



Preparing for a strategic exit

Considerations for middle-market business owners



Why consider a transition?

For business owners thinking about a transition – whether it's a transition from one generation to the next or an outright sale to a third party – decisions are often based on a number of factors including personal, business, industry and environmental concerns.

- Retirement goals
- Health
- Succession plan
- Liquidity needs
- Unsolicited offer



- Cash flow needs
- Capital needs
- Risks to customer base
- Risks to product offering
- Competitive pressures

- Regulatory issues
- Interest rates
- Market dynamics

- Buyer demand
- Disintermediation
- Commodification

Assessing transition options

When considering the next stage for your business, your needs may vary depending on where you are in the business cycle.

For some business owners, it may be time to start thinking about the next chapter in life. Others may have an interest in raising capital to continue growing a business. While others may find that transferring ownership to employees or the next generation is the best fit for their needs.

■ Outright sale

Sell 100 percent of the business to a buyer from the same industry or with a complementary business model

■ Employee Stock Ownership Plan (ESOP)

Sell the business to its employees through an ESOP, a tax-advantaged leveraged buyout

■ Recapitalization

Exchange an owner's equity in the business for a mix of equity and / or debt to focus on the growth of the business, creating the potential for an exit in the future

■ Transition of ownership to the next generation

Transition ownership to family members (normally children) by way of a sale or gift, or a combination of both

Planning for a sale

Should you decide to sell your business, planning is a key component to help achieve your personal and financial goals – it's never too early to start. Below are examples of some factors to consider:

	Professional	Personal	Financial
1 to 5 years before	<ul style="list-style-type: none"> Monitor industry trends and business cycles to identify good timing for the sale Build a team of trusted advisors to help you prepare the business and create as much value as possible Fine-tune the business model Prepare employees and managers for the transition phase Identify the right investment banking team and start looking for potential buyers 	<ul style="list-style-type: none"> Prioritize needs, goals and wishes, taking into account lifestyle and income planning after the sale Understand the roles and responsibilities of family members and their goals Prepare family members for the transition phase and consider a more formal family governance structure Think about your role after the sale 	<ul style="list-style-type: none"> Consider wealth transfer strategies to optimize tax-efficient transfers to family members, if desired Invest assets to protect them against losses before the liquidity event Reduce management and oversight responsibilities for financial assets Explore strategic lending opportunities to meet your borrowing needs Review life insurance coverage to ensure your family is adequately protected
Up to 1 year before	<ul style="list-style-type: none"> With the investment banking team, focus all your energy on getting the best deal 	<ul style="list-style-type: none"> Prepare for the next phase of your life by thinking about new things to explore and do 	<ul style="list-style-type: none"> Do not be distracted by your investments; if necessary, park them in safe assets Implement pre-sale philanthropy and income tax planning strategies
Up to 1 year after	<ul style="list-style-type: none"> Do not interfere with new management if you still occupy a position within the firm 	<ul style="list-style-type: none"> Take time to reconnect with family and friends Think about your goals for the year ahead and how you will fulfill them 	<ul style="list-style-type: none"> Separate accounts for taxes, consumption and investments Educate yourself about wealth management
1 to 2 years after	<ul style="list-style-type: none"> Reassess work / career aspirations 	<ul style="list-style-type: none"> Settle into your new role and pursue lifetime goals 	<ul style="list-style-type: none"> Invest according to your personal financial plan; connect regularly with your wealth manager to discuss your evolving financial life and long-term planning strategies

Building the right pre-sale advisory team

Access to the right professional advice is critical to your success. For example, a team of trusted advisors, such as the ones mentioned below, will work to help you navigate the complexities of the sale process.

Here are some key questions you should consider reviewing with your team of trusted advisors:

- Why do you want to sell your business?
- What are your desired financial objectives?
- Are all the company's financial statements and tax / legal records in order, so a prospective buyer can get a clear view of your financial performance?
- Do you have a good understanding of how your company is currently valued within your industry?
- Do you have a proper transition strategy and succession plan in place?
- Are there any outstanding legal, compliance or regulatory issues that require attention?

Wealth manager

A Financial Advisor with a background in business succession planning, financial planning, insurance strategies, estate planning and philanthropic giving can partner with you and your other advisors to create a comprehensive wealth management strategy before and after a sale.

Attorney

A transaction or M&A attorney can help ensure that the deal agreed to between the buyer and seller is in fact what is reflected in the final documents and a trusts and estates attorney can work alongside your wealth manager to develop a comprehensive wealth transfer plan.

Investment Banker

An investment banker with a long record of successfully leading companies through mergers and acquisitions is critical to realizing the full potential of your sale. With deep expertise in advising companies, an investment banker determines the value of your business and builds a competitive market of potential purchasers.

CPA

A CPA provides knowledge of relevant tax, compliance and financial matters related to business sales. Working as part of the team that is structuring and negotiating the transaction, as well as providing guidance on personal financial planning, a CPA helps avoid any unnecessary missteps.

Making wealth planning a priority

Appropriate wealth planning before and after a liquidity event can result in considerable savings in the future. Your UBS Financial Advisor can discuss the following range of strategies that may be suitable for you in the context of your needs, goals and personal circumstances.

Estate planning

How is the sale aligned with your personal estate planning goals? Are there opportunities to lower future estate tax burdens by transferring interests to your family members using sophisticated estate planning techniques prior to the transaction? Should separate trusts be established for the benefit of family members? With the right strategy, your estate will have the maximum possible impact on your loved ones – now and for generations to come.

Tax planning

How will your tax planning change as a result of the sale? Which deal structure – a stock sale or an asset sale – will provide you with more tax benefits? Identifying the right strategy in consultation with your CPA or tax professional can make a significant difference in the proceeds you take home from the sale.

Philanthropy

How might the sale enable you to have a greater impact on the philanthropic causes that are meaningful to you and your family? Does the sale present the opportunity to transfer shares into a charitable vehicle, such as a donor advised fund or a charitable remainder trust to generate an income tax deduction and possible deferral or avoidance of income tax payable upon the sale? Whatever legacy it is you want to leave, ensure it is aligned with your overall financial goals.

Investment strategies

Do your investable assets reflect future cash flows? A well-designed strategic asset allocation can help you bridge any possible short-term liquidity needs that may arise before the sale.

Broader wealth management

Once the business has been sold, how will you maximize your after-tax proceeds? What changes are needed to your strategic asset allocation plan so your investment portfolio responds to your unique needs, goals and aspirations? The right post-sale wealth management strategy can help you make a successful transition to the next phase of your wealth management journey.

Finding the right investment banking partner

UBS maintains a network of third-party boutique investment banking partners across the country with experience advising middle-market business owners through transitions.

What types of companies are a good fit for our boutique IB partners?

OWNERSHIP	Privately-held <ul style="list-style-type: none">• Family-owned• Entrepreneur-owned
FINANCIALS	\$3m+ in EBITDA ¹ \$20m+ in Revenues ²
DEAL SIZE	\$20-500m
INDUSTRY	Business Services Consumer Products & Retail Energy & Natural Resources Financial Institutions Healthcare Services Industrials / Distribution / Manufacturing Power & Utilities Technology, Media & Telecom

Our network of 30+ boutique investment banks is intended to provide our business owner clients with access to firms that understand the needs of middle-market companies.

Our boutiques have deep knowledge and expertise in the following transaction types:

Full or partial sale

- Assisting with pre-launch activities to help alleviate the strain on management's time
- Refining the company's financial model and assumptions
- Positioning the story to create buyer interest
- Seeking competitive tension by bringing multiple bidders to the table
- Assisting with complex negotiations between you and buyers

Capital raise

- Seeking growth and expansion capital, acquisition financing and/or shareholder liquidity
- Targeting a vast array of investors and lenders
- Seeking competitive tension by bringing multiple bidders to the table

Employee stock ownership plan (ESOP)

- Evaluating a tax-efficient transfer of ownership to employees
- Structuring the transaction to meet your objectives; positioning you to monetize all or a portion of your business over time

Going to market

The M&A process generally consists of four phases: (1) Preparing for the sale (2) Marketing the business for the sale (3) Conducting due diligence (4) Closing the transaction. Timelines average 9-12 months but vary significantly for each company based on various facts and circumstances.

Sample timeline



UBS resources for business owners

Wherever you are in your business life-cycle, UBS can work with you every step of the way. We have a broad range of solutions for business owners to help you toward your goals.



Let's start the conversation

A business transition is a complex event that involves a full range of personal, business, wealth management and family concerns. Your UBS Financial Advisor is committed to delivering the firm's resources, both financial and intellectual, to help you focus on achieving a successful business transition.

Whether your transition is a few years away or a few decades away, it is important to start thinking about how you want to live your future. Let's have a conversation to discover where you are today and how we can help you fulfill your long-term goals.

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