ONYX PARTNERS GROUP
valuation experts who understand your industry

Valuation Pulse

BUSINESS VALUATION NEWSLETTER FOR BUSINESS OWNERS & SPECIALTY PROFESSIONAL

2020 is almost over…..

Now it is time for you to make your move

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Inside This Quarter

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Valuation Pulse is a quarterly report distributed by Onyx Partners Group, an independent Valuation advisory service company. Providing valuation services for an ESOP, Corporate Valuation, Bankruptcy, Gift and Estate Valuations and other areas of interest.

Valuation Pulse is a quarterly report designed to inform and educate business owners, CPA's, attorney's and investment advisors on the world of valuation.

This quarter, Valuation Pulse will focus on planning and restructuring. Even during the time of this global pandemic, decisions and plans still need to be addressed as well as acted on. In this issue we will focus on sparking the conversation of a new exit strategy Employee Stock Ownership Plans (ESOP), restructuring your business through Subchapter V. Finally, we will focus on an industry: Dental Practice- unlocking the private value.

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ESOP: Generational Wealth Transfer

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.

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Calendar of Past and Current Events

September:

14-18 Bankruptcy, Insolvency and Restructuring
NACVA (Webinar)

October:

19-23 Essentials of Business Valuation

- Income Approach
- Discounts and Marketability

26 Around the Valuation World (Monthly Podcast)
Industry Update: ESOP

November:

19 NACVA
(National Association of Certified Valuators and Analyst)
NACVA Super Conference
ESOP: Disrupting the Exit Strategy Platform
(Webinar)

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Bankruptcy: There is a Lifeline

COVID-19 has turned our global economy updise down and in some cases, inside out. Businesses, large and small have been affected the most. Based on a recent study conducted by BankruptcyData, it identified industries that have been under pressure through this pandemic. Leading the way is the Oil and Gas, followed by retail, healthcare, utilities and then food services. This study shows that no industry is immune to this pandemic.

When times get rough like we are experiencing now, business owners often think of the "worst case" scenario which is bankruptcy. However, regardless of the thoughts that you may think about bankruptcy, it does not always mean that you can not recover. There are several types of bankruptcies. Depending on your situation, speaking with a consultant who understands your industry and your business may be able to offer you direction as to what plan is the best plan for you to explore. If your business has debt that is less than $7 million, there is an option that you should explore. This option is called Chapter 11 Subchapter 5.

In August 2019, congress passed an act called the Small Business Reorganization Act (SBRA) and it was signed into law and became effective in February 2020. Back in August of 2019, no one could have foreseen what was on the horizon in March of this year. This pandemic created a financial catastrophe. This financial halt to the system created a strong hold on many small businesses. The SBRA – Subchapter V, has been viewed as a lifeline.

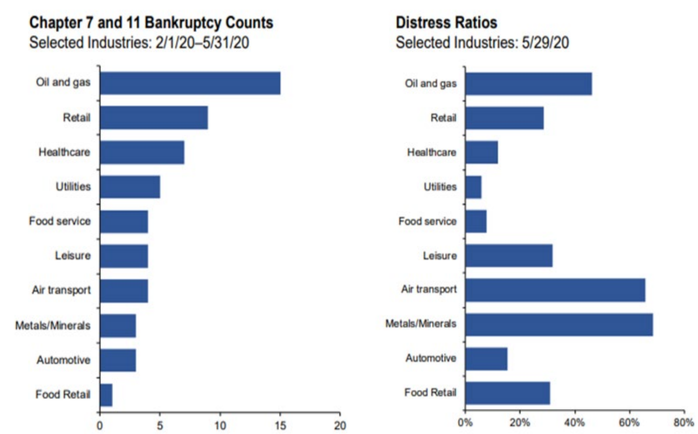
Here are 8 points of interest for Subchapter V

1. **Reduces Expense**
   Reorganizing under Subchapter V should be less expensive for the debtor because certain administrative expenses that a small business would

normally incur in a chapter 11 case have been eliminated.

2. **Obtaining Counsel**
   The requirements for retaining debtor's counsel have been modified to permit counsel to represent a debtor notwithstanding the existence of unpaid prepetition fees in an amount less than $10,000.
3. **Voting is not necessary to confirm plan**
   The requirements under § 1129(a)(10) that the debtor receive the acceptance of at least one impaired class has been eliminated. [14]*Id.* The debtor in Subchapter V may confirm a cramdown plan without the approval of any class of creditors.
4. **Discharge**
   Subchapter V allows a small business debtor to obtain a discharge on the effective date of the plan, provided the plan was consensual and approved under the new § 1191(a), which requires compliance with all of the consensual confirmation provisions in a typical chapter 11 case.
5. **Administrative expenses**
   Subchapter V permits the debtor to pay administrative expenses over the life of the plan.
6. **Eligibility is limited**
   As originally enacted, the eligibility for Subchapter V is restricted to a narrow group of debtors. The amount of noncontingent, liquidated, secured, and unsecured debt for a small business debtor was limited to $2,725,625.00. [31]*See* 11 U.S.C. § 101(51D) (2019). In response to the Coronavirus (COVID-19) pandemic, and only for the limited period of one year beginning March 27, 2020, Congress increased the debt limit for eligibility to $7,500,000.
7. **Trustee Fees**
   It is not clear how a trustee will be compensated under Subchapter V, and if such compensation will be adequate enough to encourage qualified professionals to serve as a Subchapter V trustee. In most federal districts, the U.S. Trustee has designated a pool of trustees in lieu of appointing a "standing trustee" even though a "standing trustee" was contemplated under the SBRA.

Industries Under Pressure



Source: *BankruptcyData*
Note: Bankruptcy counts include all public companies and all private companies with assets or liabilities > $50 million in their bankruptcy petitions.

Source: *S&P Global*
Note: The distress ratio is defined as the proportion of loans with bid prices below 80.

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Voting is one of the most influential civic activities we can engage in as Americans. At Onyx Partners Group, our mission is educating, consulting, and connecting people across the country. This November, one of the most important ways for you to help in connecting people is to engage in the democratic process.

Go to https://www.usa.gov/ to know and understand

When, Where, and How

to vote.

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Dental Practice: Unlocking the Private Value

The decision to sell or to buy into a dentist practice is just as intense as any other type of business. What makes a dentist practice unique is the individual practice itself. In this month's newsletter, we will spotlight – **Dental Practice** - things to consider and look out for when buying or selling a practice.

Dentist practices traditionally are owned by one or two dentists. When the dentist is ready to retire, the practice needs to be sold. Over the last several years, there has been an increase in the number of doctors joining or buying into a larger practice. But for the purposes of this newsletter, we will assume that your practice is either an individual or a partnership.

Much like most businesses, a dental practice goes through a business life cycle.

- Start up
- Growing
- High Growth
- Mature
- Declining

Regardless of where in the business cycle a practice may fall, there will come a time when a decision will be made to either outright sell your practice or seek a partner. In either case, there are several areas that should be considered when a dentist is making that decision. We will review four critical areas of a practice that should be reviewed before making the decision to either buy into a practice or if it is time to sell all or a percentage of the practice.

4 Critical Areas of Discussion

1. Revenue Stream
2. Client Base
3. Payment Structure
4. Office

Revenue Stream

Over the last five years, the dentist industry has gone through a significant growth spurt. Part of this growth may be attributed to the overwhelming awareness of oral hygiene in the United States. In addition to this new-found awareness, the industry has seen a spike in receiving more health insurance reimbursement as more people have greater access to insurance coverage.

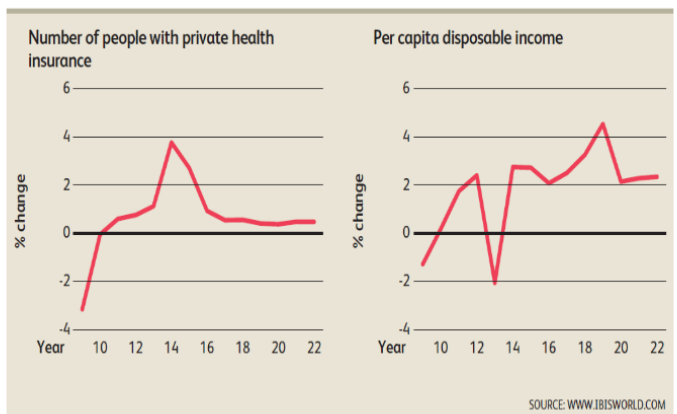
Commercial health insurance and government health programs have played an important role in the growth spike in the dentistry world. Those two programs pay a portion of the dental

With the increase in disposable income, it is expected that the dental industry will benefit from these rising levels. IBIS World Research anticipates, over the next five years to 2022, the number of people with private health insurance will level off while per capita disposable income will rise. According to the American Dental Association (ADA), lack of in insurance coverage is the top reason individuals forgo the dentist. As the government coverage continues, on a state by state basis, more individuals will have access to care, resulting in more visitations.

Client Base

Understanding the client base can sometimes be slightly tricky. As a rule of thumb, the demographics of the client base will often resemble the age of the Dentist, or the location of the practice. You could also determine the client base on whether the patients utilize either a Preferred Provider Organization (PPO) or Fee-For-Service. PPO is considered in the industry as the dominate revenue stream. However, depending on the Dentist, for example, if they are nearing retirement, regardless of the local area demographic, most of those patients will be closer in age to the Dentist. That being the case, those patients will be more likely to utilize the Fee-For-Service. Clients that are PPO, typically are in the age range of 30-50 years of age regardless of the demographic.

service; however, the patients are still responsible for a significant portion of their dental expenses. Patients that utilize publicly funding benefits such as Medicaid and Medicare find that it helps reduce the out of pocket expenses for dental services.



Payment Structure

Due to insurance reimbursement schedules that limit what a dentist may charge for a service, many dental practices operate on a Fee-For-Service basis. In this revenue model, a dentist will not participate, but will accept insurance plan revenue. When a dentist accepts an insurance plan, the dental office will bill insurance for the treatment provided and will bill the patient for the difference between the office's usual, customary, and reasonable (UCR) charges and the maximum reimbursement allowed by the insurance plan. Dental practices that have operated on a Fee-For-Service basis for a longer period, are perceived to be, more of a valuable practice than those that receive most of their revenue from PPO plans. Reason for this, dentist that are in the Fee-For-Service practice earns more revenue for providing the same services.

Office

After reviewing the revenue and profitability of a practice, the client base, and payment

have the luxury of having higher prices for their services. In 2017, dental visits and consultations accounted for approximately 32% of the total revenue, The American Dental Association suggest that patients visit the dentist regularly, located in an area to take advantage of those opportunities will certainly have a significant impact on the practice bottom line.

Conclusion

There are several important factors that go into understanding the value of a dental practice. In this article, we covered four critical areas but could have addressed areas such as, the skilled office staff, dental associates, hygienist, office manager, other types of revenue stream such as DHMO, and MCO and mix of services. My structure, the next valuable information that one should know is the office space and or facility of the practice. One of the largest expenses that a Dentist incurs is the building out and purchasing equipment. If your practice is in a good location,

structure, the next valuable information that one should know is the office space and or facility of the practice. One of the largest expenses that a Dentist incurs is the building out and purchasing equipment. If your practice is in a good location, meaning a location with a very diverse mix of ethnic, age and income, and have had high quality improvements, tend to be worth more than those practices that lack some of the above items.

Practices that are in higher economic growth areas, such as in the Northeast region of the U

typically about twice a year. This product segment includes basic dental services, such as cleanings, examinations, and consultations for potential treatment. Having your office strategically

meaning a location with a very diverse mix of ethnic, age and income, and have had high quality improvements, tend to be worth more than those practices that lack some of the above items.

hope is that these 4 critical points give you a sense of wanting to know your “next steps”. If you are interested in knowing more or learning more about how to value a dental practice and what things a Dentist have gone through either selling or buying into a practice, take the time to reach out to Onyx Partners Group and speak with a valuation expert for a business consultation. These meetings have proven to be extremely helpful for the Dentist in assisting with next steps and unlocking the practice true value.