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Key Financial Impacts of the Pandemic on U.S. Manufacturers

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... Introduction

- The Global COVID-19 Pandemic has a had profound impact on all aspects of U.S. society.
- Manufacturers were often considered to be an essential business that was allowed to continue operating.
- However, the pandemic still had far reaching impacts are nearly every manufacturer.

... Introduction

- Manufacturers have been affected in many different ways.
 - Employee safety and other personnel matters.
 - Supply chain disruptions.
 - Changes in distribution channels.
 - Variability in customer demand and sales functions.

... Introduction

- Financial resources to assist manufacturers.
 - PPP Loan
 - PPP Loan Forgiveness
 - Other SBA resources:
 - EIDL Loan
 - SBA Subsidy on Existing SBA Loans
 - SBA Loans to Midsized Businesses

... Introduction

- Financial impacts to consider include:
 - Possible short-term operating losses.
 - Accounting for PPP loan proceeds and forgiveness.
 - Long-term outlook for business following pandemic.
 - Effect on business value and plans for ownership transition.

... Manufacturing Employment Levels

- Although most manufacturers were legally allowed to operate, U.S. manufacturing jobs still fell dramatically following the start of the pandemic.
- In general, the initial drop in manufacturing jobs was more than white collar jobs but less than other blue collar and service positions.
- However, many manufacturers were forecasting additional layoffs through summer and fall of 2020.

... Employee Safety Considerations

- Manufacturers cannot operate unless they can provide a safe work environment for their employees.
- There are already many safety rules in place for manufacturers.
- The pandemic has led to a new set of safety rules related to social distancing that manufacturers have had to incorporate into their production process.

... Attracting and Retaining Employees

- Before the pandemic it was sometimes difficult for manufacturers to attract both skilled and unskilled labor.
- Unemployment has increased so there are more people looking for work.
- However, increased unemployment benefits and health concerns have made hiring difficult.
- Many other industries can allow employees to work remotely, but manufacturers need most employees to be on site.

... Personnel Management and Compensation

- Review your payroll and benefits package to make sure it is sufficient to attract the best employees in the current environment.
- Understand employment practices, pay and benefits in your industry and for your competition.
- Understand what is important to your employees.
- Update your policies and procedures.
- Be more flexible, especially when something is important to your employees but not costly for the company.

... Evaluating the Manufacturing Process

- Maintaining greater physical separation of employees has become another consideration during the pandemic.
- This has led manufacturers to analyze many aspects of the manufacturing process and make changes, some increasing efficiencies but others resulting in additional costs.
- Cross training and contingency plans for operating without a full staff have also become more critical.
- This will also continue the trend toward automation.

... Supply Chain Management

- Over the past decades, the discussion around optimizing supply chains has focused primarily on cost efficiency and commercial best outcomes.
- However, as recent history has demonstrated, future supply chains will need to begin factoring resilience and adaptability into their calculations.
- Before the COVID-19 pandemic, some companies began anticipating this next evolution, but this crisis has exposed those weaknesses in the modern supply chain, such that many are looking at what to do next.
- Trade wars, global politics and national policies will influence the future of supply chain structures.

... Disruptions to the Supply Chain

- The pandemic has caused disruptions at many levels in the supply chain.
 - Companies may have initially looked at how customer demand has been impacted by the economic shutdown.
 - However, disruptions to the supply chain can have a more profound impact if materials cannot be obtained to continue manufacturing.
- If a large portion of your product is purchased from suppliers, disruptions in the supply chain can impact your:
 - Cost
 - Quality
 - Innovation
 - Product mix and availability

... Shopping Globally

- For many manufacturers, a significant portion of their products may come from outside the U.S.
- Manufacturers choose to shop globally for a number of reasons, but price is often at the top of the list.
- The global supply chain was already impacted by U.S.-China tensions prior to the pandemic and it appears that this disruption will continue.
- Statistics indicate that China lost global export market share in 2019 with low cost productions moving to countries such as Mexico and Vietnam.
- Many companies have developed China +1 strategies where they still use China as a supplier but also have an alternative source in another country.
- Major changes to an existing supply chain can be difficult as manufacturers will still need to balance quality and flexibility with the demands for cost efficiency.

... Evaluate Your Suppliers

- How well do you know your suppliers?
 - Do you meet with them regularly?
 - Do you speak the same business language?
 - Are you a large customer or small customer for them?
 - Are they satisfied with you as a customer?
- Strategic sourcing has become even more critical.
 - Develop and continually update a written plan for the purchasing of your most important materials, supplies and services.
 - The plan must involve cooperation with your suppliers.
 - You should strive for seamless supplier integration.
 - You must understand your suppliers' businesses.
 - Consider how the pandemic has and will continue to effect them and include contingency plans.

... Logistics Management

- Logistics management is a critical part of the supply chain.
- Logistics involves the design and management of a system that controls the flow of materials into, through and out of a company.
- The pandemic has impacted logistics management in many areas, including:
 - Scheduling the arrival of materials and other inputs.
 - Warehousing and inventory control.
 - Scheduling production.
 - Packaging, transportation and final delivery.
 - Analysis of transportation costs.

... Changes in Cost of Products

- Cost of products may have changed significantly due to all of the issues discussed above, including.
 - Personnel costs and productivity of labor.
 - Increased automation and other changes to the manufacturing process.
 - Additional overhead due to new safety procedures and other changes.
 - Modifications to purchasing function and fluctuation in cost of raw materials and supplies.
- Manufacturers must update their product costs to address all of these changes.

... Determining Selling Price

- Even though the pandemic may have changed your costs, the price of a product is often market driven!
- The target cost of a product or service is the price determined by the market less the desired profit.
- Many companies determine selling price as a mark up on cost and this can be even more dangerous during periods of major cost changes.

... Cost Versus Market Approach

- Drawbacks of determining sales price using a cost approach.
 - Potential for lost sales when your cost is too high.
 - Potential for lost profits when your cost is too low.
 - Potential for lost sales and profits when you don't know your cost!!
- Benefit of determining sales price using a market approach.
 - Stimulates analysis of internal procedures to reduce costs.
 - Allows for additional sales opportunities when your cost structure can be modified to achieve the target cost.
 - Provides the opportunity to focus on products or services that will produce more profits.

... Factors for Determining Market Price

- Competitors
 - Do you know what the competition is doing?
 - Any information that you can obtain regarding your competitor's pricing should be documented in writing.
 - Maintaining a history of the competition's pricing and price changes will help you anticipate their future decisions and react accordingly.
- Customer Value
 - Adequate feedback must be received from customers.
 - Salesmen should be used as a resource to provide management with information related to customer satisfaction with product quality and product value.
 - Documentation should be maintained of customers' reaction to pricing changes.

... Factors for Determining Market Price

- “True” costs of a product or service have only minor importance in final market price determination.
- However, it is important to know your true costs to determine what products to produce and market.
- The assumption that if additional sales cover “fixed” costs then they will add to profit is often false.
 - Are costs truly fixed? Over the long run, almost all costs are variable.
 - Selling products at a discount to some customers may affect sales to other customers.

... Impacts of the Pandemic on Sales Plans

- The quantity and quality of your sales drives all else within your business!
- Manufacturers should have a written sales and marketing plan defining what products are sold.
- A sales and marketing plan should also provide details for all aspects of your sales process indicating how and when products are sold.
- Has this plan but updated to reflect significant changes that may be necessitated by the pandemic?
- Consider best practices that should be included in a sales and marketing plan.

... Impacts of the Pandemic on Sales Plans

- It is critical to challenge all of your product offerings to make sure they are still in demand and priced properly in the current market.
- Manufacturers should also evaluate possible opportunities to produce new or different products.
- There may also be significant changes in sales methods and distribution channels.
 - Salesman may not be able to visit customers in person.
 - Technology will be even more critical to support your sales and distribution plans.

... Impact of the Pandemic on Competitors

- Carrying out competitive intelligence can be an important part of your sales and marketing plan.
- During times of major change like the current pandemic, it is even more critical to understand what the competition is doing.
- Are competitors continuing to operate at similar levels, or have they cut back on some product offerings or made significant changes in price, quality, or distribution of products?

... Financial Results During the Pandemic

- Many manufacturers have experienced reduced sales and also higher costs to produce products.
 - For some manufacturers, this has just meant lower profits than in recent years.
 - However, other manufacturers are operating at losses that could extend for the rest of the year and into 2021.
- These losses will be reflected in the interim and year-end financials for 2020 that are shared with key financial statement users.
- There could also be loan covenant violations based on interim and year-end results.
- Some companies may even need to consider possible going concern issues.

... Long-Term Outlook

- It is critical to assess the long-term outlook in order to make strategic business decisions.
- Some products may no longer be viable while there could be a stronger market for others.
- Changes may also be needed to the manufacturing process, including increased automation as discussed above.
- Major changes caused by the pandemic make this a great time to reevaluate things such as plant capacity, product offerings and employment levels.

Paycheck Protection Program (PPP)

- Overview -

- SBA unsecured loan program with potential for 100% forgiveness made available through the CARES Act.
- Total funding made available:
 - First Round - \$349 Billion (Began April 3, 2020)
 - Second Round - Additional \$320 Billion (Began April 24, 2020, closed August 8, 2020)
- Available to small businesses & non-profits (Under 500 employees).
- Business owners had to certify economic need.

Paycheck Protection Program (PPP)

- Overview -

- Maximum loan size was \$10,000,000, required to be disbursed within 10 days of loan approval.
- Loan amount was determined based on average monthly “payroll costs” multiplied by 2.5.
- Payroll costs include:
 - Compensation paid to employees (salary, wages, commissions - capped at \$100,000 annualized per employee)
 - Payment for vacation, parental, family, medical, or sick leave
 - Payment for the provision of employee benefits (group health care and retirement)
 - State and local taxes assessed on compensation

Paycheck Protection Program (PPP)

- Overview -

- Several issues led to mass confusion and delays in application!
 - What time period is used to calculate average payroll?
 - Are employer paid FICA taxes considered a “payroll cost”?
 - How is the \$100,000 compensation cap figured?
 - How do sole proprietors and owners of pass-through entities determine compensation if there is no set salary?
 - How is the 500 employee threshold determined?
 - How is economic need determined?
- U.S. Treasury issued FAQ’s with answers addressing many of these questions.

Paycheck Protection Program (PPP)

- Statistics -

- Round one (4/3/20 – 4/16/20)
 - Loan count:
1,661,367 loans
 - Net approved dollars:
\$342,277,999,103
 - Average loan size:
\$206,022
 - NYS: 81,075 loans;
\$20,345,681,101
(\$250,949 average)

NAICS Subsector Description	Approved Loans	Approved Dollars	% of Amount
Construction	177,905	\$44,906,538,010	13.12%
Professional, Scientific, and Technical Services	208,360	\$43,294,713,938	12.65%
Manufacturing	108,863	\$40,922,240,021	11.96%
Health Care and Social Assistance	183,542	\$39,892,493,481	11.65%
Accommodation and Food Services	161,876	\$30,500,417,573	8.91%
Retail Trade	186,429	\$29,418,369,063	8.59%
Wholesale Trade	65,078	\$19,489,410,472	5.69%
Other Services (except Public Administration)	155,319	\$17,707,077,167	5.17%
Administrative and Support and Waste Management and Remediation Services	72,439	\$15,285,814,286	4.47%
Real Estate and Rental and Leasing	79,784	\$10,743,430,227	3.14%
Transportation and Warehousing	44,415	\$10,598,076,231	3.10%
Finance and Insurance	60,134	\$8,177,041,995	2.39%
Educational Services	25,198	\$8,062,652,288	2.36%
Information	22,825	\$6,675,630,276	1.95%
Arts, Entertainment, and Recreation	39,670	\$4,939,280,138	1.44%
Agriculture, Forestry, Fishing and Hunting	46,334	\$4,374,343,877	1.28%
Mining	11,168	\$3,894,793,207	1.14%
Public Administration	5,570	\$1,197,353,586	0.35%
Management of Companies and Enterprises	3,211	\$1,170,748,130	0.34%
Utilities	3,247	\$1,027,575,137	0.30%

Paycheck Protection Program (PPP)

- Statistics -

- Totals (through 8/8/20)

- Loan count: 5,212,128 loans
- Net approved dollars: \$525,012,201,124
- Average loan size: \$100,729
- NYS: 348,870 loans; \$38,699,947,686 (\$110,929 average)

NAICS Sector Description	Loan Count	Net Dollars	% of Amount
Health Care and Social Assistance	532,775	\$67,802,899,625	12.91%
Professional, Scientific, and Technical Services	681,111	\$66,806,585,368	12.72%
Construction	496,551	\$65,070,483,743	12.39%
Manufacturing	238,494	\$54,101,623,487	10.30%
Accommodation and Food Services	383,561	\$42,477,369,498	8.09%
Retail Trade	472,418	\$40,576,055,345	7.73%
Other Services (except Public Administration)	583,385	\$31,687,938,997	6.04%
Wholesale Trade	174,707	\$27,650,501,453	5.27%
Administrative and Support and Waste Management and Remediation Services	258,907	\$26,591,901,997	5.07%
Transportation and Warehousing	229,565	\$17,522,942,736	3.34%
Real Estate and Rental and Leasing	262,921	\$15,732,532,646	3.00%
Finance and Insurance	181,493	\$12,202,534,934	2.32%
Educational Services	88,022	\$12,075,274,769	2.30%
Unclassified Establishments	219,502	\$9,652,279,182	1.84%
Information	73,824	\$9,336,848,657	1.78%
Arts, Entertainment, and Recreation	130,760	\$8,223,383,720	1.57%
Agriculture, Forestry, Fishing and Hunting	149,535	\$8,140,628,410	1.55%
Mining	22,503	\$4,542,309,832	0.87%
Public Administration	14,291	\$1,755,782,485	0.33%
Management of Companies and Enterprises	9,472	\$1,561,247,060	0.30%
Utilities	8,331	\$1,501,077,180	0.29%

... PPP Loan Initial Accounting

- **So, you received the money, now what??**
 - Our recommendation – Segregate those funds.
 - Separate bank account; or
 - Separate general ledger account
 - Initial accounting should be:
 - Debit: Cash \$XXX,XXX
 - Credit: PPP Loan (Debt) \$XXX,XXX
 - Continue to record expenses as you have in the past.
 - Move PPP funds out of segregated cash account and into operating cash account as needed for eligible expenses.

... PPP Loan Forgiveness

- **How is forgiveness amount determined?**
 - The loan may be forgiven partially, or in whole, based on usage of loan proceeds for eligible expenses over the “Covered Period.”
 - The Covered Period is either:
 - (1) the 24-week (168-day) period beginning on the PPP loan disbursement date; or
 - (2) if the borrower received its PPP loan before June 5, 2020, the borrower may elect to use an eight-week (56-day) Covered Period.
 - Eligible expenses for loan forgiveness include:
 - Payroll costs, as defined above (at least 60% of total forgiveness amount); and
 - Nonpayroll costs (up to 40% of total forgiveness amount)
 - Interest on business mortgage obligations (personal or real property loans originating prior to February 15, 2020);
 - Business rent or lease payments in force prior to February 15, 2020; and
 - Business utility payments for services that began before February 15, 2020, including electricity, gas, water, transportation, telephone, or internet access.

... PPP Loan Forgiveness

- Forgivable amount will be reduced if during the Covered Period when compared to the applicable reference period there is a:
 - 1) Reduction in Average Full-Time Equivalency (FTE)
 - FTEs are calculated one of two ways (may only use one method)
 - For each qualifying employee, divide # of hours per week by 40; or
 - Use 0.5 for every employee that works less than 40 hours/week.
 - Reduction quotient determined by dividing average monthly FTEs for covered period by the average weekly FTE's for the chosen applicable reference period (either (i) February 15, 2019 to June 30, 2019, or (ii) January 1, 2020 to February 29, 2020).
 - 2) Reduction in average annual salary/wage for any employee of greater than 25%
 - Applicable reference period is January 1, 2020 to March 31, 2020.
 - Amount in excess of 25% is a dollar for dollar reduction in forgiveness amount.

... PPP Loan Forgiveness

- **Reduction Safe Harbors and Exceptions**

- 1) Safe Harbor #1 (FTE Reductions)

- For borrowers that are unable to return to the same level of business activity prior to February 15, 2020, due to compliance with requirements/guidance between March 1, 2020 and December 31, 2020 from:
 - CDC
 - Secretary of Health and Human Services
 - OSHA

- 2) Safe Harbor #2 (FTE Reductions)

- If the Borrower reduced its FTE employee levels in the period beginning February 15, 2020, and ending April 26, 2020; and
 - The Borrower then restored its FTE employee levels by not later than December 31, 2020 to its FTE employee levels in the Borrower's pay period that included February 15, 2020.

... PPP Loan Forgiveness

- **Reduction Safe Harbors and Exceptions**

- 1) Six exceptions to reduction. For any employees during the Covered Period:
 1. The Borrower made a good-faith, written offer to rehire an employee, which was rejected by the employee;
 2. Were fired for cause;
 3. Voluntarily resigned;
 4. Voluntarily requested and received a reduction of their hours;
 5. Borrower made a good faith, written offer to restore any reduction in hours at the same salary or wages, but the employee rejected; and
 6. Borrower was unable to hire similarly qualified employees for unfilled positions by December 31, 2020.

—These scenarios will not result in a reduction in loan forgiveness.

... PPP Loan Forgiveness

- **Forgiveness Application Process**

- Three different applications:

1. 3508 (Full application);
2. 3508EZ – Only for the following borrowers:
 - a) Self employed and have no employees;
 - b) Did not reduce the salaries or wages of their employees by more than 25%, and did not reduce the number or hours of their employees; or
 - c) Experienced reductions in business activity as a result of health directives related to Covid-19 and did not reduce the salaries or wages of their employees by more than 25%.
3. 3508S – Only for the following borrowers:
 - a) Received a PPP Loan of \$50,000 or less.

... PPP Loan Forgiveness

- **Forgiveness Application Process**

- Documentation to submit with the application:

1. Bank statements supporting cash wages paid;
2. Payroll reports;
3. Payroll Tax filings;
4. Payment receipts, cancelled checks, or account for employer contributions to employee health insurance and retirement plans;
5. Documentation supporting FTE calculations;
6. Loan and lease agreements supporting existence prior to 2/15/20;
7. Amortization schedules, account statements supporting interest payments on business mortgages during Covered Period;
8. Invoices, cancelled checks, account statements supporting business rent and utility payments made during Covered Period; and
9. Other documentation must be maintained, but not submitted.

... PPP Loan Forgiveness

- **Forgiveness Application Process**

- Once submitted to the lender, lenders have **60 days** to review your application and submit their decision to the SBA.
- SBA then has **90 days** to evaluate your application.
- If application is submitted within **10 months** after the end of the Covered Period, the borrower is not required to make any payments until the forgiveness amount is remitted to the lender by SBA.
- If the loan is fully forgiven, the borrower is not responsible for any repayments.
- Any portion that is not forgiven is subject to repayment at 1% interest.
 - 2-year term for loans originated prior to June 5, 2020 (can request extension to 5 years)
 - 5-year term for loans originated on June 5, 2020, or later

- The amount of the forgiveness should be brought into income, generally recorded as “Other income” in financial statements.
 - Debit: PPP Loan (Debt) \$XXX,XXX
 - Credit: Other Income \$XXX,XXX
- *But WHEN?*
- Two potential sources of conflicting guidance:
 - FASB ASC Topic 470, *Debt*
 - IAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*
- SEC has indicated it would not object to an SEC registrant accounting for a PPP loan under either standard.

... PPP Loan Forgiveness - Accounting

- **How to Account for Forgiveness**

- FASB ASC Topic 470, Debt

- Initially record the cash inflow from the PPP loan as a financial liability and accrue interest.
 - Do not impute additional interest at a market rate.
 - Continue to record the proceeds from the loan as a liability until either:
 - (1) the loan is partly or wholly forgiven, and the debtor has been legally released; or
 - (2) the debtor pays off the loan.
 - Reduce the liability by the amount forgiven and record a gain on extinguishment once the loan is partly or wholly forgiven and legal release is received.

... PPP Loan Forgiveness - Accounting

- **How to Account for Forgiveness**

- IAS 20, Accounting for Government Grants and Disclosure of Government Assistance
 - Nongovernmental entity that is not an NFP (that is, it is a business entity):
 - Expects to meet the PPP's eligibility criteria; and
 - Concludes that the PPP loan represents a grant that is expected to be forgiven; then
 - It may analogize to IAS 20 to account for the PPP loan.
 - Once there is reasonable assurance that conditions for forgiveness will be met:
 - Income can be recognized systematically in the same period as related costs.

... PPP Loan Forgiveness - Accounting

- **How to Account for Forgiveness**

- Other considerations

- Taxability of related expenses
 - Deferred taxes (C-Corp.)
 - Subsequent events
 - Non-calendar year end companies –
 - Have you satisfied ALL conditions for forgiveness?
 - Can you be reasonably certain that forgiveness will occur?
 - Application submitted prior to year end, but not approved until after year end?

... Other SBA Resources

- Economic Disaster Injury Loan (EIDL)
 - Eligibility is based upon:
 - Credit history acceptable to SBA;
 - Repayment capability by the business and its owners; and
 - All US territories are currently eligible.
 - Maximum borrowing is up to \$2 million for eligible entities.
 - Interest rates of 2.75% - 3.75%.
 - Terms are up to 30 years.
 - Up to \$10,000 loan advance that does NOT have to be repaid.
 - ***EIDL advances are deducted from PPP loan forgiveness amount***

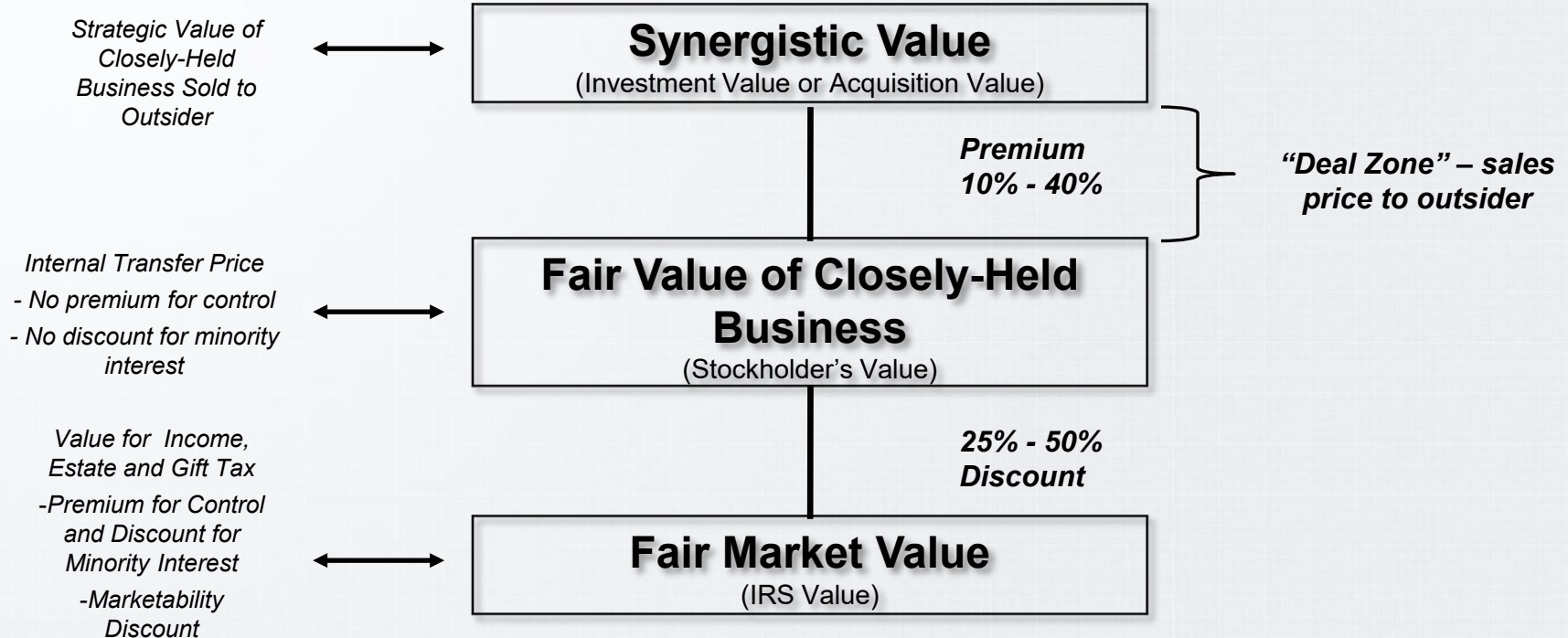
... Other SBA Resources

- SBA Subsidy on Existing SBA Loans
 - Qualifying loans:
 - SBA loans made prior to March 27, 2020;
 - existing 7(a) (including Community Advantage), 504, or microloan loans;
 - SBA will pay principal, interest and any fees that are owed on eligible loans for a six-month period.
- SBA Loans to Midsized Businesses
 - Available to businesses and IRC Section 501(c) organizations with more than 500 and less than 10,000 employees.
 - Loans are available if alternative financing is not reasonably available.
 - Loans must be sufficiently secured with a market risk-based interest rate (risk assessment before COVID-19 pandemic).
 - The loan term should not exceed five years.
 - The borrower must certify that it is a U.S. based business and that employees are predominately located in the U.S.
 - Loans cannot be forgiven.

... Valuation of Closely-Held Businesses

- For most closely held businesses, the value of the business is by far the largest investment of the business owner.
- Still most owners have never had a valuation performed for their business and don't have a true sense of its value.
- This would be like putting money in an investment account every month, counting on that money for your retirement, but never opening the monthly statement to monitor the value in your account!
- Business values may have changed significantly as a result of the pandemic so determining the value of your business could be even more critical.

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.

... Impacts of the Pandemic on Business Value

- Operating losses during the 2020 year would reduce the book value of the Company, which in turn would directly reduce that element of the business value.
- These losses would also factor into historical average earnings that are generally used as part of the income approach.
 - However, historical earnings are only used as a proxy for future earnings.
 - If losses in 2020 are considered to be temporary or unusual, a normalizing adjustment could be made.
 - In determining the historical average earnings, the appropriate weighting of the 2020 year will also need to be considered.
- Projections for future years will be even more critical and may impact the historic income or EBITDA levels used in the valuation or the risk factor (multiple) applied to the amounts determined.

... Impacts of the Pandemic on Business Value

- The PPP loan will also be a significant consideration in valuing manufacturing businesses in 2020.
- Most manufacturers will have their PPP loans fully forgiven and this will be recognized in 2020 valuations even if final approval does not occur until 2021.
- The PPP loan forgiveness will increase book value, helping to replenish losses or provide for additional book value for those companies still operating at a profit.
- The income from PPP loan forgiveness is a nonrecurring item that should not be included as part of income for valuation purposes.

... 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.”

... 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 company
- Access to a pool of buyers who are in the company
- 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

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

... Effects of the Pandemic on Ownership Transition

- The impact of the pandemic will also need to be considered when planning for ownership transition.
- Internal and external sales in process or being contemplated in 2020 were often put on hold.
- Valuation of some manufacturers may have declined, and this could delay some transitions until values rise to a level that is acceptable to the seller.
- In other situations, lower current values could make transactions more affordable to buyers.
- The most critical factor will be the future cash flow as this will be needed by both internal and external buyers to pay for the purchase.

... Business Acquisitions and Sales

- Successful companies continuously evaluate both possible business acquisitions and sales.
- The pandemic can provide an excellent opportunity for an acquisition or sale.
- Acquisitions could involve direct competitors or might provide for entry into new markets, possibly at a bargain price.
- Selling or closing unprofitable areas of your business should also be regularly evaluated.
- Proceeds from PPP loans could also be used to help pay for acquisitions or could be retained by sellers as part of their value is a sale.

... Business Acquisitions and Sales

- Acquiring the competition might be easiest way to gain market share.
- In evaluating a potential acquisition within your industry, you must also consider what will happen if the target is acquired by another competitor or someone entering the industry.
- To learn of companies that are interested in selling, you must keep your ear to the ground and communicate with resources within your industry.

... Business Acquisitions and Sales

- You can also seek out possible acquisition targets, either directly or through an intermediary such as a business broker.
- Acquiring a struggling company might be less costly but remember there are reasons they are struggling, and you will need to determine how you can improve their results.
- It is critical to understand the value of your company and how businesses are valued in your industry.

... Conclusion

- Even though most manufacturers were deemed essential and allowed to operate, there were still profound impacts of the pandemic on the manufacturing industry.
- Manufacturers should continue challenging all aspects of their operations to make sure they are operating effectively in the current environment.
- Future planning should also include strategies to prepare for future societal and economic disruptions.
- Make certain your Company is taking advantage of all available government assistance.
- Consider how the pandemic has impacted the value of your business and opportunities for ownership transition.

Questions





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