

Access GE Insight Series

NATIONAL CENTER FOR THE MIDDLE MARKET & ACCESS GE PRESENT
Succession Planning for Family Business
Wednesday, August 20, at 2:00 PM EDT



Dial-in Info:
1-888-634-4837
Conference ID 74121959

Thanks for joining us!
The webinar will begin shortly



In Collaboration With



Disclosure Statement

This webcast is for information purposes only and is not intended as an offer, solicitation, or recommendation for the purchase or sale of a financial instrument or to effect a transaction. The information contained within this webcast has been obtained from and is based upon sources believed to be reliable. General Electric Capital Corporation and any of its affiliates (collectively "GECC") do not guarantee the accuracy or completeness of the information and make no express or implied representations, but reasonable steps have been taken to determine the accuracy and completeness of the information. All opinions, projections and estimates constitute the judgment of the authors as of the date of the webcast and are subject to change without notice. Market rates, valuations and availability of financial instruments also are subject to change without notice. Nothing contained within the materials constitutes financial, legal, tax, accounting or other advice, nor should any investment or any other decisions be made solely based on this webcast. You should obtain advice from qualified experts before making any investment decision.

This webcast is produced separately from any other activity of GECC and was completed without access to non-public information that may have been received by other units of GECC. This webcast may not be reproduced or redistributed in any form without prior written permission from GECC. The use of this webcast in connection with the writing, marketing or promotion of any financial instruments, services or products is prohibited.

Intended use for participants on Webinar



Who we are

The National Center for the Middle Market, founded out of a partnership between GE Capital and The Ohio State University's Fisher College of Business, is the foremost expert and leading resource on the U.S. middle market economy.



Comprehensive Middle Market Research & Data

- + Quarterly economic report on U.S. middle market performance
- + Breakthrough research on innovation, talent, operational excellence, and more



Expertise & Outreach

- + Experts travel nationwide to share mid-market research with executives, business groups, policymakers, media, and academics



Executive Training

- + Interactive benchmarking tools, executive seminars and informative webinars



The middle market is a powerful growth engine for the American economy

ANNUAL REVENUE

\$10MM – \$1B

NEARLY

200K

BUSINESSES †

REPRESENTING

3% OF ALL

U.S. COMPANIES †

\$10

TRILLION IN ANNUAL REVENUE *

33% OF U.S.

PRIVATE SECTOR GDP

5th

LARGEST GLOBAL ECONOMY

1/3 OF ALL

PRIVATE SECTOR U.S. JOBS *

70% OF ALL

NEW JOBS SINCE 2007—5.4 MILLION



* Source: Market that Moves America † Source: Last Available Census



NATIONAL CENTER FOR
THE MIDDLE MARKET

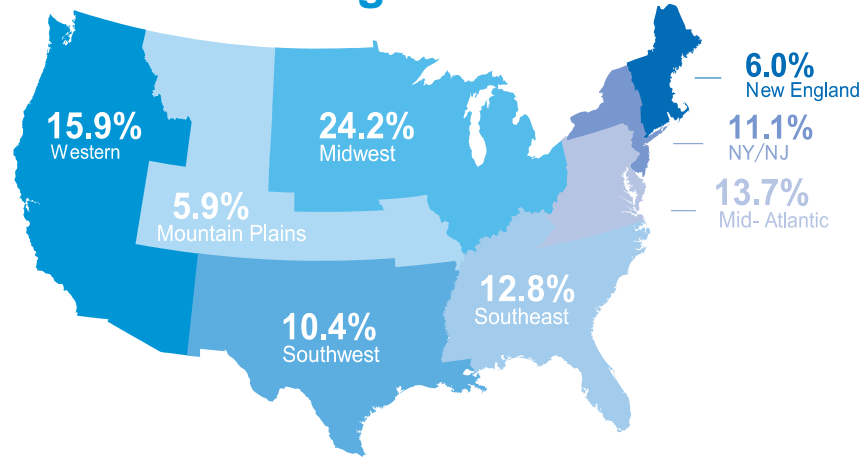
Intended use for participants on Webinar



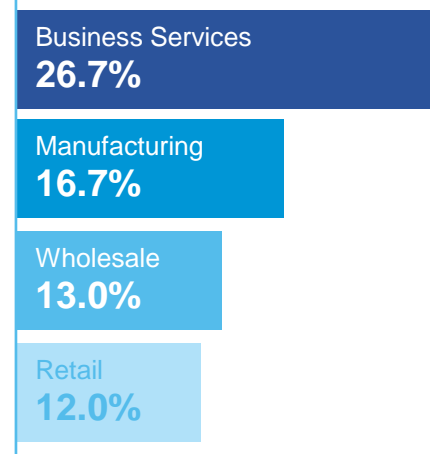
@midmarketcenter

The middle market's impact is felt in all regions and industries

Regions



Industries



Companies



ETHAN ALLEN



& Service



MATRIX
MEDICAL NETWORK



The Middle Market Indicator shows strength across the board

REVENUE GROWTH

6.6%

PAST 12 MONTHS

3.4%

S&P 500
NEXT 12 MO.

5.8%

NEXT 12 MONTHS

EMPLOYMENT GROWTH

3.2%

PAST 12 MONTHS

2.1%

SMALL BUSINESS

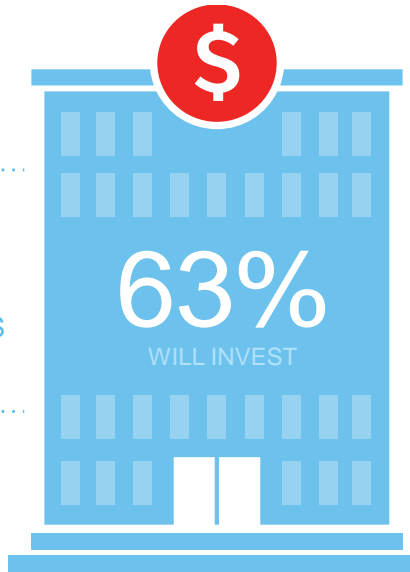
2.6%

LARGE BUSINESS

3.3%

NEXT 12 MONTHS

CAPITAL INVESTMENT



CONFIDENCE

55%

GLOBAL ECONOMY

2Q'13 48%

68%

NATIONAL ECONOMY

2Q'13 64%

77%

LOCAL ECONOMY

2Q'13 79%



Source: 2Q 2014 Middle Market Indicator

Few topics are more important, neglected, or vexing than succession planning in family businesses ...

- 1** out of **3** family business CEOs are over 60
- 2** out of **5** of family businesses will change hands in the next five years
- 3** out of **5** will see a leadership change

- 67%** of family business owners *intend* to pass ownership to the next generation
- 30%** of family businesses actually stay in the family to the second generation
12% to the third, 3% to the fourth and beyond

- 40%** of family business CEOs say succession is a major challenge
- 67%** don't have a succession plan
- 55%** have no identified successor

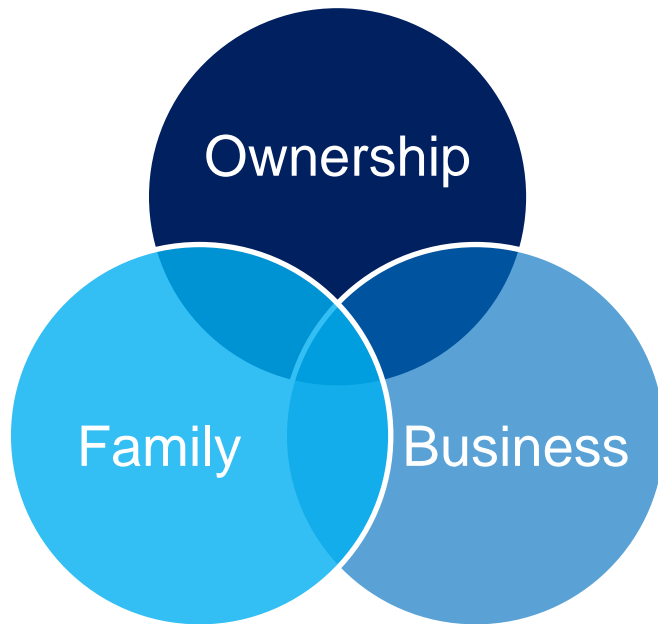
- 70%** of attendees at the Family Firm Institute's 2004 Annual Conference in Boston were family therapists

Sources: Family Business Institute, *Family Business in Transition*, 2007;
PwC family business survey 2012; Curchin Family Business Advisors; *The Economist*

Intended use for participants on Webinar

... complicated because it engages many stakeholders with potentially conflicting interests

Family Business System



Ownership

- + Sell to family members
- + Give all or part to family members
- + Sell all or part to non-family members

.....

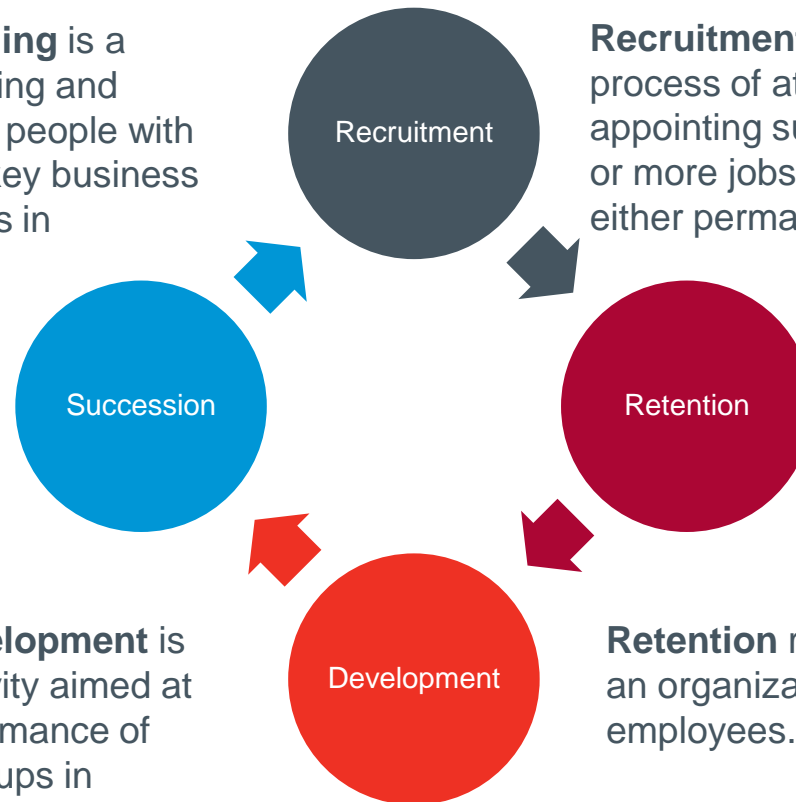
Management

- + Promote family member
- + Promote internal candidate
- + Hire external candidate
- + Hire interim CEO

Source: The Family Business System, Renato Tagiuri & John Davis, HBS

Succession planning is a continuous process involving four key steps...

Succession Planning is a process for identifying and developing internal people with the potential to fill key business leadership positions in the company



Recruitment refers to the overall process of attracting, selecting and appointing suitable candidates to a one or more jobs within an organization, either permanent or temporary.

Training and Development is organizational activity aimed at bettering the performance of individuals and groups in organizational settings.

Retention refers to the ability of an organization to retain its employees.

Panel



Thomas A. Stewart
*Moderator,
NCMM Executive Director*



Les Banwart
*CEO,
Banwart Strategies*



Steven S. Rolfe, MD
*Managing Principal,
Merion Advisory Group*



Thomas A. Kotick, CPA
*Director,
SS&G – CPAs and Advisers*



Les Banwart

Where to Start?

Family Matters

- + Education of options
- + Overcome barriers to begin
- + Third party consultation

Business Matters

- + Prepare the management team
- + Oldest generation to start process



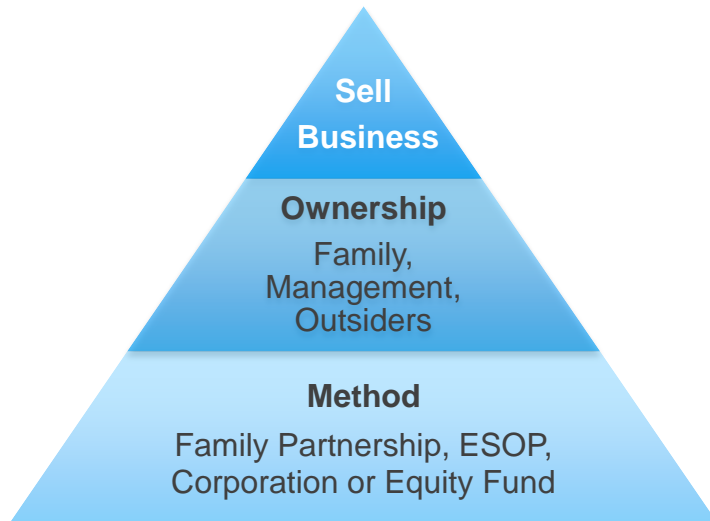
Tips

- + Plan early! The biggest issue family businesses have is starting too late. Only 30% make it to 2nd generation
- + Have family meetings with a third-party consultant first, before discussing with Board of Directors
- + Communicate transition to all stakeholders, not just family and management

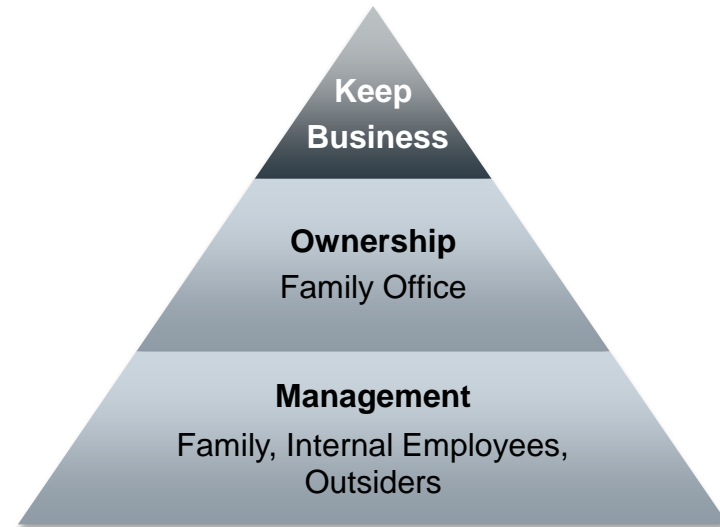


Les Banwart

What are the Options? Two paths to choose ...



- + Sellers need to factor in timing; excess supply of baby boomer businesses may drive down valuation
- + Select a team of advisors (lawyer, accountant, consultant, etc.) to help guide the selling process



- + Important to consider the role and responsibility of family ownership vs. family management
- + Identify potential buyers even if your business is expected to remain within the family





Les Banwart

Common mistakes in transitioning a family business

No strategic business plan

- + Need to consider a company's future direction from multiple perspectives (management, employee, customer, supplier)

No outside board of directors

- + Independent thought from non-family member directors is very beneficial before, during and after transition

Older generation “hanging on” too long

- + Family business owners need to not only be proactive about transition planning, but also ready to move on

No transition plan for the management team

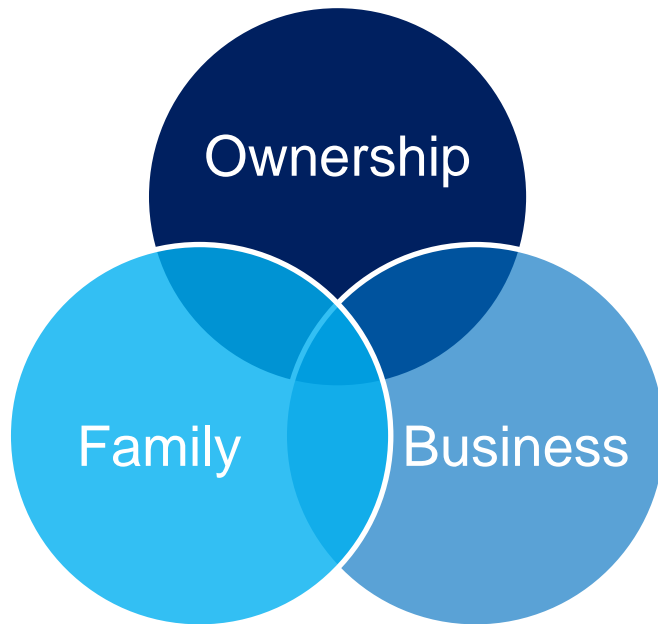
- + Next generation needs a roadmap to successfully take the company to the next level





Steven S. Rolfe

What Are Family Dynamics?



The Business: a crucible for family conflict

- + Family conflicts impact the business
- + No need for a family therapist, but you can't just prepare the assets and ignore the psychology
- + Critical business decisions all too often lean on family feelings, dynamics, and emotions



Steven S. Rolfe

Succession as Strategic Challenge

Internal Challenges

- + The Founder's Immortality
- + The Business means everything, the loss profound
- + When he is emotionally unprepared:
 - + there is no strategy
 - + the decision process is short-circuited or non-existent
 - + conflict is avoided
- + He is an unwilling educator
- + He is oblivious to his personal impact – “management can just run the business”

External Challenges

- + Choosing the best person for the job for the right reasons
- + Addressing the challenge of successors out of family obligation
- + Considering the second generation- their goals and aspirations are neglected
- + Preparing the **management team** - for new business challenges and work with new ownership, new board oversight, new family members





Steven S. Rolfe

Avoiding the Succession Trap: The Dynastic Family in Business

*The odds of keeping a business in the family are low—
30% to the 2nd generation, 12% to the 3rd generation.*



Businesses are not forever!

- + Businesses should always be for sale
- + Do not gift ... let them buy if they want it
- + Wealth Destruction and the Failure to Sell
- + Family Business or Dynastic Family?



Thomas A. Kotick

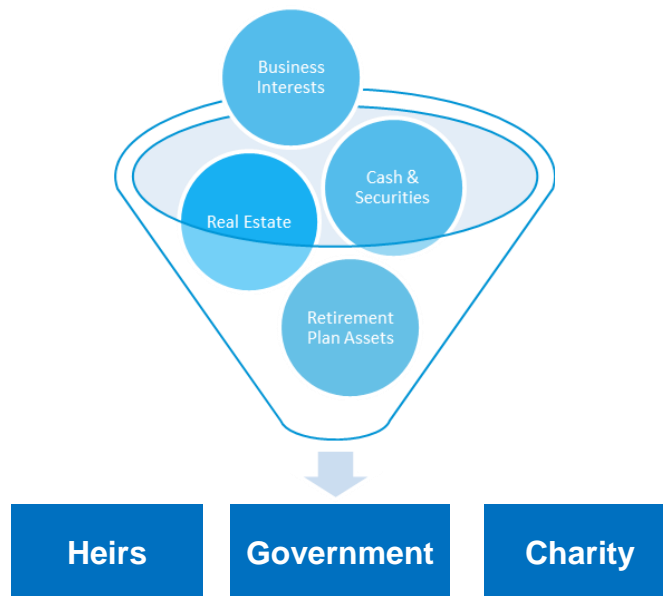
Setting goals is the key to successful planning ... yet the hardest to articulate

Consider these factors...

- + Financial and non-financial goals, which often compete
- + Stakeholders' goals:
 - Owners
 - Family members
 - Business
 - Employees

... which vary if the transfer is primarily ownership, governance, or both.

Tax Savings (usually) top the list





Thomas A. Kotick

The good news is ... we have control over how, when, and to whom these assets are transferred

Keep in mind ...

- 1 These techniques generate tremendous tax savings
- 2 Relinquishing control generally yields greater tax savings
- 3 Failing to address the non-financial goals can derail even the best plan

Financial Tools Available

- ✓ Use of Exemptions and Exclusions
- ✓ Freeze Techniques
- ✓ Valuation Discounts
- ✓ Opportunity Shifting
- ✓ Tax Free Growth



Thomas A. Kotick

A thorough, accurate assessment of the business can be eye-opening

Analyzing the Wealth Generating Capacity of the Business

- + Capital Needs of the Business
 - Under current operations
 - In conjunction with strategic plan
- + Compensation Plan to Retain Top Talent
- + Cash Flow Needs of Owners Looking to Transition
- + Cash Flow Needs of Other Family Members

Can the business meet all needs?

- ✓ Is a shift in the strategic plan needed?
- ✓ If shortfall, how do we balance competing goals?
- ✓ If excess, which stakeholder benefits from excess?

Q & A



Thomas A. Stewart
*Moderator,
NCMM Executive Director*



Les Banwart
*CEO,
Banwart Strategies*



Steven S. Rolfe, MD
*Managing Principal,
Merion Advisory Group*



Thomas A. Kotick, CPA
*Director,
SS&G – CPAs and Advisers*

Summary & Tips

The **U.S. middle market** represents companies with annual revenues between \$10 million and \$1 billion. As a critical pillar of economic growth nationwide, the middle market created more than two million jobs during the Great Recession and continues to outpace the national economy in both revenue and employment growth.

The **National Center for the Middle Market** is the nation's only research institution dedicated solely to understanding the economic impact of the middle market. A partnership of GE Capital and The Ohio State University's Fisher College of Business, the Center identifies challenges to the future prosperity of the middle market, and provides resources such as research, expertise and executive training for middle market companies. Learn more at www.middlemarketcenter.org.

Succession Planning Framework

1) Management: Prepare for New Leadership

- + Promote a family member or internal candidate
- + Hire an external candidate
- + Hire an interim CEO

2) Ownership: Transfer Company Ownership

- + Sell business to family members
- + Give partial or whole ownership to family members
- + Sell business to a corporation of private equity firm

Tips

- + Start succession planning early
- + Ensure successor holds vision and values that align with the organization
- + Have separate strategies for the management and ownership of the company
- + Establish personal retirement & financial goals
- + Acquire a team of advisors to develop a plan

www.middlemarketcenter.org



@midmarketcenter



National Center for the Middle Market



NATIONAL CENTER FOR
THE MIDDLE MARKET

In Collaboration With



THE OHIO STATE UNIVERSITY
FISHER COLLEGE OF BUSINESS



GE Capital