagnant
- Absent shock, pull-backs are more likely than not to be “mild”



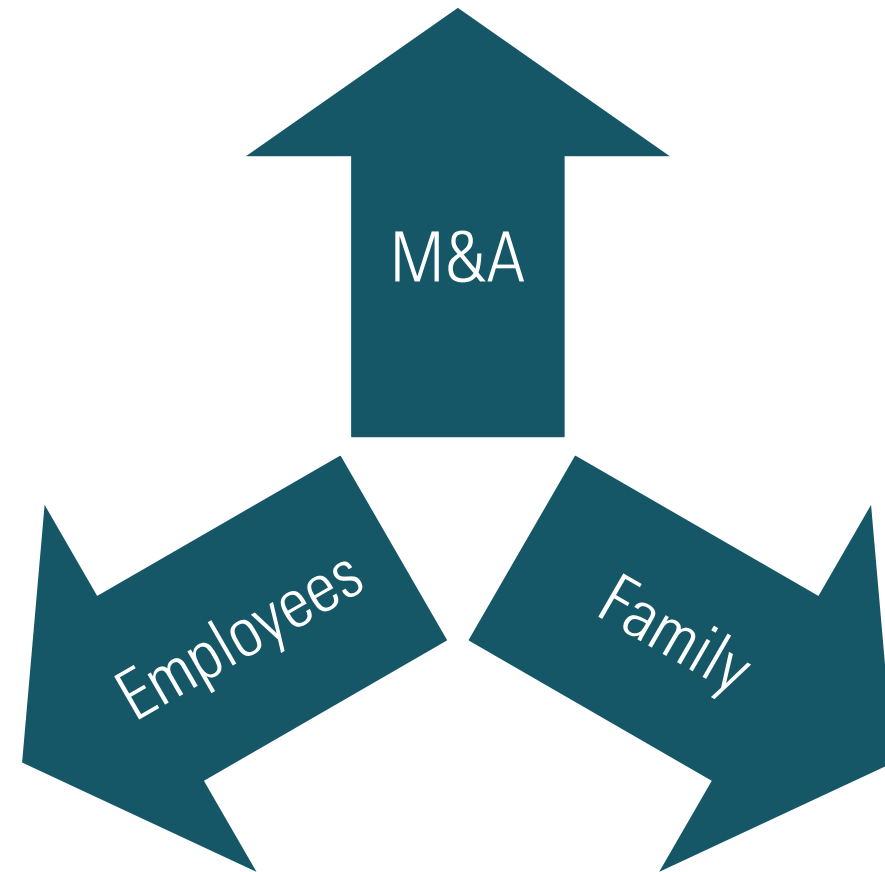
These statements are not guarantees of future performance and undue reliance should not be placed on them.

POLL #1





*VALUE IS IN THE EYE
OF THE BEHOLDER*



ESTATE PLANNING

Goal: Minimize value?

Obstacle: Regulations

Stress: Regulations

Opportunity: Discounts



SUCCESSION PLAN

Goal: Fair deal

Obstacle: Capital

Stress: Hand off

Opportunity: Legacy



M&A

Goal: Maximize value

Obstacle: The economy

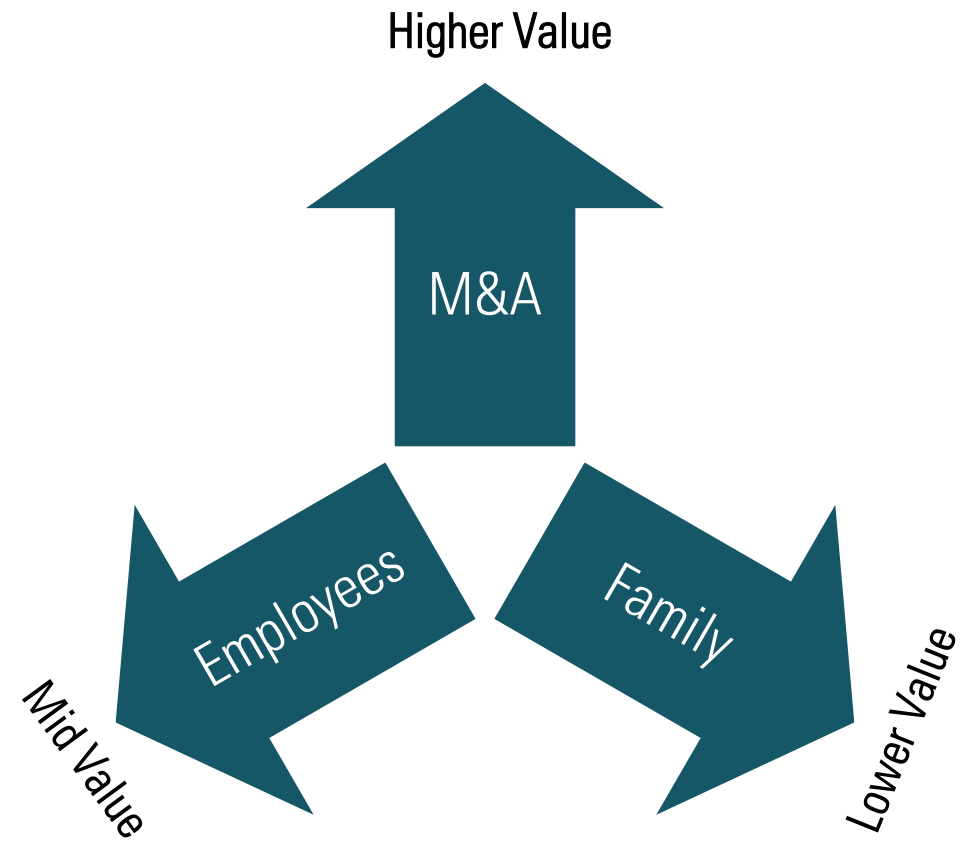
Stress: Financial data

Opportunity: Add-Backs





VALUE IS IN THE EYE OF THE BEHOLDER





ALL IN THE FAMILY

How to Pass On Your Business to Family

PREPARING FOR THE NEXT GENERATION

Start Today

Comparison of Business Asset Taxation at Death		
	Today's Tax System	Potential Tax System
Value of Business	\$ 68,000,000	\$ 68,000,000
Ordinary Capital Gains	-	(200,000)
AFP Capital Gains	-	(29,078,000)
Estate Tax	(22,520,000)	(10,808,800)
Total Taxes Owed	<u>(22,520,000)</u>	<u>(40,086,800)</u>
Effective Rate	33.1%	59.0%

PREPARING FOR THE NEXT GENERATION

Start Today

Up to \$12.7M in Credits
for Gifts Available Today

If married, that's over \$25
million to plan with today
that could be gone
tomorrow.

Strategies for Estate Planning

Discounts

Lack of Control



A Plane You Share
VS
A Plane You Own

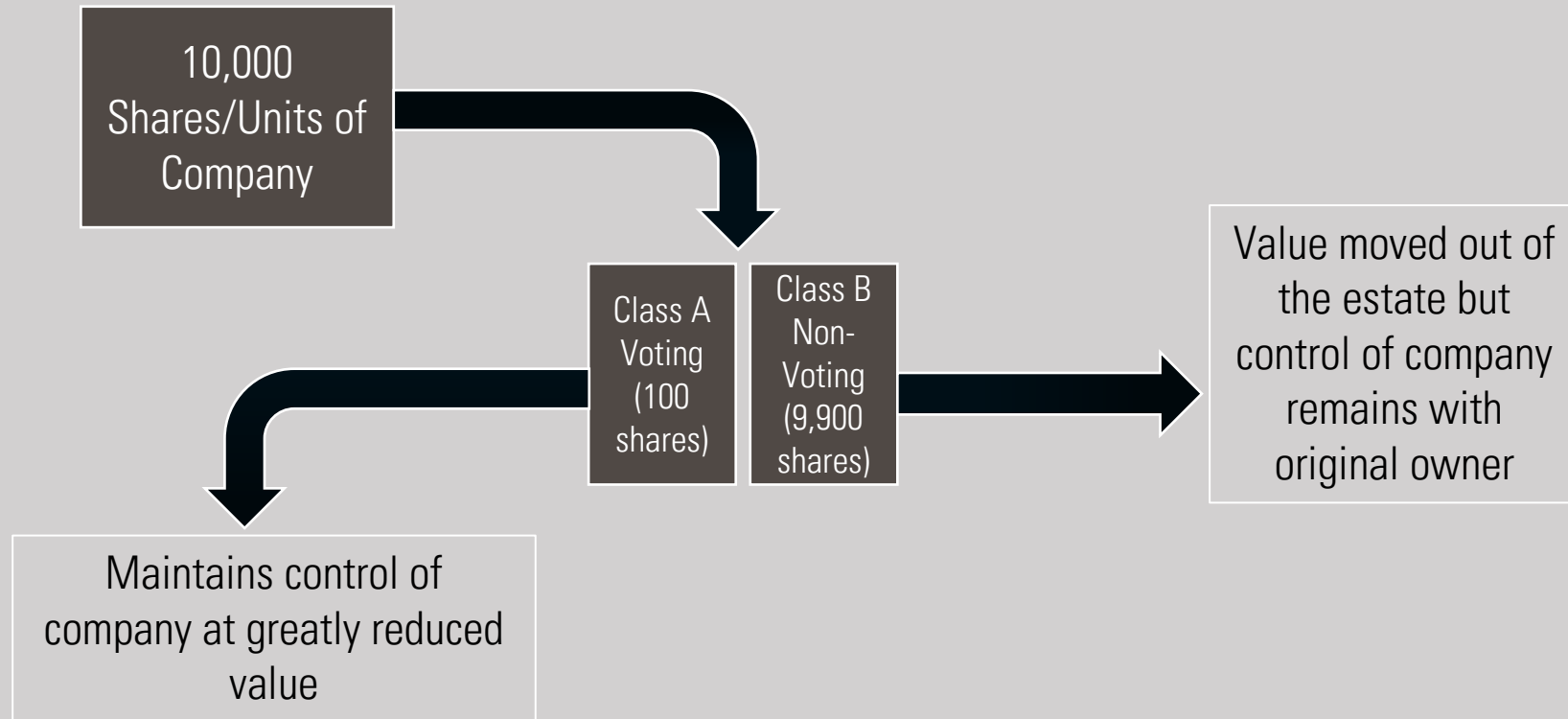
Lack of Marketability



A "\$40,000" Chevy Camaro
VS
A \$40,000 of GM Stock

Strategies for Estate Planning

The Power of Share Classing



POLL #2





*A FRIENDLY
TAKEOVER*

Strategies for Successful Succession by Employees



SUCCESSION PLANNING

When legacy is everything, continuity is key

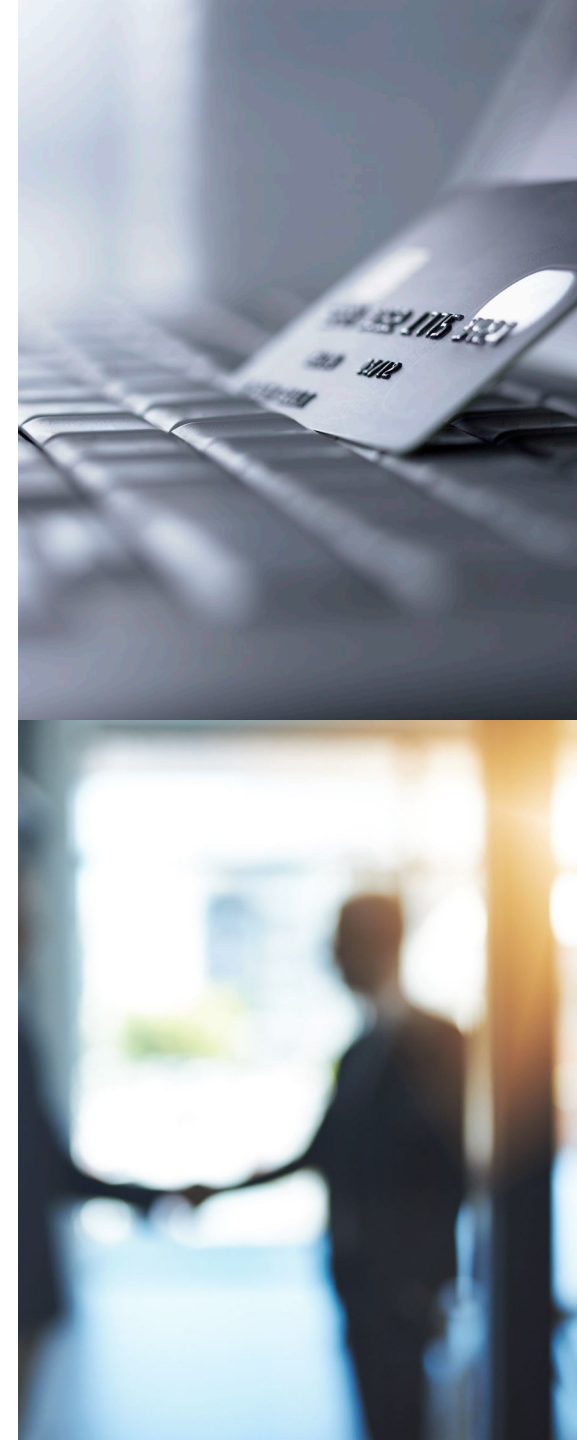
Reasons for Employee Buyouts:

- Trust
- Legacy
- Familiarity
- It's Easier to Find a Buyer

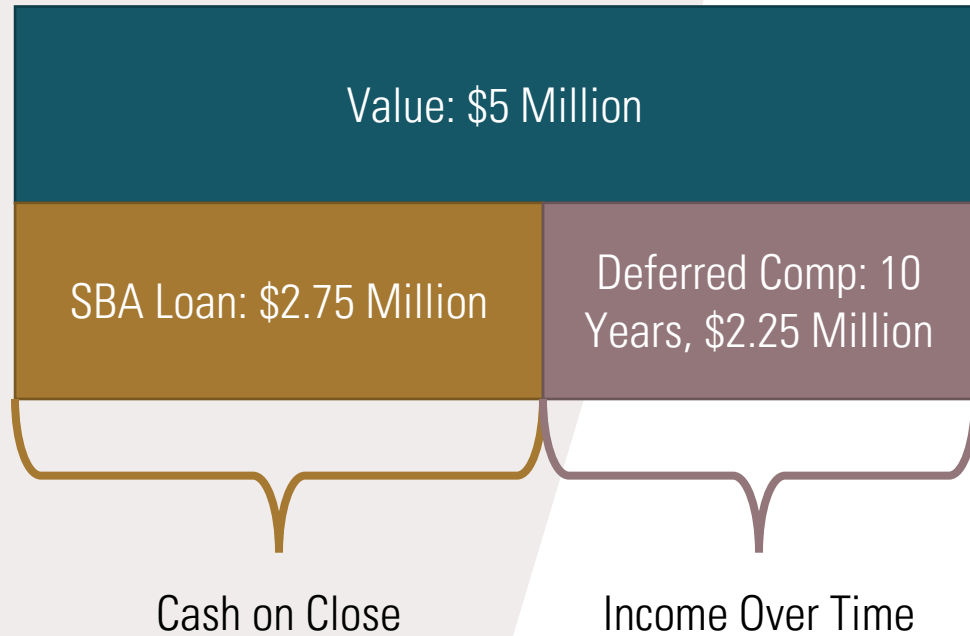
SUCCESSION PLANNING

Strategies to Finance Small Business

- Sweat
- Bank
- Deferred Comp
- Seller Note
- Retain Equity
- ESOP



DEFERRED COMP



WHO IS GOING TO BUY YOU OUT?

Perfect Manager

- Understands Culture
- Knows Client/Industry
- Knows Employees
- Values Legacy

But...

- Can She Afford Your Price?
- Can She Get Financing?
- Will the SBA Be An Option?

Sometimes the Perfect Fit Doesn't Work Out

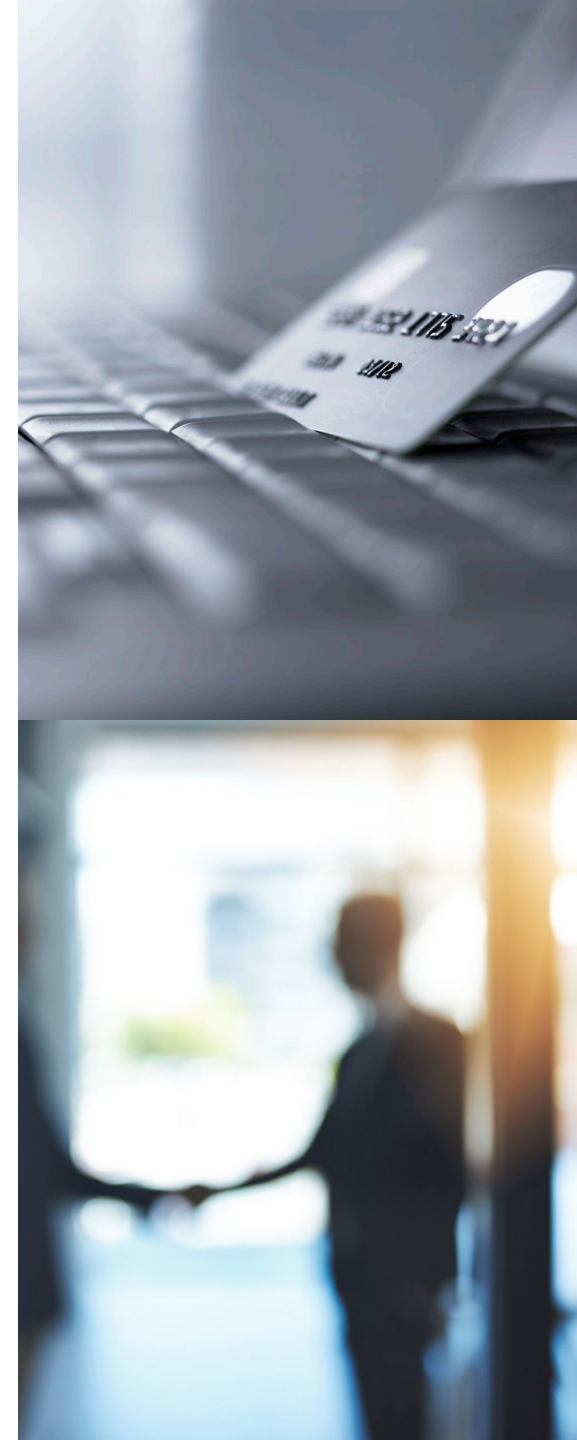


SUCCESSION PLANNING

Strategies to Finance Larger Deals

- Bank Financing
 - Difficult?
- Mezz / PE Financing
 - Difficult?
 - Expensive
- ESOP
 - Liabilities
 - Cost

What do you do when succession doesn't succeed?



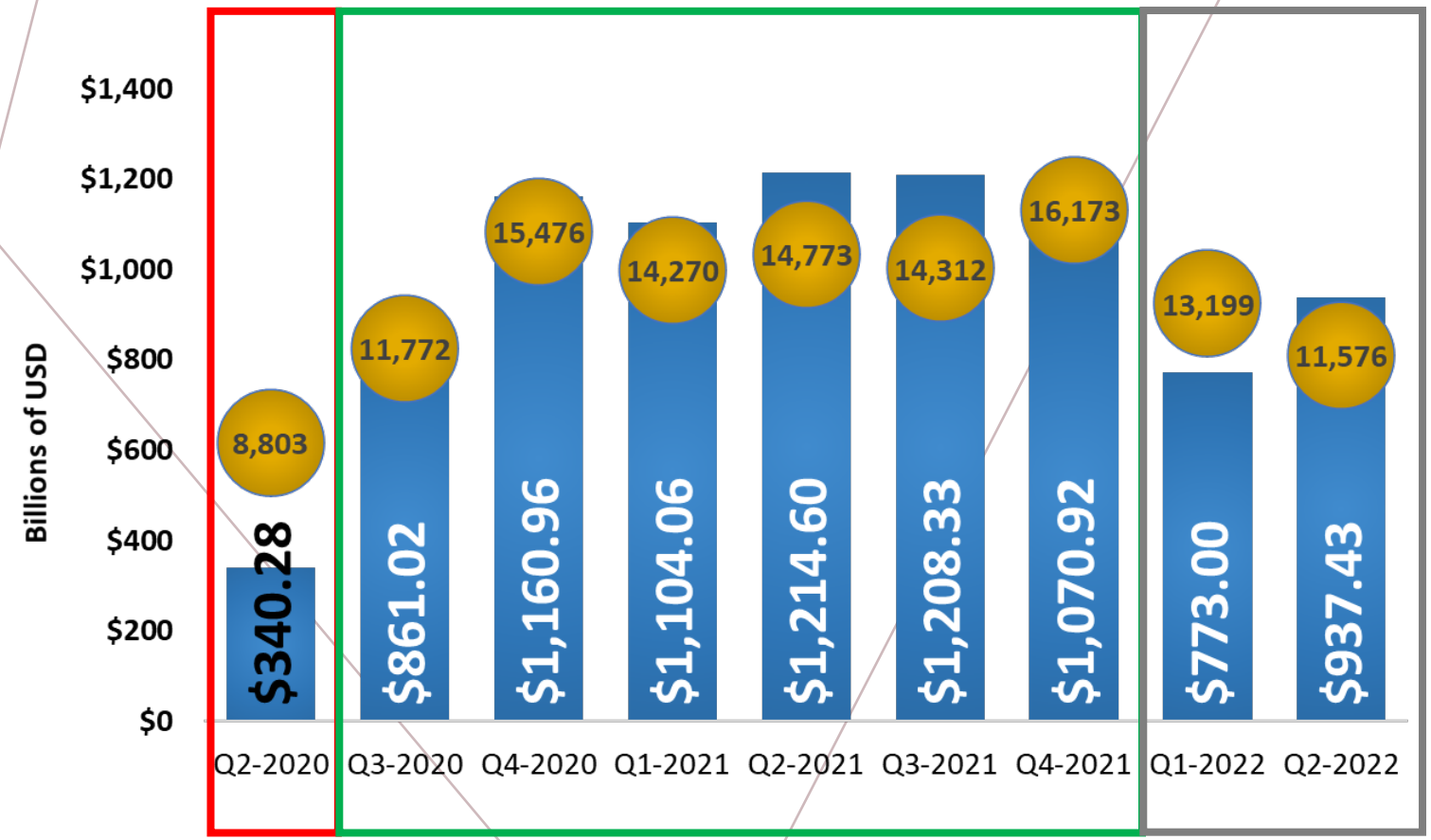


SELLING YOUR COMPANY

Things to Consider

M&A Activity Covid to Now

■ Value (\$B US) ● # of Transactions

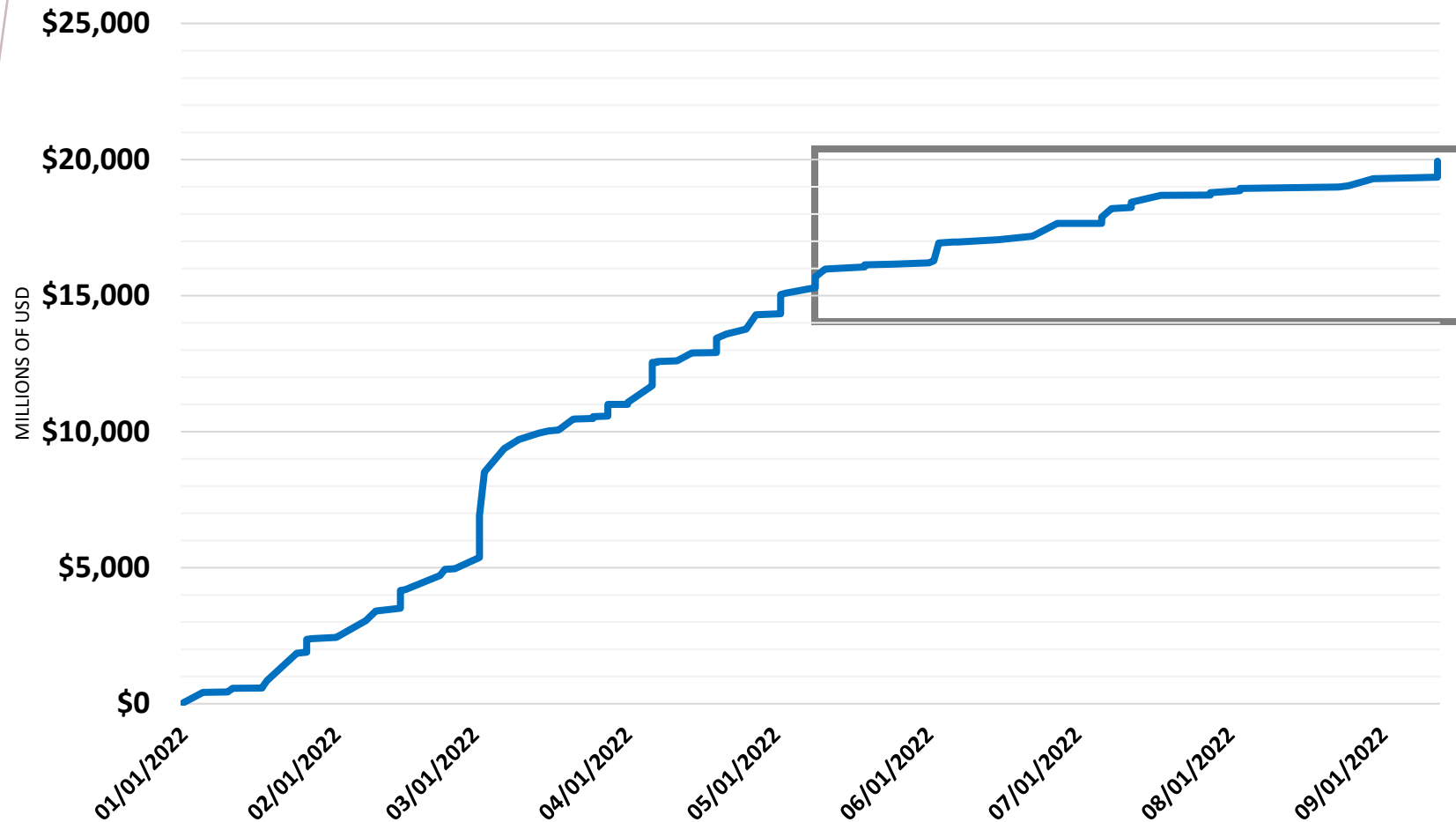


*M&A
MARKET
ACTIVITY*

HEADWINDS BECOMING
OBVIOUS?

Source: Capital IQ

Cumulative Value - Middle Market Transactions 2022



*M&A
MARKET
ACTIVITY*

HEADWINDS BECOMING
OBVIOUS?

Primary Steps

- **Make sure your financial information is clean**
 - Some buyers may perform a Quality of Earning analysis
 - Cash-based accounting is doable, but expensive
- **Be Wary of Brokers**
 - Contingency is OK, but at what %?

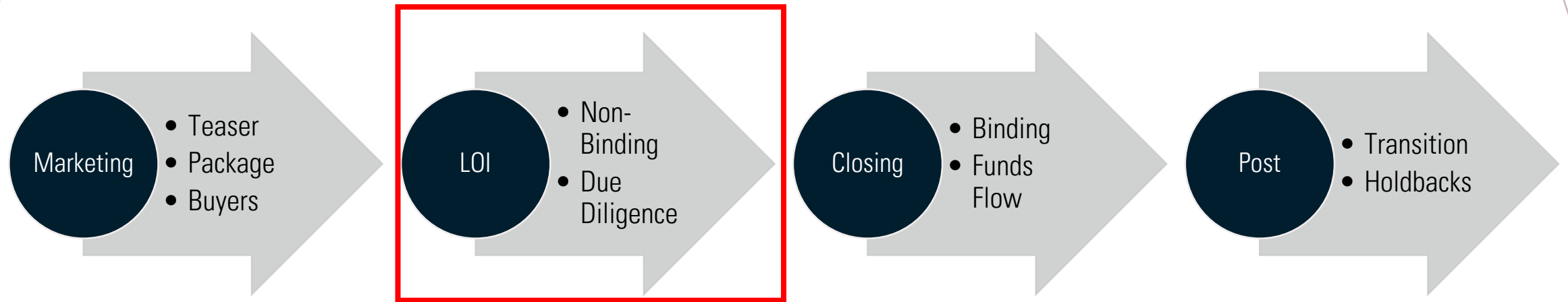
LEHMAN BROTHERS LIVES ON

	LBF	"Modern" LB	Broker 1	Broker 2	T&M
Up to \$1,000,000	5%	10%	5%	12%	\$25,000 to \$150,000
Next \$1,000,000	4%	8%	5%	12%	
Next \$1,000,000	3%	6%	5%	12%	
Next \$1,000,000	2%	4%	5%	12%	
Above	1%	2%	5%	12%	

Primary Concerns

- **Make sure your financial information is clean**
 - Some buyers may perform a Quality of Earning analysis
 - Cash-based accounting is doable, but expensive
- **Be Wary of Brokers**
 - Contingency is OK, but at what %?
- **Do not sign the LOI unless you are willing to sell**
 - The #1 reason for sales not closing is seller regret

THE SELL-SIDE M&A PROCESS



Primary Concerns

- **Make sure your financial information is clean**
 - Some buyers may perform a Quality of Earning analysis
 - Cash-based accounting is doable, but expensive
- **Be Wary of Brokers**
 - Contingency is OK, but at what %?
- **Do not sign the LOI unless you are willing to sell**
 - The #1 reason for sales not closing is seller regret
- **Let your sell-side advisor do the negotiation**
 - Attorneys/Financial Advisors/Brokers can be the “bad guys”
- **Understand your add-backs**

Scenario 1

Revenue	\$12,500,000
COGS/SG&A	(11,950,000)
Operating Income	\$550,000
Depreciation	\$35,000
Interest	15,000
EBITDA	<u><u>\$600,000</u></u>
6.0x Multiple	<u><u>\$3,600,000</u></u>

Scenario 2

Revenue	\$12,500,000
COGS/SG&A	(11,950,000)
Operating Income	\$550,000
Depreciation	\$35,000
Interest	15,000
Add Backs	300,000
EBITDA	<u><u>\$900,000</u></u>
6.0x Multiple	<u><u>\$5,400,000</u></u>

Scenario 3

Revenue	\$11,500,000
COGS/SG&A	(10,994,000)
Operating Income	\$506,000
Depreciation	\$35,000
Interest	15,000
Add Backs	300,000
EBITDA	<u><u>\$856,000</u></u>
6.0x Multiple	<u><u>\$5,136,000</u></u>

Every Dollar Your Find = \$4 to \$7 (or more) in your pocket

Add Backs

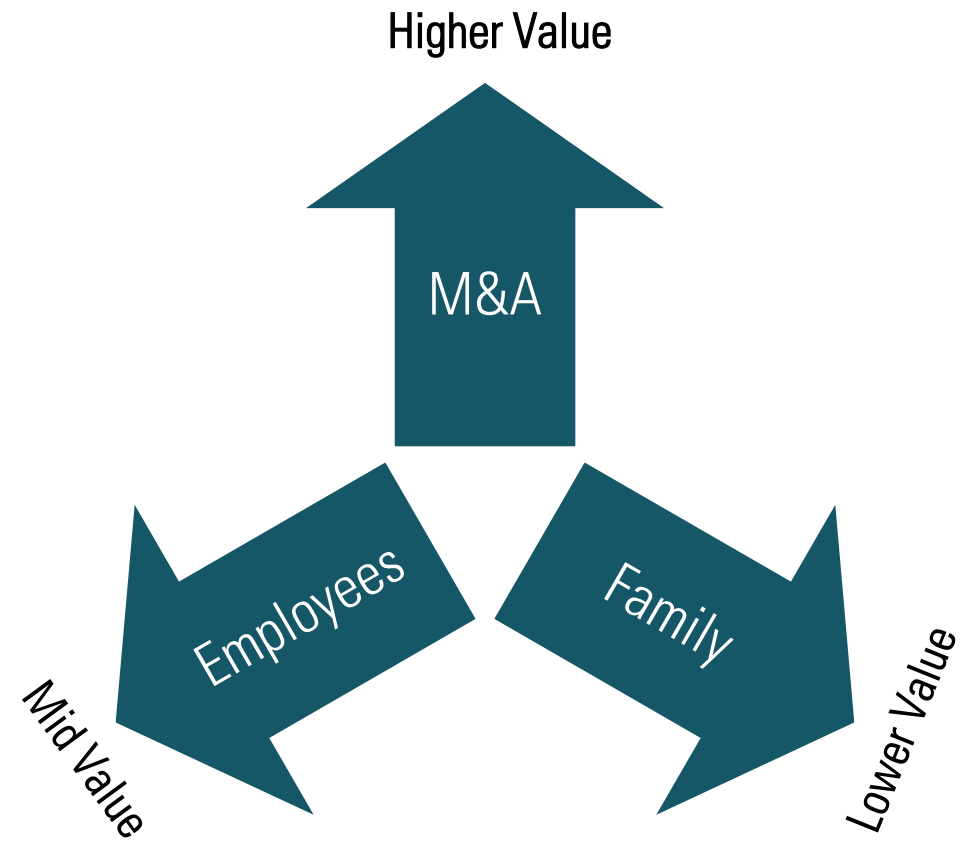
- **Primary Add Backs**
 - Compensation
 - Legal disputes
 - One-time accounting fees
 - New facility / move company
 - Non FMV rents
 - Repairs and Maintenance
 - “Management Fees”
 - Personal perquisites
 - Charitable donations
- **Primary Negative Add Backs (Take Aways)**
 - Compensation
 - Non-recurring revenue (along with expenses)
 - Unrelated business activities

POLL #3





VALUE IS IN THE EYE OF THE BEHOLDER



INTERNALLY VS. EXTERNALLY

	Why?	Purpose	Standard of Value
Succession Planning:	Maintaining Direction	Next Generation of Leaders	Fair Market Value
Selling Business:	Exiting	Maximizing Value	Maximum Investment Value

SUMMARY



Gift to Family

No Control

A and B Class Shares

Minimize Add Backs

Selling to Employee(s)

Control

Appropriate Add Backs

Who Can Afford It?

Selling to Third Party

Control

Maximize Add Backs

Market



WHAT IS VALUE?

**It's not hard to make
decisions once you know
what your values are.**

- Roy Disney



THANK YOU

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KNOW YOUR WORTH

UHY
VALUATIONS
GROUP