

The Family Private Equity Model: When the Epiphany Occurs

Thomas C. Hoffman, II, Esq.

September 22, 2020

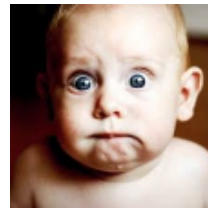
Business Succession Planning – The Family Private Equity Model: *When the Epiphany Occurs*

presented by
Thomas C. Hoffman, II, Esq.
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Business Succession Planning Goals

- Are you and your family ready for business succession?
 - Immediate business succession
 - Long-term business succession plan
- Is your business ready for business succession?
 - Immediate business succession
 - Long-term business succession plan



Ad Hoc Family Business Succession

Unscientific observations from 60 years of Knox Law business succession planning:

- 1/3 of family business successions to the next generation are successful
- 1/3 ... are mediocre to below average
- 1/3 ... are family and business disasters



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Why Family Businesses Fail – “What Bit Me?”

- 60% of failure is due to a lack of communication and trust within the family around group decision making, education and governance. Family culture?
- 25% of failure is due to unprepared heirs.
- Only 3% of failure is due to failures in financial planning, taxes and investments!

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The Journey



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What Business Owners Want: TIME!



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More Business Succession Planning Goals

- Flexibility
- Estate tax and income tax efficiency



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Business Succession Planning: What Are Your Options?

- Transition to Your Family (Descendants)
 - Sale to Third Parties
 - Sale to Key Employees (including ESOP)
 - Gift to Your Favorite Charity (Penn State?)
-
- April 2017



 PennState
University Development

 PennState
Smeal College of Business

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Five Ways to Transition A Business

1. Sell/Gift To Family
2. Sell To Employee(s)
3. Sell To External Buyer (Strategic Buyer or Private Equity)
4. Sell To Existing Partner(s)
5. **Family Private Equity Model: Hold the Business As Investment**

▪ *In all cases, use the MaxProtect Plan®*

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We Are All Bakers



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What A Great Idea!



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The Family Private Equity Model Epiphany

The light bulb goes on!

- Owner treats his/her company as an operating company; something that spins off cash.



- The epiphany is when the owner treats the company as a financial vehicle, which has many alternatives.

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What is the Family Private Equity Model?

Hire CEO; retain ownership: Families retain ownership of the business while hiring a President and Chief Executive Officer to take over the day-to-day operations.

Similar to private equity: It is similar to a private equity firm buying the business, but the difference is that the family retains the business – perhaps the best investment the family may ever have.

Not the END for the Owner: The Owner(s) can stay on, not just as the chair of the Board, but as an employee, focusing on a specific role they truly love such as product development instead of the operations.

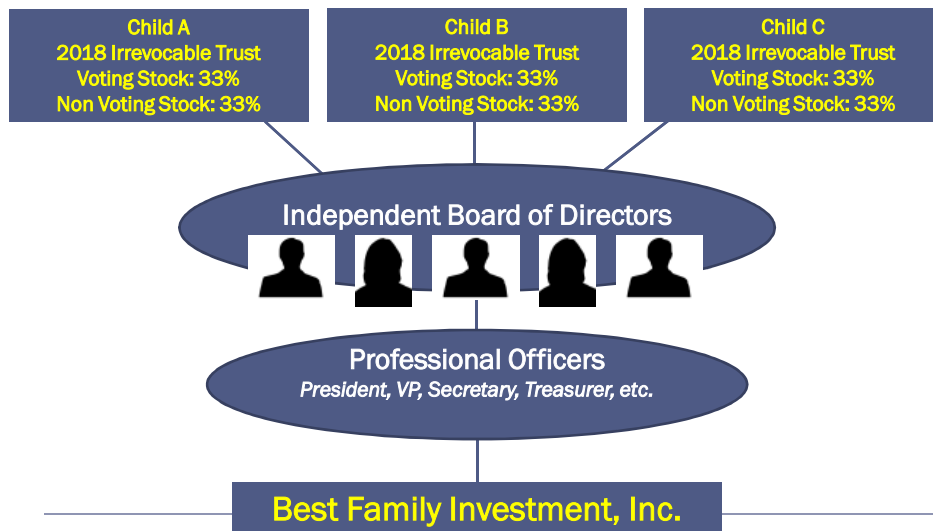
Executive search: The Executive search process for this environment is unique: Unlike a private equity firm, the owner has deep knowledge of the business. It is critical to find an executive who is a good fit to the owner as well as the business.

CEO/Potential Owner: We also want to identify candidates who have the potential to become future buyers of the company.

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Family Private Equity Model Platform



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Why Use MaxProtect Plan® / Generational Trust Planning

- Trusts help deal with:
 1. Divorce
 2. Substance abuse
 3. Disability
 4. Bankruptcy
 5. Uncertain business management
 6. Flexibility
 7. Income tax
 8. Federal estate tax (PA inheritance tax, if any)

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Common Misconceptions About Trusts

- Inflexible
- No access
- Create “trust fund babies”
- More harmful than helpful
- Unnecessary if no taxable estate
- Etc.

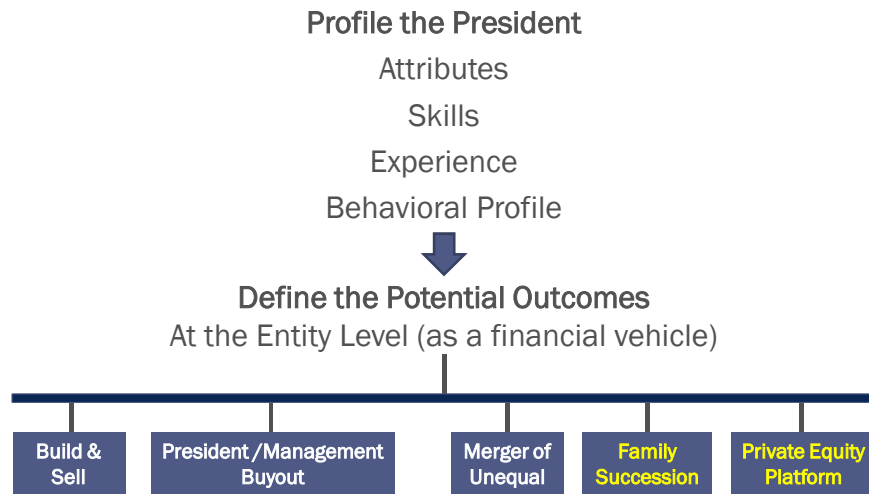
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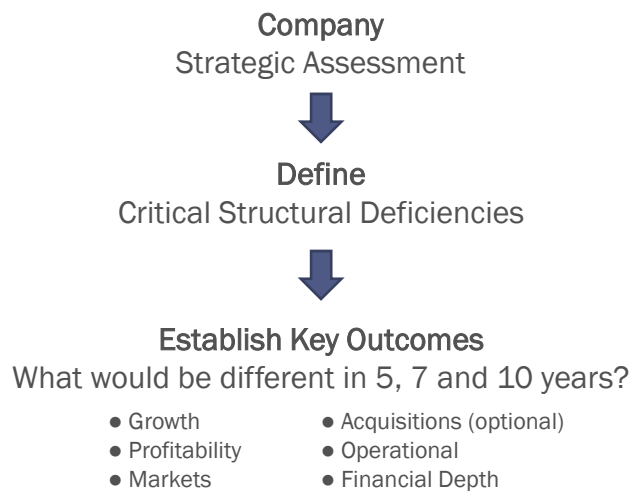
Family Private Equity Model Options



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Family Private Equity Model Process



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Family Private Equity Model Process: Company Strategic Assessment

Ready? Ownership Readiness Assessment

Retrain owner: Pre-hire education and mentoring for the owner for the new roles they will play (and not play).

- Includes defining owner's new role after hiring a President.

Is the team ready? Team's readiness to work under a President.

President's role: Defining President's role, authorities, accountabilities and decision-making structure.

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Company Strategic Assessment - Ownership Readiness Assessment

Who is ready? Consultant will interview the Owner to determine both the Owner's and the company's readiness for succession.

Owner preparation? Questions for the Owner relate to what the Owner has done to prepare to step away from the day-to-day running of the business.

- Self-education on succession
- Communicating Vision, Strategy and Objectives to their team
- Owner's most important contributions to the business
- Owner's contribution to the company's culture and negative impact of departure

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Family Private Equity Model Process: Post-hire

A NEW matrix: Create a responsibility matrix for Owner and President.

Executive Coaching:

- **President**
 - How to manage a team that has bonded with Owner
 - How to manage the Owner in their altered role
 - Recognizing existing company culture/respectfully adapting culture to your vision
- **Owner**
- **Family**

Formal Board: Creating a formal board (vs. advisory board).

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Thank You!

- Please know there is **no charge** for our initial meeting (whether in person, on the phone, or via webcam).
- After developing the client's intentions more thoroughly, we prepare a **written engagement letter** with a firm estimate of the cost prior to the client being obligated to pay any fees.

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