December

Valuation Pulse

ESOP

Generational Wealth Transfer

ONYX PARTNERS GROUP

Valuation Pulse

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BUSINESS VALUATION NEWSLETTER FOR BUSINES OWNERS

December 2018

Generational Wealth Transfer
Employee Stock Ownership Plans

Generational wealth transfer! The newest and the hottest tag line. In reality, generational wealth transfer has been around for decades. Do these names sound familiar? Publix Supermarkets, Schreiber Foods, Robert W. Baird & Company. These are all names that you are probably familiar with or at least have used one of their product or services. Each of these companies at one point in time were family owned. Over the years, each family has gone through their own version of generational wealth transfer. However, there has been one common thread tied to each of these individual families. Each company participated in the same ownership transition – Employee Stock Ownership Plan, better known as ESOP.

An ESOP is similar to what most would call a qualified retirement plan. These plans are funded by the owner and not the employee. What makes ESOPs so attractive to owners is that ESOPs provide a way for the owner to sell a privately held business that not only benefits the owner, it benefits both the company and its employees. It is an alternative to selling to a third-party buyer at fair market value. The owner would hire an ESOP trustee to establish a trust for the sale of the business. The trust therefore owns shares of the company on behalf of the employees. This transaction is done by business owners selling some or all their shares of the company to the trust.

ESOPs have been a part of the corporate finance world for many years. With growing tax benefits and new legislative laws making this strategy more attractive, ESOPs have been a great vehicle for generational wealth transfer.

As a business owner, an ESOPs is designed to allow you to create your own exit strategy and accomplish some very important factors:

1. To leave the business soon
2. Leave the business to their employees
3. Allow the owner to leave the business with enough cash to either transfer to your family or start a new venture

Exiting the business:

As an owner, your business may have started from scratch or acquired through some form of transaction. Either way, you have built a business that you are extremely proud of and have been able to support your family along the way. Exiting a business does not always mean that you must either pass it to a family member, or worse, work until you drop dead. An alternative could be, leaving the business to those that helped you build this empire. To do so, there is an exit strategy that can help you accomplish this task, ESOP.

Establishing an ESOP offers benefits that can be very advantageous to the owner. For example, working with an accounting firm that is experienced in ESOPs, they will be able to explain the potential huge tax advantages. ESOPs can be set up so that the business owner will not have to pay capital gains taxes on the sale of the stock. Your accountant would be able to set up your plan so that when the ESOP is established it will use pretax future corporate earnings to buy shares from the owner.

The owner can then defer the taxation on the gain depending on the type of corporation. Keep in mind, the tax benefits do not only apply to the business owner, but the business will also receive numerous tax benefits.

After being consulted and your company has been identified as a qualified ESOP candidate, then the business owner can begin planning how to exit the business: 1. Exit over time which would allow the owner to establish a time line and gradually exit the business, 2. Sell all of the shares and leave the business in a shorter time frame.

Employee Own

Leaving a business that an owner has established can be very emotional and difficult to do. Your name in the business community, the product that you have delivered and the brand that is well known, may be hard to just walk away and leave in the hands of a third party. By establishing an ESOP, you can have the best of both worlds. You can see the product and services that you established continue over an extended period. Most importantly, you can rest easy knowing that you are leaving the business in the hands of the people and families that helped grow the business.

Just a couple of benefits that employees share in an employee owned business:[1]

1. Protect jobs
2. Provides employees with a significant retirement benefit
3. Protects the integrity of the business by assuring that it will not be dismantled.

(National Center for Employee Ownership)[1]

Generational Wealth Transfer

By definition, generational wealth transfer means to be able to allow a younger generation to live more stress-free financial lives. When establishing your business into an ESOP, you are positioning yourself as the beneficiary of the proceeds from the sale of your shares. Those shares come with significant tax advantages which can increase the amount that you will receive once you exit the business. Those funds can be used to not only pass down to the next generation, you can also use a portion of the proceeds to start a new business venture. This venture which hopefully, will allow you to continue to grow your wealth. Wealth that can be transferred later, to that next generation.

For further information on transitioning your business read, "Who should own your business after you?" nceo.org

If you are interested in learning if your company is a good fit for an ESOP, reach out to Onyx Partners Group for a valuation consolation at info@opgbv.com or call 973-902-7828 and speak with a valuation expert.

Stephen A. White, CVA has been in the financial industry for over 25 years and is a full-time valuation expert. He is the owner and founder of Onyx Partners Group where he specializes in valuation services for small and mid-size businesses. The valuation services cover a variety of areas such as ESOP, purchases and sales, buy sell agreements, SBA valuation and consulting.

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