

SUCCESSION

PLANNING:

IS NOW THE TIME AND ARE YOU
READY?



Presented by: The Central Minnesota Business Transition Advisory

HOW MUCH MONEY WILL I NEED TO

RE?



Presenter: Paul Radeke, CFP®, KDV Wealth Management, LLC

How Much Money Will I Need To Retire?

- ❑ **When Should I Ask This Question?**
 - As early possible, AND
 - BEFORE you sell your business!
- ❑ **Lifestyle Expectations**
 - Choices and balance
 - Separating “needs” from “wants”
- ❑ **More Needed in Early Retirement Years**
 - Travel
 - More active

The Great Transition

"It's time to take the sale of my business and turn it into income that I can rely on for the rest of my life."

RETIREMENT

ASSET ALLOCATION

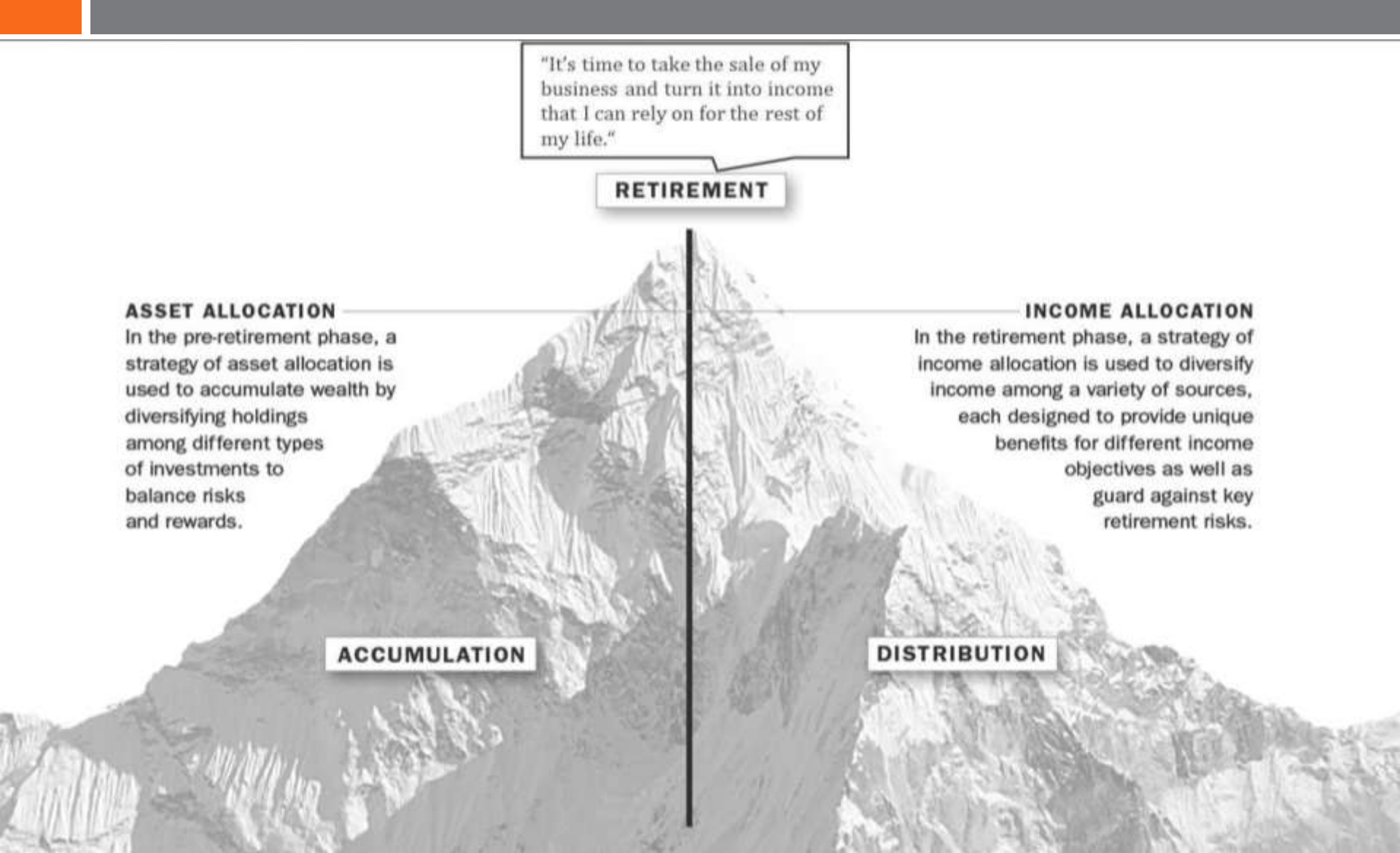
In the pre-retirement phase, a strategy of asset allocation is used to accumulate wealth by diversifying holdings among different types of investments to balance risks and rewards.

ACCUMULATION

INCOME ALLOCATION

In the retirement phase, a strategy of income allocation is used to diversify income among a variety of sources, each designed to provide unique benefits for different income objectives as well as guard against key retirement risks.

DISTRIBUTION

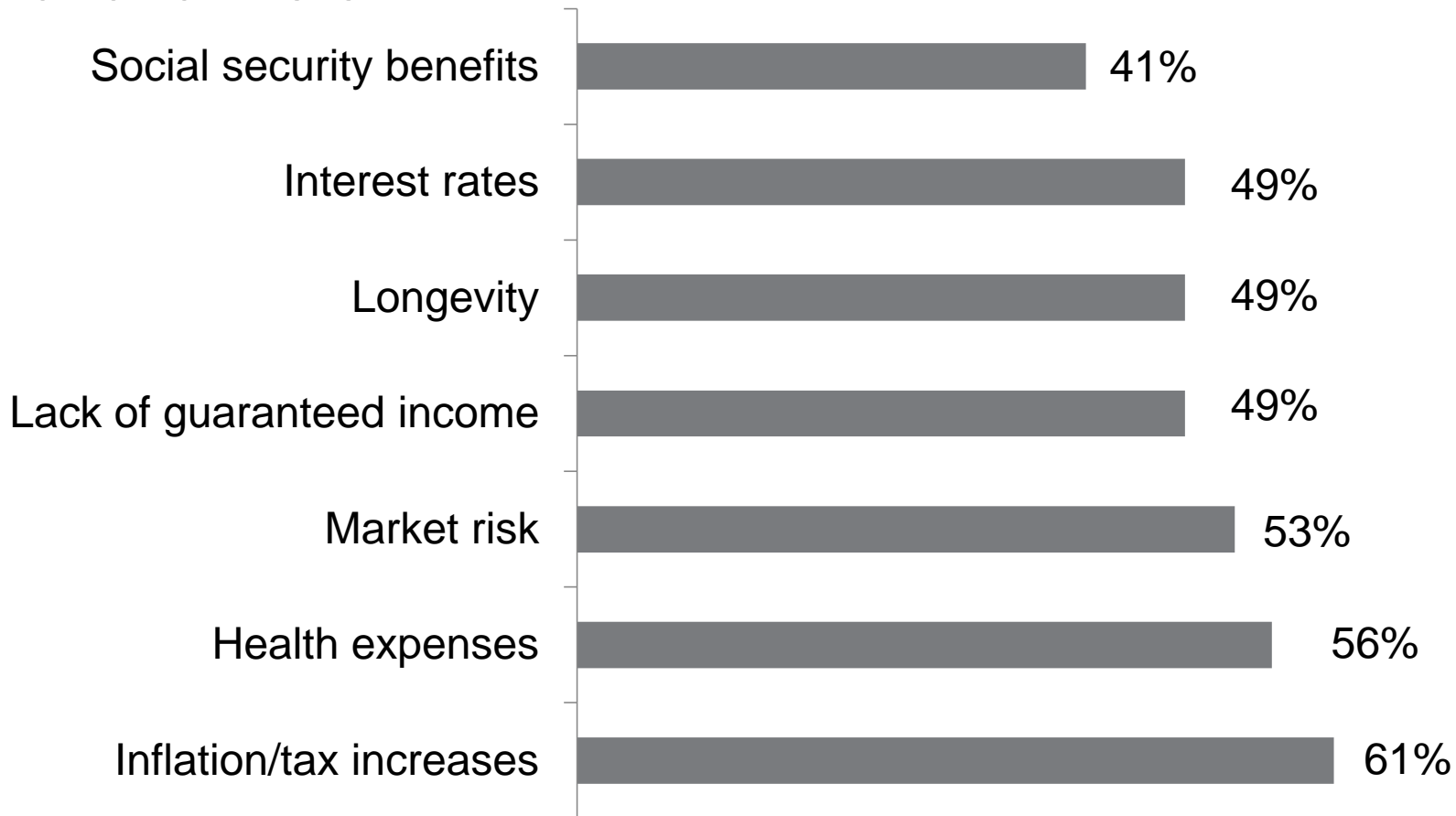


The 3 Core Planning Principles

- ❑ **Transition from Asset Accumulation to Income Allocation:** *Effectively transition your retirement savings accumulation strategies to distribution strategies.*
- ❑ **Determine your Withdrawal Percentage:** *Determine the percentage of savings you can withdraw as income each year so it is sustainable throughout retirement.*
- ❑ **Address Risk:** *Ensure that your annual income streams are protected against key risks you will face during retirement.*

Key Risks of Retirement

Percentage of consumers very or extremely anxious over specific retirement risks:



WILL MY MONEY LAST

AS LONG AS I DO?



Will My Money Last As Long As I Do?

□ Newborn Life Expectancy

- 1935 – 61 years
- Today – 79 to 80 years

□ Life Expectancy at Age 65

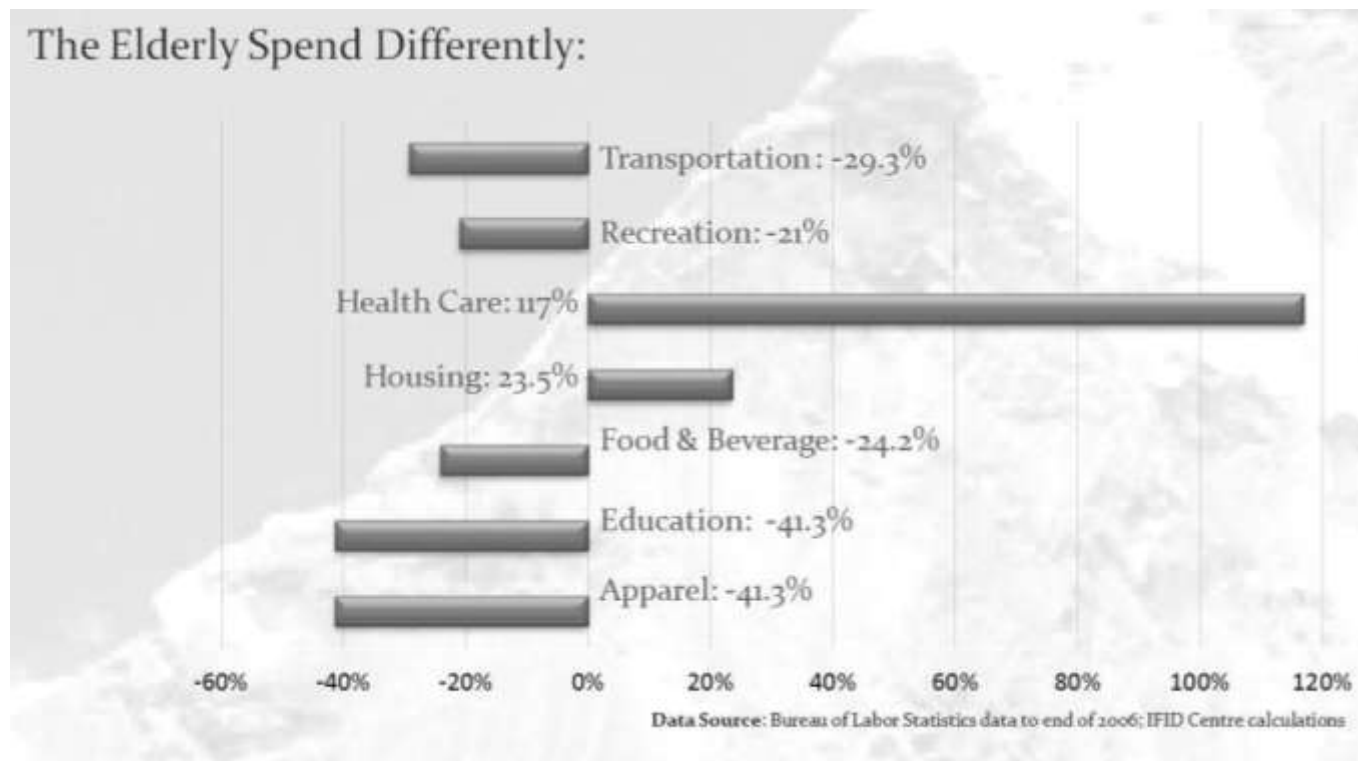
- Today – 83 to 84 years
- Non-smoking couple age 65 today of average health and average family history of longevity –
 - ✓ 50% chance one will live to age 92
 - ✓ 30% chance one will live to age 96
 - ✓ 10% chance one will live to age 101

Market Risk | Equities – The Necessary Evil

- ❑ Equity exposure is typically needed to reach certain retirement objectives.
- ❑ Equities have historically been relied upon to be a powerful growth vehicle and inflation hedge.
- ❑ However, Market Risk, if not addressed, could wipe out your retirement portfolio before or during retirement.

Inflation Risk

- Inflation has superseded health care risk as a top concern of both retirees and pre-retirees. 58% are very or somewhat concerned and 71%, up from 63% in 2007, express concern that the value of their savings and investments might not keep pace with inflation.



Liquidity Risk

- ❑ Change is the one constant we can count on.
- ❑ Even the best retirement income planning strategy is vulnerable if flexibility is not incorporated to address unexpected events.
- ❑ Retirement has witnessed many “poor” millionaires.

HOW DO I MINIMIZE MY RETIREMENT TAX



How Do I Minimize My Retirement Tax Bill?

- ❑ Have a financial plan
- ❑ Have an asset distribution plan
- ❑ Review it annually
- ❑ Have an advisor who understands the Tax Code or ensure that your Advisor and CPA communicate regularly
- ❑ Have your CPA manage tax brackets
 - Goal is to pay the least amount of tax over time, not necessarily in any given year
- ❑ Have an advisor who understands how taxation risk impacts the planning process
- ❑ Understand that the decisions we make today “eliminate” or “create” opportunities for mitigating taxes

THE TIME IS RIGHT FOR SELLERS



Presenter: Steve Kutscheid, Attorney-at-Law, Gray Plant Mooty

Private Equity Market

- ❑ Over a trillion (1.0 trillion) dollars available for business acquisitions
- ❑ Expansion of number of private equity funds formed
- ❑ Significant competition has driven multiples

Growth & Strategic Buyers

- Corporate buyers had over \$1.6 trillion of cash on their balance sheets
- Low organic growth rates are driving buyers into the marketplace

Low Interest Rates & Alternative Debt Providers

- There are a number of debt capital providers providing alternatives to borrowers
- Lenders are active in looking for opportunities to lend money to quality buyers
- Rates are at historic lows

Price Paid or EBITDA Multiples Have Increased

- Significant shortage of high quality companies for sale
- Increased competition between financial and strategic buyers
- Seller needs based on investment redeployment

Short Term Prospects |Supply & Demand

- Over 10,000 people per day are reaching retirement age
- Business owners who missed the 1999 or 2006 selling windows have remerged
- In 5 to 7 years there may be more sellers than buyers in the marketplace

ARE YOU READY?

PREPARE YOUR BUSINESS FOR SALE



Prepare Your Business For Sale

- ❑ Build a Good Management Team
- ❑ Key Executives Should be Subject to Assignable Non-Compete Agreements
- ❑ Resolve Outstanding Liabilities & Contingencies Prior to Marketing Your Business
- ❑ Resolve Legal Issues Relating to Key Assets
- ❑ Develop Credible and Positive Financial Statements
- ❑ Determine Structure & Key Terms Before Negotiating with Buyers

DELAY SALE WHILE

BUILDING YOUR BUSINESS



**BUILD UP
BUSINESS**

Delay Sale While Building Your Business

- Retain Ownership and Delay Sale of Stock or Assets
 - Create Incentives for Professional Managers
 - ✓ Stock Appreciation Right Plans
 - ✓ Phantom Stock Plans
 - ✓ Deferred Compensation Arrangements

#1 SELLER OBJECTIVE

MAXIMIZE NET AFTER-TAX CASH



#1

Presenter: Dan Mulvaney, M&A Advisor, Sunbelt Business
Advisors

Maximize Net After-Tax Cash

- ❑ Cash is King – the Sooner the Better
 - Maximize Cash at Closing
- ❑ Transaction Structure
 - Lots of Moving Parts
 - 3 Components – Cash, Risk, Time
- ❑ Minimize Tax from Transaction

UNDERSTANDING VALUE



Value = Historical EBITDA x Multiple

- Understand EBITDA, measure it and know it
 - Recurring Capital Expenditures? Measure Free Cash Flow
- Multiple
 - Varies by Industry
 - Varies by Size
 - Varies by Individual Characteristics
 - ✓ Products, Customers, Profits, Management Team, Systems

Buyers Value

- EBITDA
- Customer/Vendor/Product Diversification
- Strong Management Team
 - Most Valuable is Absentee-Owned
 - Who runs the Business Post-Closing?

Buyers Value: Future Cash Flow

- ❑ Revenue and Gross Profit
 - ❑ By Product or Service
 - ❑ By Customer
- ❑ Growth
 - ❑ By Product or Service
 - ❑ By Customer
- ❑ Information Systems - Clean Financial Statements
 - ❑ No debt, Minimal Owner Perqs
 - ❑ Audited Statements
 - ❑ Reviewed Statements
- ❑ Process- and Policy-Driven Companies
 - ❑ Sales, Production, HR, Accounting, IT

Maximizing Value

- ❑ Sell on an Upswing of Profit and Revenue
- ❑ Sell When Economy is Strong - Today
- ❑ Identify Value-Detractors and Address – Financials, Systems, Management, etc.
- ❑ Minimize Historical Net Working Capital
- ❑ Proactively Manage Taxes
- ❑ Engage a Professional Investment Banker
 - Maintain Confidentiality

Maximizing Value (cont'd)

- ❑ Engage a Professional Investment Banker
- ❑ Understand Valuation and Transaction Structure - NAT
- ❑ Create the Confidential Business Profile
- ❑ Conduct the Marketing Campaign – Target Strategic and Financial Buyers
 - Multiple Buyers Compete
- ❑ Obtain Written Offers (LOI's)
 - Select Top Candidate – Exclusivity
- ❑ Due Diligence
 - Quality of Earnings
 - Other Due Diligence – Revenue, Product, HR, Physical Plant, Insurance, Real Estate, Regulatory, etc.
 - Legal Documents – the Asset Purchase Agreement, et al

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