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Victor W. Vaccaro, Jr., CPA/ABV, CFF, CDA

Successful Strategies for Ownership Transition

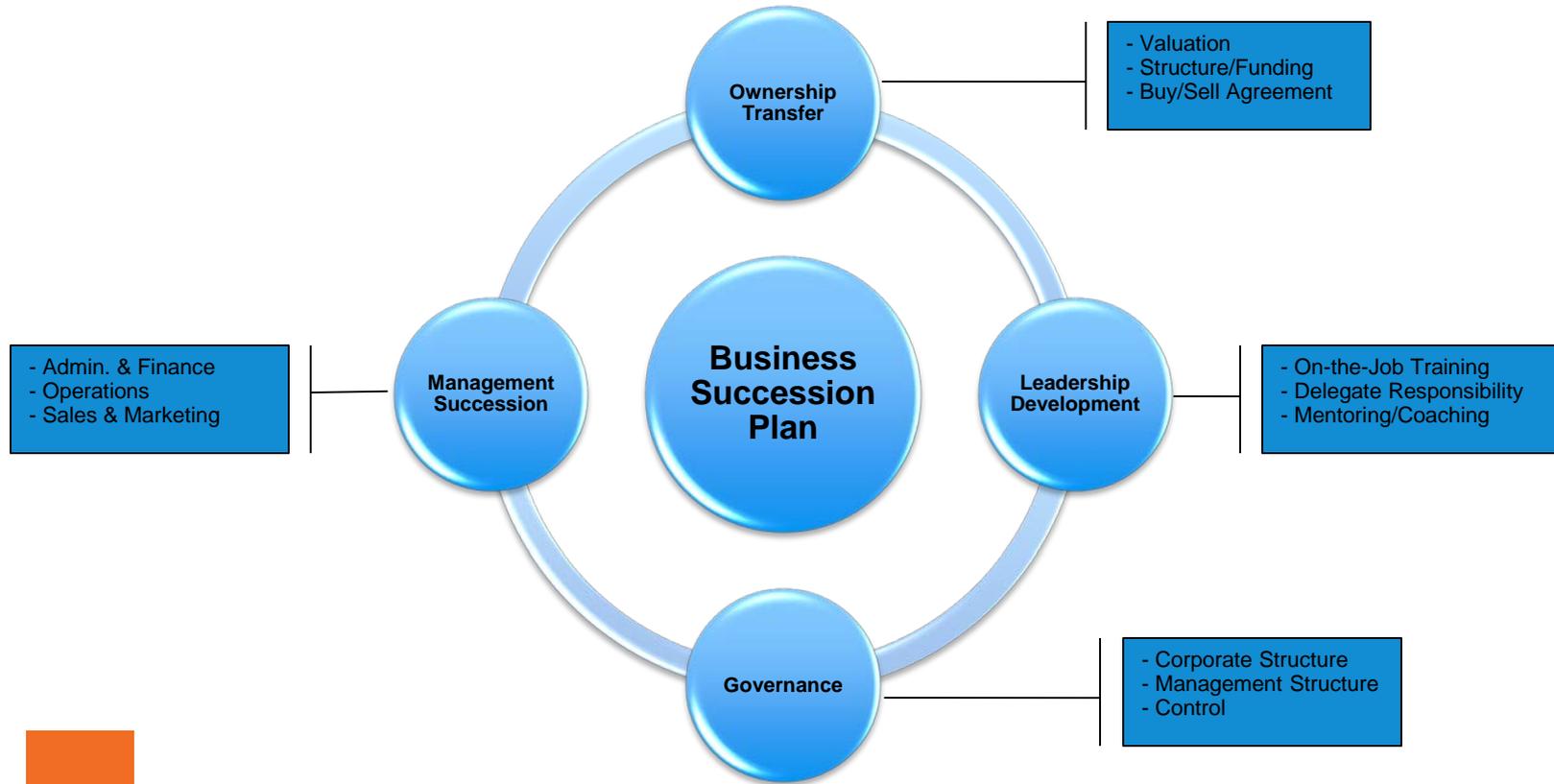
“If you don’t know where you’re going, you’ll end up someplace else.”

- Yogi Berra

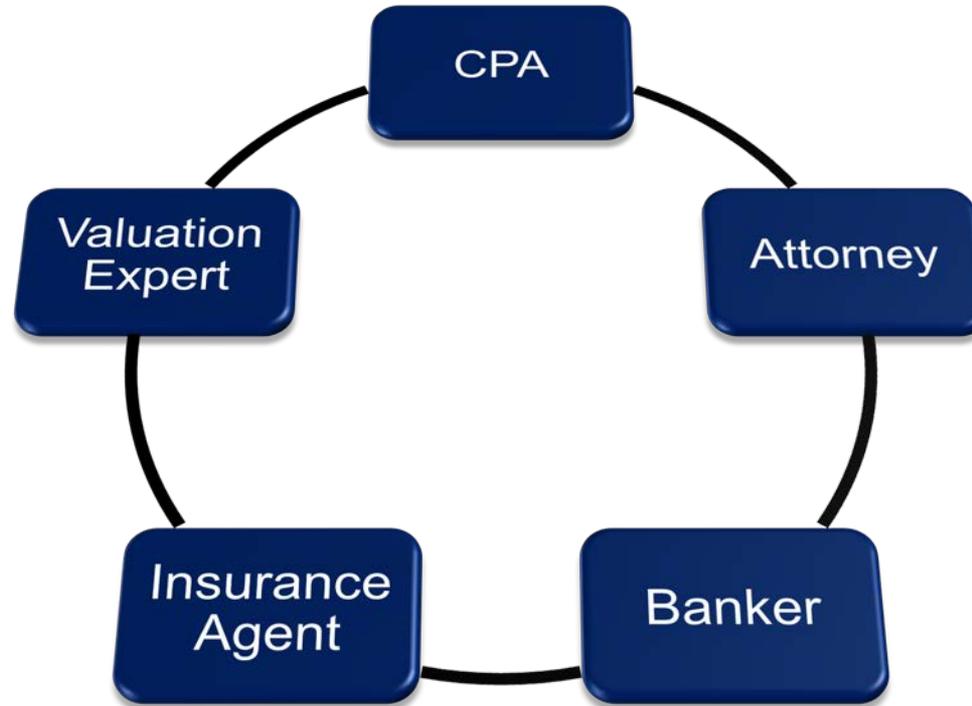
What is a Business Succession Plan?

“An established framework within a business enterprise which provides for the orderly transition of all aspects of the business upon the occurrence of an event or series of events, whether foreseen or unforeseen.”

Components of a Business Succession Plan



Transition Planning is a Team Sport



Two (2) Types of Transition Plans

- **Internal** – transition of existing ownership to family members and/or key employees who have or will take an active role in the business
 - Common internal ownership transition strategies include gifts, cross-purchases, redemptions, stock bonuses, deferred compensation and employee stock ownership plans (ESOPs)

- **External** – transition of existing ownership to individuals or entities outside the business enterprise
 - Common external ownership transition strategies include mergers, stock acquisitions, asset acquisitions and liquidations

Internal Ownership Transition Plans

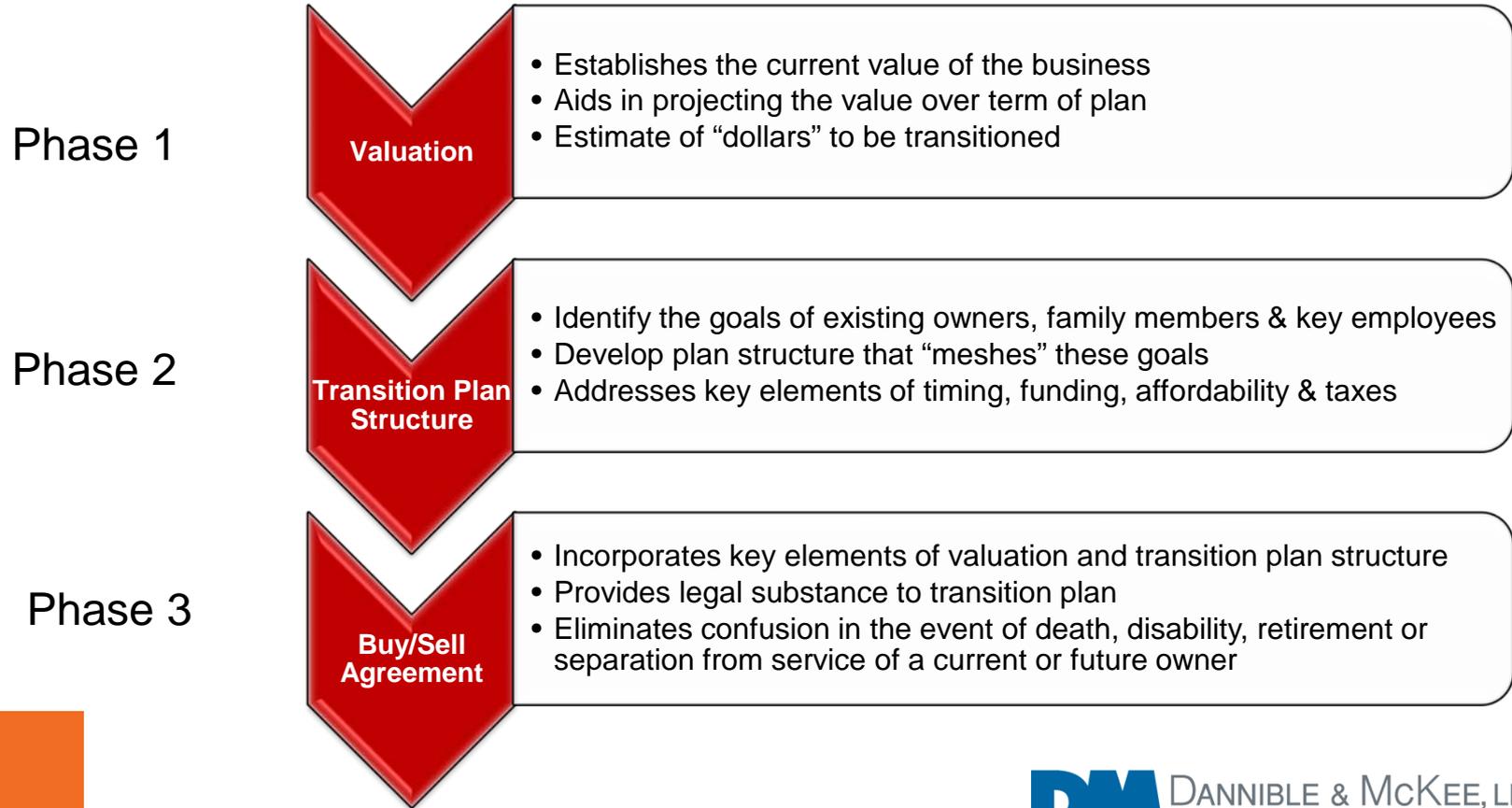
Pros

- Continuation of the firm
- Access to a pool of buyers who are in the firm
- Assurance of a reasonable return
- Ongoing control until retirement
- Continuance of salary and benefits

Cons

- Lack of future owners
- Candidates for ownership may be more risk adverse
- Funding through current operations
- Possible transfer for less than maximum value
- Greater risk post-transition if management not properly transitioned

Transition Planning Process - Internal



External Ownership Transition Plans

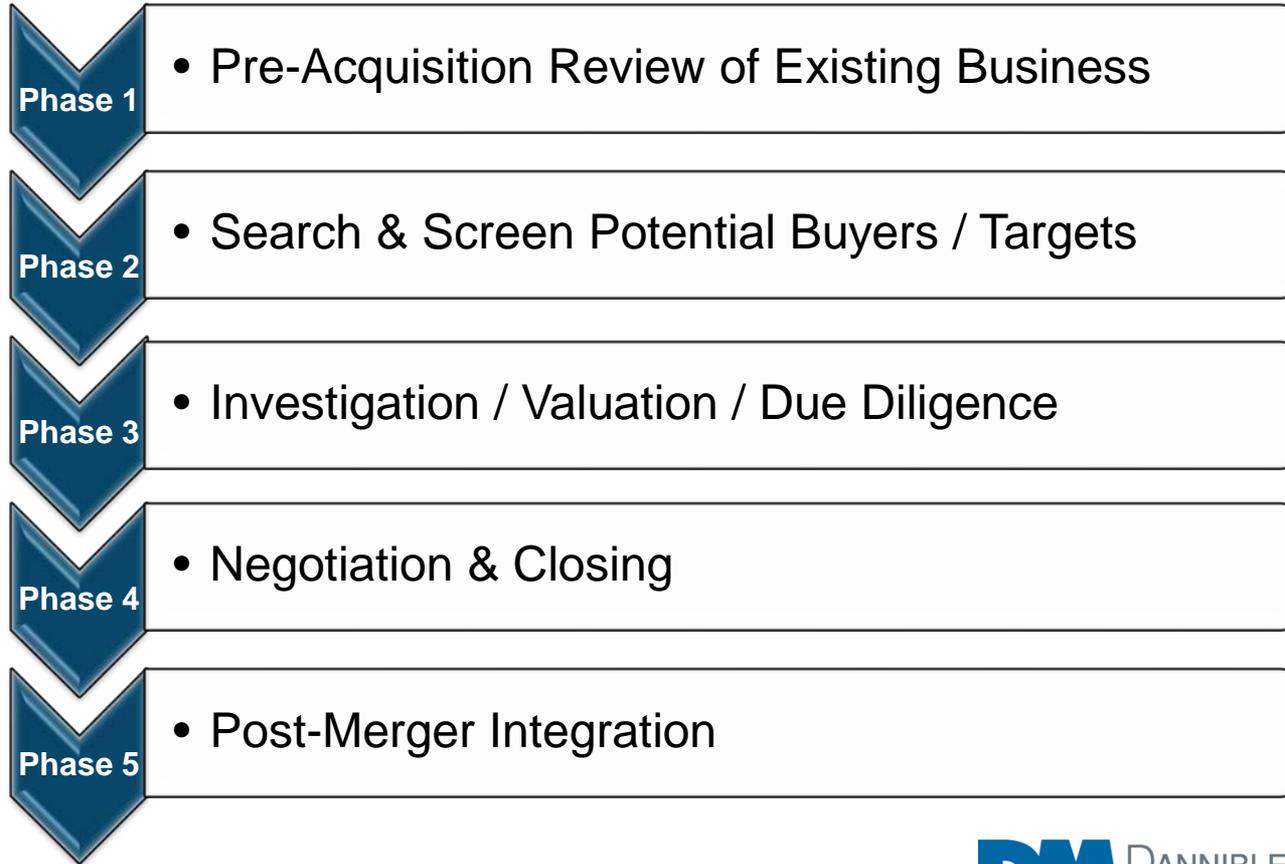
Pros

- Possible transfer for maximum price
- Provides for greater liquidity and less risk for existing owners
- Shorter time frame
- Add new talent, skills, markets or service offerings

Cons

- Difficulty in finding right buyer
- Confidentiality
- Post-merger integration can be difficult due to cultural differences
- Loss of control and identity
- Staff / client retention

Merger & Acquisition Planning Process



Obtaining a Proper Valuation

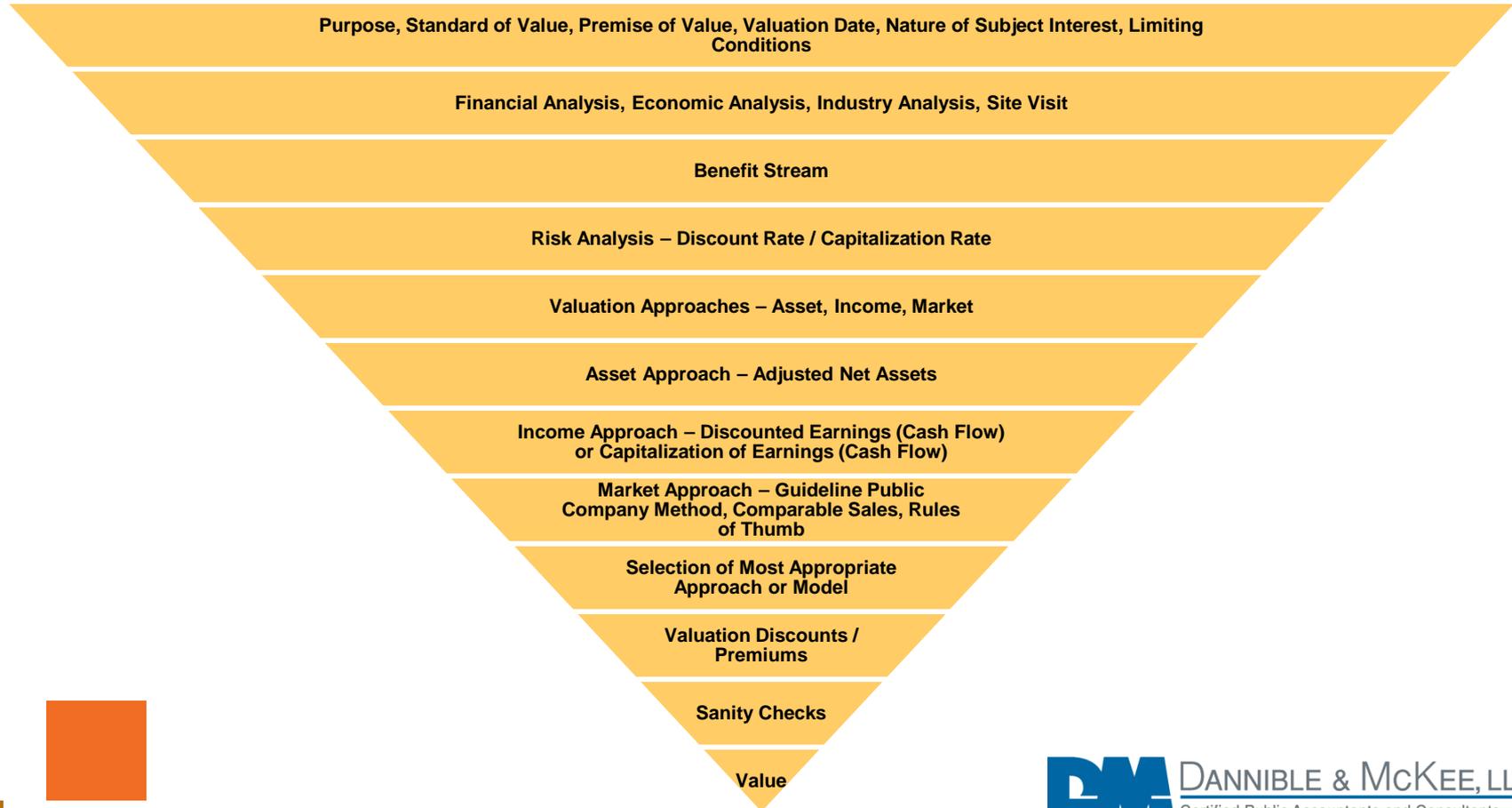
“A nickel ain’t worth a dime anymore.”

- Yogi Berra

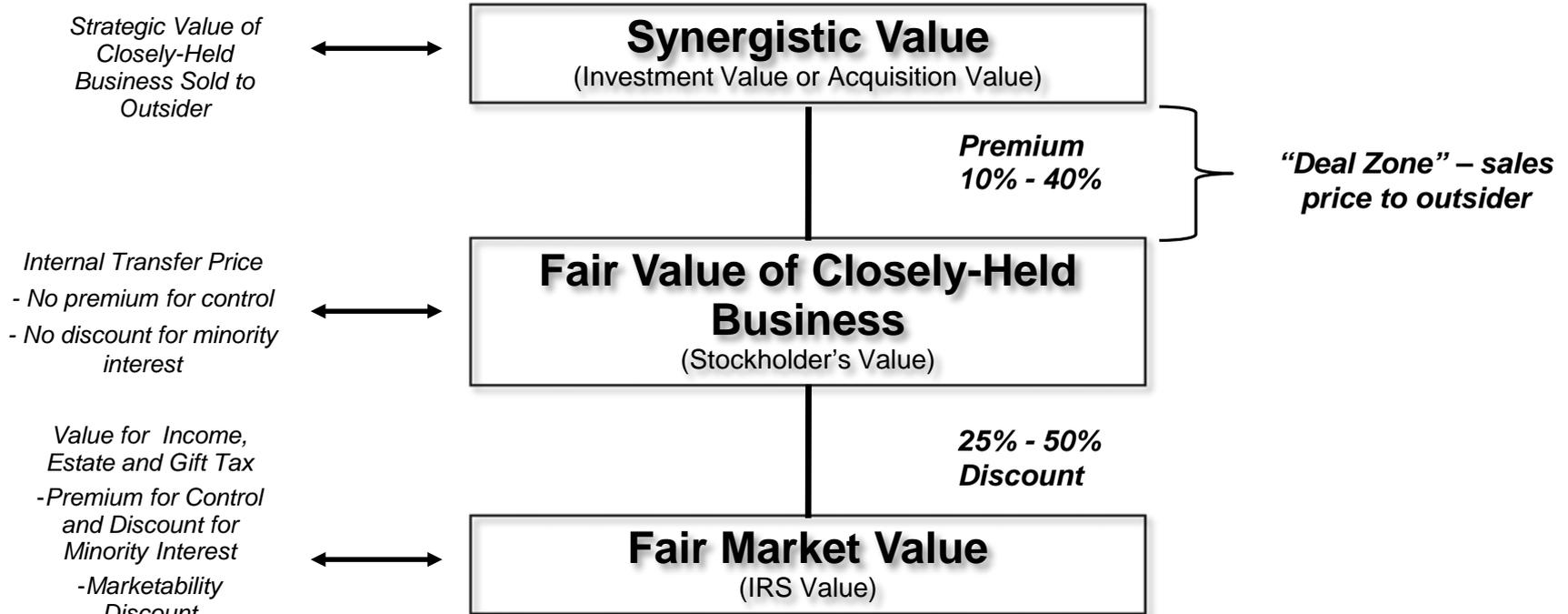
Valuation of Closely-Held Businesses

- A proper business valuation is both an **art** and a **science**
- The science of business valuation is represented by systematic approaches, quantitative analysis, fact gathering and research about the subject company, the industry in which it operates and other internal and external factors impacting the company's business and ability to generate future cash flow
- The art of business valuation is represented by those who have the depth of experience and expertise in the science of valuation to achieve the best result by weighing the underlying components of value and taking into account all relevant issues at hand

The Valuation Process



Levels of Value



Valuation Approaches

- Valuations of closely-held businesses fall into any one of three (3) general approaches
 - **Asset Approach** – Value of the business is based solely on the value of the entity's assets net of liabilities, including both tangible and intangible assets
 - **Income Approach** – Most widely used method of valuing a closely-held business where value is the sum of the present values of the expected future economic benefits attributable to the ownership interest
 - **Market Approach** – Value of a closely-held business is determined by reference to the market values of comparable companies who are either publicly-traded or were recently sold in the private marketplace

Formalizing the Plan

“We’re lost, but we’re making good time.”

- Yogi Berra

Comprehensive Plan for Ownership Transition

- **All** Company's, no matter what stage they are in, should have a comprehensive, written plan for ownership transition.
- The plan should address all financial aspects of the plan for ownership transition including the method for valuation of stock.
- The Company may also chose to address the transition of Management in this plan or address that separately. However, the plan should specifically address issues of voting control during transition.
- An important part of the plan will be to project the future transfers of ownership for years into the future.
- A cash flow analysis must be performed as a crucial step to ensure that the plan is affordable for the Company and equitable to both the founding owners (sellers) and second-tier owners (purchasers).

Comprehensive Plan for Ownership Transition

- The ownership transition plan should evaluate and determine the methods to be utilized for the transfer of stock and value, including cross-purchases, redemptions, installments sales, deferred compensation, and employee stock ownership plans (ESOPs).
- An effective plan must include a buy-sell agreement among the shareholders.
- The ownership transition plan should be updated as necessary – Firms that have already gone through ownership transition or have ongoing sales could also benefit from updating or preparing a plan!

Questions for Business Owners

When business owners approach retirement, common questions they may ask themselves are:

- **Who** should be admitted as new owners?
- **What** percentage ownership should I sell?
- **When** should I retire?
- **Where** will the funds come from to purchase my ownership interest?
- **Why** should I sell my interest and relinquish control of the company?
- **How** should the sale be structured?

Establishing a Plan to Answer These Questions

- Long-term strategic ownership transition plans are designed to answer these questions and provide for a framework for ownership transition which addresses both foreseen and unforeseen events
- Commonly referred to as **Events of Transfer**, these include the retirement, death, disability or separation from service (voluntary or involuntary) of a shareholder
- As each company is unique, so to is each ownership transition plan – there is no “standard” ownership transition plan

Best Practices

- Start transition planning early
- Work to prepare the next generation
- Communicate a clear vision to family, key employees, fellow owners and other members of transition “team”
- Develop a written plan
- Incorporate your succession plan as part of your overall business/strategic plan as well as your corporate culture
- Anticipate and address conflict

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Scan to add Vic Vaccaro
to your contacts.

Successful Strategies for Ownership Transition

Jeffrey B. Scheer, Esq.
Bond, Schoeneck & King, PLLC

Jeffrey B. Scheer, Esq. – Practice Scope

- Practice Groups
 - Business and Transactions
 - Trusts and Estates
- Scope of Services
 - Representing small to mid-size companies from start-up through succession
 - Includes: formation, owner agreements, private equity raise, contract review, customer/vendor relationships and succession planning

Jeffrey B. Scheer, Esq. – Practice Scope

- Scope of Services (continued)
 - Referrals within BOND: labor/employment matters, intellectual property, real estate and litigation
- Industries Served:
 - Industry agnostic
 - Industries include professional entities, high-tech, manufacturing, automobile dealerships, quick-service (franchise) restaurants.
 - For-profit and not-for-profit

Succession Planning

- What Does it Mean?
 - Transfers Within the Family
 - Management Transitions
 - Sale to Third Party

Business Succession – Are You Ready?

- Determine your current motivation
 - Goals – Personal and Business
 - Timing of Exit
 - The Right Path
 - Business Value
- Deal Team – Accountant, Lawyer, Banker, Investment Advisor
- When to Start the Plan

Preparing the Business for Succession

- Assemble the Management Team
- Review Corporate Books and Records
- Improve the Facilities
- Determine the Right Time to *Close*

Preparing the Business for Succession

- Goal – Maximize Value
 - Reduce expenditures
 - Review salaries and administrative costs
 - Identify only necessary maintenance and repairs to keep the business going in the short-term
 - Bolster credit and business rating
 - Defer expansion which would take years to show a profit
 - Review financial statements (with a focus on obsolete inventory and bad accounts receivable)

Succession Plan – Structure: Transfers Within the Family

- Active Family Members
- Is the Sale Funding Retirement?
- Options
 - Gift
 - Sale
 - Asset vs. Stock
 - Deferred Compensation
 - Sale of Personal Goodwill
 - “Friendly” Structure vs. Arms-Length
 - Part Gift/Part Sale

Succession Plan – Structure: Management Transitions

- Assemble The Management Team
- Management Team = Ownership Group?
- Financing
- Options
 - Asset vs. Stock
 - Multi-Year Transition
 - Valuation (Discount for home-team purchase?)
 - Bank vs. Seller Financing (or a combination)

Succession Plan – Structure: Sale to Third Party

- Timing and Preparing for the Sale
- Finding the Right Buyer
- Identifying an Investment Banker/Broker
- Tax Structure
- Options
 - Asset vs. Stock
 - Seller Earn-Out
 - Seller Financing

Personal Planning

- Review Your Estate Plan
 - Will
 - Health Care Proxy and Power of Attorney
 - Insurance Trust
 - Transfers to Trusts (and When)
 - Gifting
- Asset Protection Planning

Questions?

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 - Direct Phone: (315) 218-8286



SBA Solutions

KeyBank Business Banking

Presented by:

Chet Schultz
SBA Lending Specialist
Key's Central New York
Business Banking Team

Date:

October, 2017





KeyBank SBA Lending

Small Business Administration (SBA) Lending Programs

- **Rankings**

- #1 SBA 7(a) Lender in dollars in CNY - SBA FY 2017
- #9 SBA 7(a) Lender Nationally in dollars - SBA FY 2017
- 43% jump in 7(a) loan volume from 2016 levels - SBA FY 2017
- Largest increase among the nation's top 20 SBA lenders – SBA FY 2016
- Consistent Top 20 SBA Lender in both 7(a) and 504

- **SBA Preferred Lender**

- Allows Key to make certain loans without prior approval from the SBA
- Privilege extended to a limited number of banks in the United States
- SBA requests can be done “in-house” saving our client’s time

- **KeyBank Dedicated SBA Team**

- Key has invested heavily in all areas of national SBA lending platform
- Dedicated SBA processing from origination to closing
 - SBA RMs, SBA Service Officers, SBA Underwriting, SBA Closing





Strategic Solutions

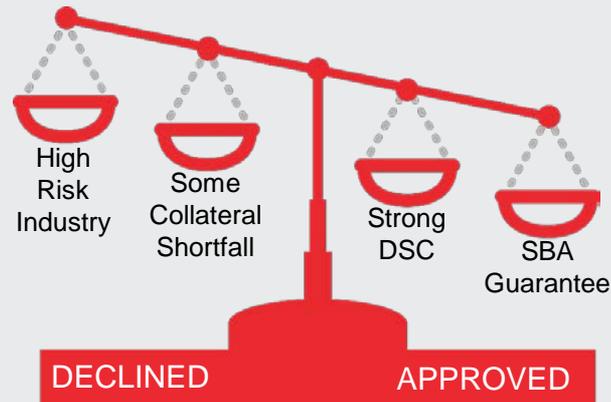
Small Business Administration (SBA) Lending Programs

Why are SBA guaranteed loans a good solution for small business?

The SBA guarantee program enables KeyBank to provide financing to small businesses by guaranteeing major portions of the SBA loan. SBA loans are designed to meet the specific needs of small business owners when funding is otherwise unavailable on reasonable terms.

Here are some risks that SBA Programs can mitigate:

1. Collateral Shortfalls
2. Lower Equity Injections
3. High Risk Industries
4. Business Experience





Strategic Solutions

Small Business Administration (SBA) Lending Programs

How will an SBA loan meet your needs?

SBA guaranteed loan programs are set up to handle a full range of small business needs for most industries. SBA loans may be used to:

- Finance business acquisition and change of ownership
- Construct new commercial buildings (60% min. OOCR)
- Purchase existing commercial real estate (51% min. OOCR)
- Expand or modernize facilities
- Purchase machinery, equipment, fixtures, leasehold improvements, inventory
- Finance increased receivables and augment working capital
- Finance Start-Up Business (on a limited basis).





Strategic Solutions

Small Business Administration (SBA) Lending Programs

Loan Types:

1. **Construction Loan** – Interest only until project completion & permanent financing.
2. **SBA 504 Loan** - Real Estate & Equipment Loans (50% Key, 30%-40% SBA, 10%-20% Client Equity)
3. **SBA 7(a) Loan** – 10 year term for Acquisitions (Asset or Stock Purchase) Up to 25 year term for real estate; 10 year term for equipment; 7 year term for working capital.
4. **Cap Lines** – Working Capital needs up to \$1,000,000.
5. **International Trade** – Financing needs related to international trade business.
6. **Export Express** – Enables client to enter into a new export, or expand into an existing export market.





SBA 7(a) Program

Small Business Administration (SBA) Lending Programs

As a preferred lender KeyBank is able to offer a streamlined application process to the 7(a) benefits below:

7(a) Benefits

- **Longer terms** - As long as seven years for working capital, 10 to 15 years for equipment, and up to 25 years for real estate, 10 years for acquisitions. SBA Express lines of credit have a term of seven years
- **Interest rates** - Variable-rate loans typically 1.5% - 4.75% over the prime rate, as stated in The Wall Street Journal
- **Flexible repayment options** - Monthly installments of principal and interest; no balloon payments; three year pre-payment penalties on loans with a maturity greater than 15 years.
- **Lower Equity Injections** – As low as 10%
- **Minimal costs** - Loan packaging fee of \$250 to \$2,000 which is fully refundable for applications that do not meet SBA requirements; SBA guarantee fee (based on the amount of the guaranteed portion of the SBA loan) which can be financed into the loan amount; no points.

*In 2017 all guaranty fees waived on all loans \$150,000 or less





SBA 7(a)

\$1,400,000 7(a) Asset Acquisition Loan

Sources

KeyBank SBA Loan	\$1,308,000
SBA Express Line of Credit	\$100,000
Seller Carry Note	\$200,000
Equity Injection	\$187,000
Total	\$1,795,000

Uses

Bus. Acq.	\$1,400,000
Line of Credit	\$100,000
Inventory	\$150,000
Working Capital Permanent	\$100,000
SBA GTY Fee	\$34,000
Soft Costs	\$11,000
Total	\$1,795,000





SBA Loan Review Guidelines

Small Business Administration (SBA) Lending Programs

Debt Service Coverage (3 year historical):

- Minimum 1.15:1

Leverage:

- Maximum 3:1 (total liabilities to tangible net worth)

Liquidity:

- Minimum 1.5:1
- Equivalent to the Current Ratio (Current Assets divided by Current Liabilities)

Collateral Coverage:

- Real Estate (Commercial): 80% of FMV
- Equipment – New: 80% purchase price. Used: 50% NBV, or 75% of purchase price, or 75% of liquidation value
- 0.3:1 minimum collateral, if business assets do not fully secure (1:1), pledged personal assets may be required.





SBA Loan Review Guidelines

Small Business Administration (SBA) Lending Programs

Guarantor Strength:

(continued)

- Aggregate personal debt service cannot exceed 40% of gross income.
- Minimum Guarantor(s) Credit Bureau Score 670.

Documentation:

- All loan documents relating to the KeyBank Loan must be in a form and substance acceptable to the Bank's counsel. Closing costs to be paid by borrower; costs may include, but not be limited to: the cost of appraisal, environmental survey (Phase 1, should it be required a Phase 2), legal fees, title insurance, documentation, search and recording fees, etc.

***Meeting these requirements does not constitute a commitment to lend on KeyBank's part, nor does not meeting these requirements constitute a declined application. These are simply some of the credit granting guidelines KeyBank utilizes to evaluate a credit request. For more specific information on a credit request, please submit a fully completed credit package to KeyBank.





Your Key Team



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Questions
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KeyBank

