

Preparing for a strategic exit

Your guide to unlocking **a lifetime of work**



Managing toward your future

Today's business environment is more complex than ever before, with advances in technology, globalization, changes to tax and regulatory frameworks and new competitors seemingly arising every day. Like all successful businesses, family-owned and entrepreneur-led businesses need to combine their passion, culture and long-term vision with a streamlined decision-making process and still drive profits to the bottom line. At the same time, family-owned and entrepreneur-led businesses face a range of additional challenges when it comes to planning the transition of ownership to the next generation or a management team, as well as the impact such a transition may have on their personal lives, the lives of their employees and their local community.

For those thinking about potential next steps with their business—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 variety of personal, business-specific, industry and economic factors. Though many business owners and entrepreneurs have an idea about what their future may hold, few have developed a plan. Ideally, planning for a business transition begins years in advance.

The earlier you start to plan your transition strategy, the better the outcome will be, even if it is many years in the future.

In this report, we explore some important considerations to think about when planning for the future of your business. From the fundamentals of selling a business to pre- and post-sale wealth planning, this report provides insights and perspective to help you learn more

about how to better prepare for your exit strategy. At UBS, we have a long history of helping businesses and entrepreneurs through this process. We routinely collaborate with business owners to design effective transition strategies. When it comes to your complex needs, we can help with sound advice and planning expertise.

Business transition options

When considering the next stage for your business, your needs will vary depending on where you are in the business cycle. For example, the needs of a business owner involved in a family business that has spanned generations will be different from those of an entrepreneur who is just starting out.

For some business owners and entrepreneurs, 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. Whatever choice you make, careful planning is key to assuring a successful transition.

Define potential options

Outright sale Sell 100% of the business to a buyer from the same industry or with a complementary business model, known as a merger and acquisition (M&A) transaction.

Employee Stock Ownership Plan (ESOP) Sell the business to its employees through an ESOP, a tax-advantaged leveraged buyout.

Recapitalization Sell a minority or majority equity stake in the company (when a 100% sale is not desired) for asset diversification and liquidity, or issue debt at the company level and use the cash received to buy back shares and/or issue a dividend to shareholders.

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.



The fundamentals of selling a business

We believe selling a business is perhaps one of the most complex events an owner can go through. According to *UBS Investor Watch* research, many business owners are not prepared for a sale, having never had their business formally appraised, established structures to shield sales proceeds or put a formal exit strategy in place. Your expertise has been focused on running and growing your successful business. We can provide you with a plan of action for how best to sell it.

Build the right pre-sale advisory team

When it comes to selling your business, access to the right professional advice is critical to your success. Because the sale of a business is complex, you need to engage with a diverse team of trusted advisors.

Each member of your advisory team will have their own role in the sales process and can provide you with a different perspective. Although the specific configuration of your team will vary depending on your circumstances, the advisory team of a business owner who is preparing for a sale will normally consist of the following:

Financial Advisor

A Financial Advisor with a background in business succession planning, financial planning, insurance strategies, estate planning and philanthropic giving can work with you and your other advisors to create a comprehensive wealth management plan for pre- and

post-sale. We find that clients who implement a sound financial plan in advance of a transaction can be more focused and confident in negotiations, as they have better transparency on how a transaction will directly affect them.

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 advising companies, an investment banker determines the value of your business and builds a competitive market of potential purchasers.

With as many people in the market as possible who are interested in buying a business on the same timeline and with the same criteria, this naturally creates competitive tension—and the process helps you negotiate the most favorable terms of a sale.

Attorney*

A skilled 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. A trusts and estates attorney can work alongside your Financial Advisor to help develop a comprehensive wealth transfer plan.

Certified Public Accountant* (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.

Prepare your business

As you think about preparing your business for a potential sale, the sooner you begin to plan a transition, the better the odds of achieving your financial and personal goals.

In some cases, it can take five years or more to exit a business, so proper planning needs to begin early. In our experience, we believe that the sale of a business requires management of three interlinked dimensions: professional, personal and financial.

Planning for the sale of a business: Things to consider, both before and after

	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 before and after the sale – Understand the goals, roles and responsibilities of family members – Prepare family members for the transition phase and consider a more formal family governance structure – Begin thinking about what will occupy your time after the sale 	<ul style="list-style-type: none"> – Review your family’s financial, estate and philanthropic plan and discuss short-term and long-term goals – Consider wealth transfer strategies that accomplish these goals in a tax-efficient manner – Invest assets to protect them against losses before the liquidity event – Explore strategic lending opportunities to meet your cash flow and/or liquidity 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; rather, rely on your plan, process and structure – Finalize and implement any remaining pre-sale strategies around investing, philanthropy, estate and tax planning
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 – Work in your favorite activities, causes and passions – Think about your goals for the year ahead and how you will fulfill them 	<ul style="list-style-type: none"> – Execute and trust your plan, which will include investing your net proceeds – Separate accounts for taxes, consumption and investments
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 Financial Advisor to discuss your evolving financial life and long-term planning strategies

If you are considering a sale, a careful analysis of assessing likely buyer interest, availability of funds, sector outlook and shareholder objectives is critical. Based on these factors, a realistic view of the sale process can be developed.

In preparing your business, here are some **key questions for review with your advisory team:**

- 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 actual financial performance?

- Do you have a good understanding for how your company is currently valued within your industry?
- Do you have a proper transition strategy in place?
- Are there any outstanding legal, compliance or regulatory issues that require attention?
- Do you have a comprehensive risk management assessment for the business?
- Is there a strong management structure and succession plan?

- If it's a family business, have you come to an understanding with the next generation on roles and responsibilities?
- Have you identified excess assets that can be converted into cash prior to a transaction, without adversely impacting the business?
- Do you have a realistic picture of the net after-tax yield from a sale to help determine the most advantageous way to structure the sale for tax purposes?
- Are there activities you and your team can accomplish in the near term to maximize the value of your business before sale?

Engaging an Investment Bank

If you have come to the decision to sell your business, your UBS Financial Advisor and the UBS Business Development Group can help. With access to the full scope of resources within UBS and through our external network of boutique investment banks, our team will consult with you on your business needs.

After our consultation, we will work with you to identify the right investment banking relationship. In some cases and transaction sizes, our UBS Investment Bank may be the ideal choice, while in other cases your best choice may be one of the boutique investment banks that are part of our UBS referral network.

Our Boutique Investment Bank Network is comprised of a select group of experienced investment banks that focus primarily on middle-market M&A and capital-raising services for family-owned and entrepreneur-led businesses. This network of boutique investment banks collectively specializes in various industries and sectors, so you can feel confident that you have an investment banking advisor who understands you and your business.

We introduce two or three boutique investment banks to you, and then you select the one that offers the best fit.

Your selected investment banker will guide you through the sale process, which includes:

- 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

Plan for going to market

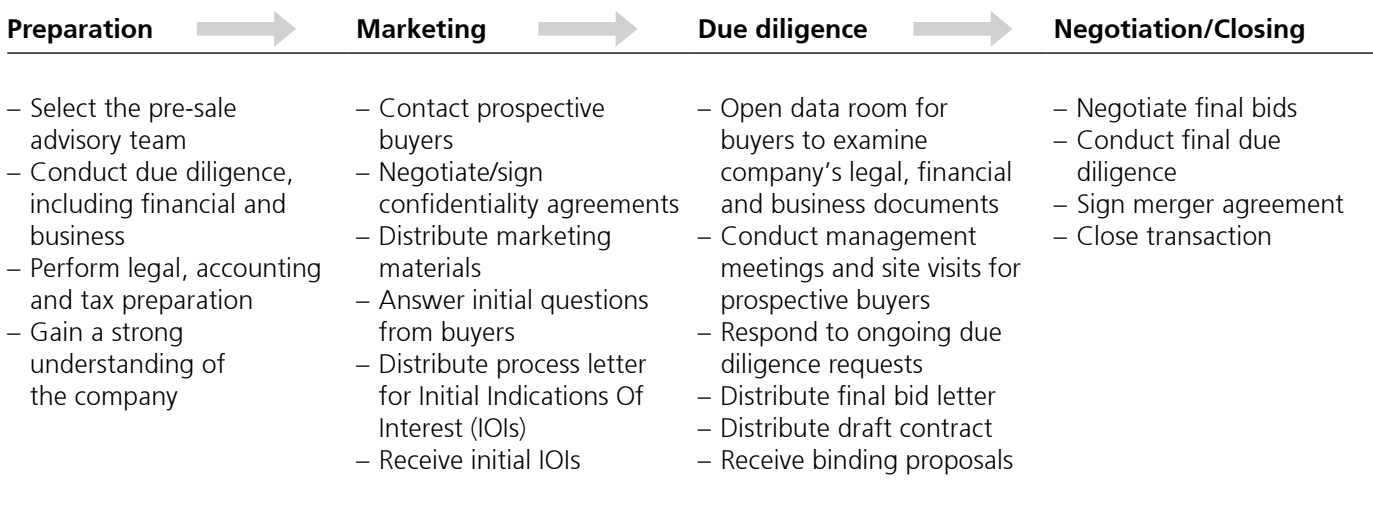
Once the decision has been made to sell your business, the going to market process begins—with your investment banker guiding you through the negotiations so you can continue to focus on managing your business.

The M&A process generally consists of four phases:

- **Prepare** for the sale
- **Market** the business for the sale
- **Conduct** due diligence
- **Close** the transaction

Behind the scenes: Going to market M&A timeline

Timelines average 9 – 12 months but vary significantly for each company based on various facts and circumstances. Here is a sample process from an investment banking perspective:



Make pre- and post-sale wealth planning a priority

When it comes to the wealth planning considerations associated with a business sale, it is essential to prepare for all the financial ramifications. A truly efficient sale incorporates tax planning that can result in significant income, gift and estate tax savings—savings that may be lost once the deal is closed.

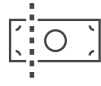
Your UBS Financial Advisor can discuss the range of strategies that may be suitable for you in the context of your needs, goals and personal circumstances and help you determine when these strategies need to be executed to maximize the tax benefits. Here are some strategies to consider.

Pre-sale wealth planning



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 can have the maximum possible impact on your loved ones—now and for generations to come.



Tax planning strategies.

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 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's 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. With thoughtful solutions like securities-backed lending, you may be able to tap the value of your eligible investments to meet borrowing needs.**

Post-sale wealth planning



Broader wealth management strategies.

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.

UBS's commitment to you and your business

Our commitment to family-owned and entrepreneur-led businesses is unparalleled. Depending on where you are in your business cycle—building, running, growing or transitioning your enterprise—we offer a broad range of solutions to help you achieve your goals.

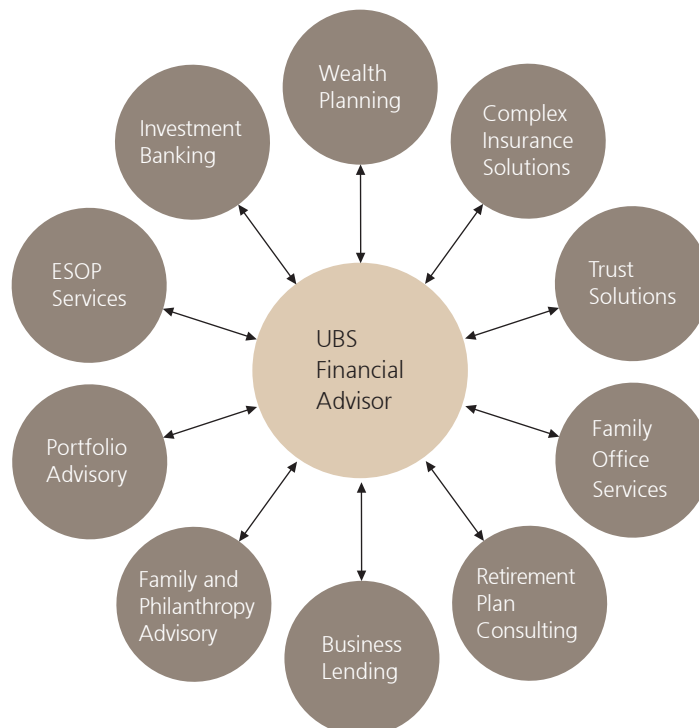
Wealth management solutions for business owners and entrepreneurs

We understand the unique challenges of business owners and entrepreneurs. Your UBS Financial Advisor is committed to working with you to help you pursue your goals at every stage of your business life cycle. It's what we call: Advice. Beyond investing. Our solutions include:

- **Customized financial planning** to understand your business and personal goals and then develop a plan to pursue them
- **Lending services, including referral lending options**, to help you achieve all your business financing needs
- **Estate planning strategies** to help you with the efficient transfer of wealth, including ESOP transactions
- **Philanthropic planning strategies** to help you determine the right structure for a charitable gift

- **Family governance strategies** to help manage the transition of business ownership and wealth between generations
- **Management of day-to-day finances** while keeping long-term assets invested
- **Retirement planning strategies** to help you balance today's priorities and prepare for the future
- **Funding of business growth** with sources of capital available for what you need
- **Insurance solutions** to protect you and your business from unexpected events

Access the valuable resources and expertise of UBS



The next step: 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. Whether your transition is a few years away or a few decades away, it's 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.

* These individuals may not be UBS employees or affiliated with UBS.

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Timeframes may vary. Strategies are subject to individual client goals, objectives, and suitability. This approach is not a promise or guarantee that wealth, or any financial results, can or will be achieved.

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