APOLLON

## Tax Changes Are Coming - Is it Time to Sell or Grow Your Business?

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Congratulations. You've built a business that has significant value. You've worked hard… At this point, Owners often ask themselves*, "What's next?"*

- Do I want to lead my company for another 5-20 years?
- Am I ready to move on to different pursuits and to transition the business to a capable team that can continue my work?
- Where is the balance between my desire to grow the company by investing more capital vs. achieving personal financial goals?
- Do I need liquidity to provide for retirement and my family?
- Is the timing right to take some chips off the table and will the markets allow me to do so under favorable terms?
- Most importantly, do I need to be strategic in my succession planning around potential tax changes?

Answering these questions can be difficult at best and gut-wrenching at worst. It is critical to leverage professional Investment Banking Consultants with the expertise and relationships who utilize a set of tools that help frame your thoughts about a potential liquidity event, and take the time to evaluate highly customized solutions aimed at achieving economic and non-economic goals.

### *There Are Multiple Paths to Achieving Your Goals and Objectives*

Unfortunately, many successful business owners are given limited advice by many investment bankers — usually along the lines of "*You should sell!" "Multiples are high!" "A strategic acquirer is interested!"* For many bankers, the value created in a private business automatically equates to a change-of- control transaction.

While a change-of-control transaction is often the right answer, sometimes it is not. And even when it is, thoughtful advance work can make the difference between a disruptive process that fails to meet your goals and one that smoothly achieves all of your objectives and results in an outsized outcome. Recommendations should not be made until your Investment Banking consultant knows and understands all the objectives — economic and non-economic — of an ownership group.

Typically, there are several different approaches/structures that can and should be considered when considering a transaction. The consultant should work to understand what you want to accomplish in a transaction. Then, and only then, should a solution be proposed.

### *Most Common Strategic Alternatives to Consider*

Every situation is different. A good Investment Bank will deliver highly customized solutions to all their clients. Some companies can and should access the public markets. Some can and shouldn't. Some cannot. Some have access to unique government subsidies and programs. For the purposes of this discussion, we will highlight the six scenarios that are frequently discussed with Business Owner clients.

1. **Status Quo**
   It is always helpful to compare any theoretical scenario to one in which no transaction is entered into in the near term. In the Status Quo scenario, you continue to run the business for the foreseeable future, distributing excess cash to existing shareholders. While this option avoids any transactional risk, the company and shareholders remain fully exposed to market and business risk factors.

   The Status Quo is not an option that will remain appropriate indefinitely, but it can be a desirable outcome when a business generates reasonable cash flow and is in the midst of acquiring a major new customer, transitioning the senior management team or absorbing an acquisition. In almost every instance, these types of corporate activities are the ideal time to stay the course while laying the groundwork for an eventual transaction.

2. **Debt Recapitalization**

   In a debt recapitalization, senior lenders and subordinated lenders are approached to borrow funds that will be used to refinance existing debt and potentially pay a dividend to existing shareholders. The current and expected cash flows generated by the company are key determinants in the amount and type of financing available to the borrower. The most attractive aspect of a debt recapitalization is the ability to obtain some liquidity while retaining 100 percent control of the business. In most instances the process is discreet, minimizing management distraction, and may provide an opportunity to eliminate personal borrowing guarantees.

3. **Transitional Capital**

   Broadly defined, Transitional Capital aims to carry a company or business owner from one stage in the corporate life cycle to the next. Transitional Capital is ideal in situations where a business owner is seeking some level of liquidity but wants to retain control to benefit from anticipated future growth opportunities.

   In a Transitional Capital transaction, senior and subordinated lenders are used to refinance existing debt and borrow additional funds to pay a dividend to existing shareholders – similar to a debt recapitalization. In addition, it is necessary to simultaneously approach equity investors who will purchase a minority stake in the equity of the company. The proceeds from the sale of a minority equity position are added to the debt recapitalization proceeds to pay a larger dividend to existing shareholders and/or to fund appropriate growth initiatives. Furthermore, the new minority equity investor will likely augment the depth of existing management and provide insight and assistance on the growth initiatives without a loss of majority ownership. Beyond liquidity, key considerations for an owner considering a Transitional Capital partnership might include non-economic considerations such as cultural fit and the prospective board or management structure, particularly as it relates to corporate decision making.

4. **Employee Stock Ownership Plans (ESOP)**

ESOPs are a type of employee benefit plan. As such, qualified ESOPs are subject to ERISA rules as well as other extensive legal and tax laws regulating their establishment and ongoing operation. It is beyond the scope of this report to outline the various limitations and costs of an ESOP as they may apply to your company and employee base, but we are happy to work with your legal and tax advisors to determine whether an ESOP might be a viable alternative for your company.

5. **Majority Recapitalization with a Financial Partner**

A majority recapitalization offers selling shareholders the opportunity to realize a substantial portion of the value tied-up in an investment built over a lifetime. Financial partners typically utilize leverage in their transaction structures and can also be desirable partners who support the business's growth with operational and/or industry-specific expertise. A financial partner tends to ideally suit owners who desire to have some form of ongoing involvement and ownership in the business.

6. **Strategic Sale of the Business**

A strategic sale of the business typically involves merging your company with a larger enterprise. Strategic buyers often present the greatest potential to maximize liquidity with a "spike" value given their ability to generate synergies either through cross-selling and other revenue enhancements or through cost-containment measures. While the upside is compelling, business owners must also weigh the risks of sharing sensitive competitive intelligence. A sale to a strategic buyer is ideally suited for those owners who desire to have limited future involvement in the business and have established or completed a viable succession plan.

***Conclusion***

There are many options regarding the "right" process for a business owner who asks, *"What's next?"* A good Investment Banking Partner will approach every situation with a focus on what the business owner wants to achieve and base their feedback on rigorous analysis and sound judgment. As fellow entrepreneurs, your Investment Banker should know that no two situations are the same and that the Owner's desired outcome is always the primary focus.

For more information, please contact any of the professionals at [Apollon Wealth Management].