

A background image showing two hands in white business suits shaking hands. The hands are positioned in the center of the frame, with the fingers interlaced. The background is a light, neutral color.

WELCOME TO SMALL BUSINESS SUCCESSION PLANNING “DEFINING YOUR LEGACY”

**HOSTED BY
UNDERHILL FINANCIAL ADVISORS, LLC &
WEALTHPOINT, LLC**

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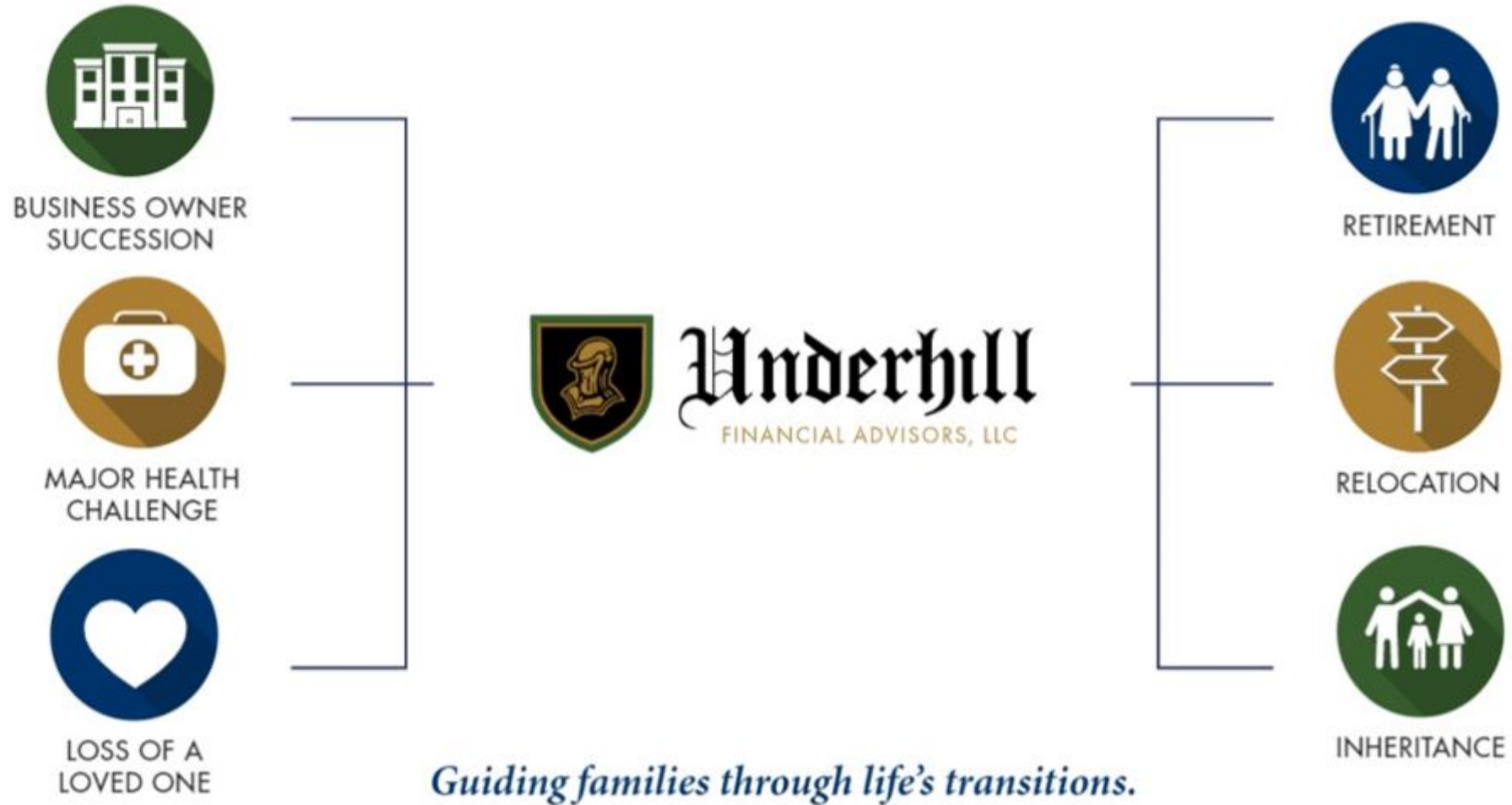
TODAY'S SPEAKERS



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TRANSITIONAL WEALTH PLANNING





OUR ADVISORY TEAM



5 RETIREMENT MISTAKES SMALL BUSINESS OWNERS MAKE

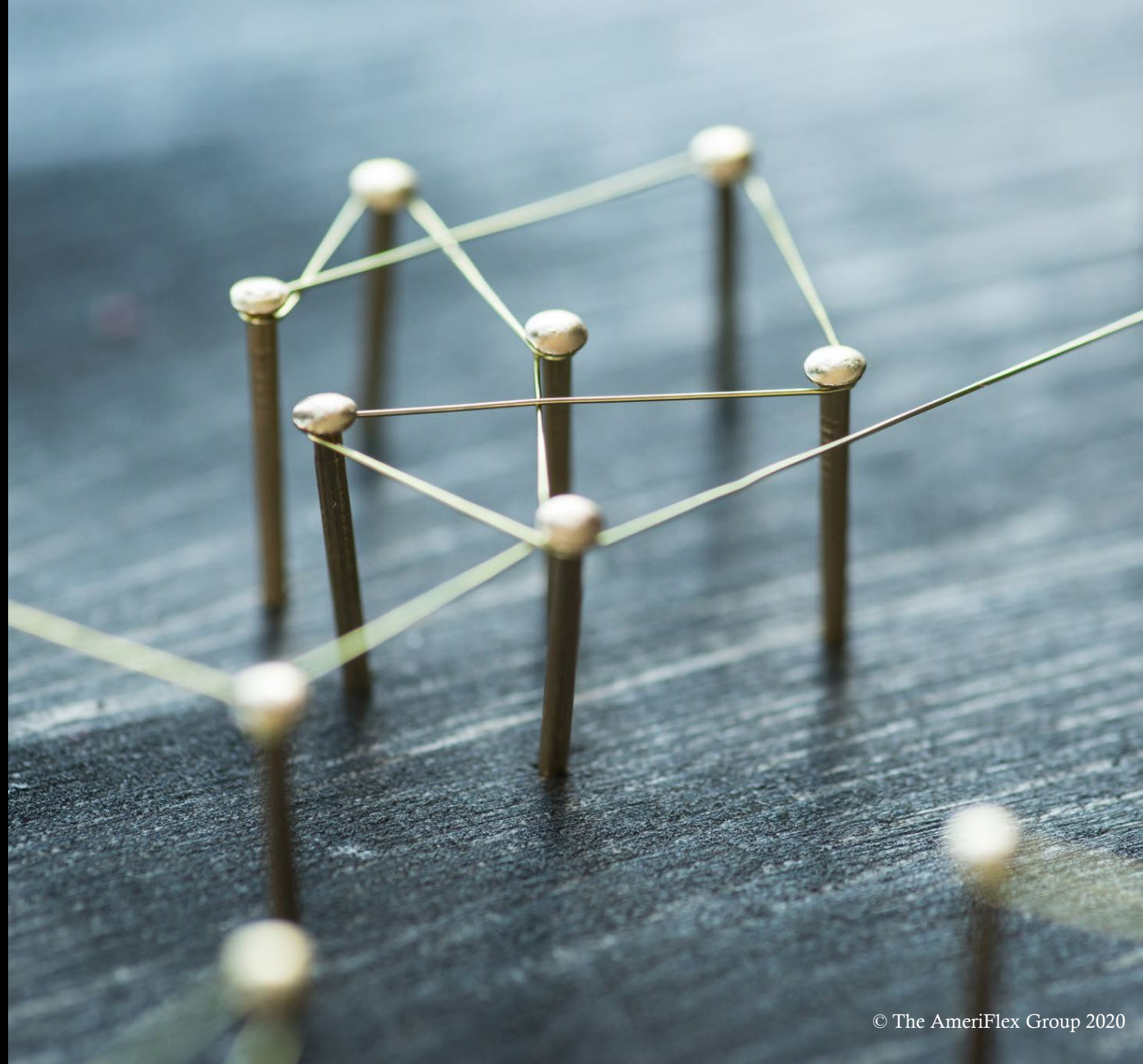
And How to Avoid Them



Underhill
FINANCIAL ADVISORS, LLC

Approved for 1-hr of Ariz. CPA C.E.

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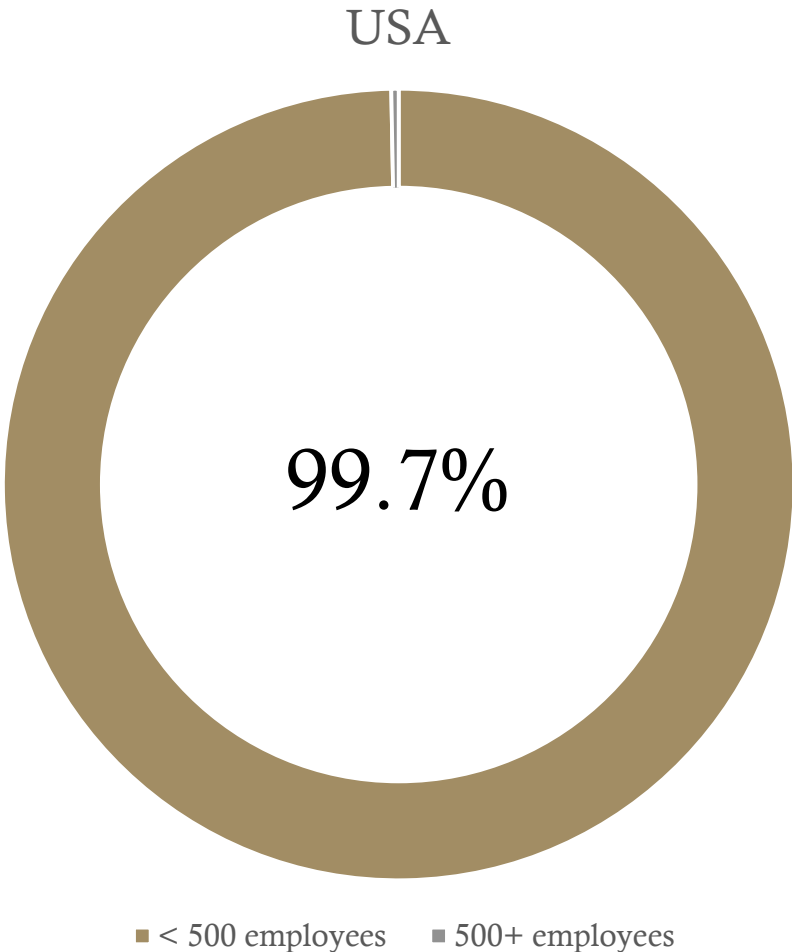


Eventually son, you'll be in charge of all this - assuming of course that I can't come up with any better alternative.

OUR MUTUAL CLIENTS

*How many of the
United States'
companies have
less than 500
employees?*

In the United States', 99.7% of all firms are comprised of small businesses with 500 or fewer employees.



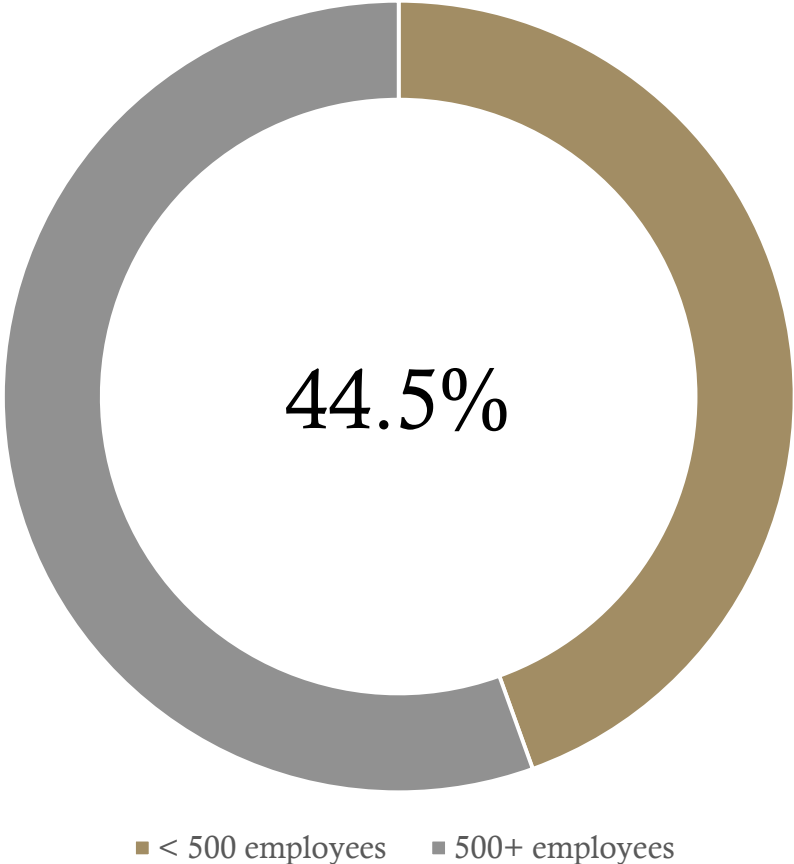
OUR MUTUAL CLIENTS

*What percentage
of Arizona's
private workforce
are employed by
firms with less
than 500
employees?*

Arizona has more than 550,000 small businesses with less than 500 employees, representing about 44.5% of the state's private workforce.



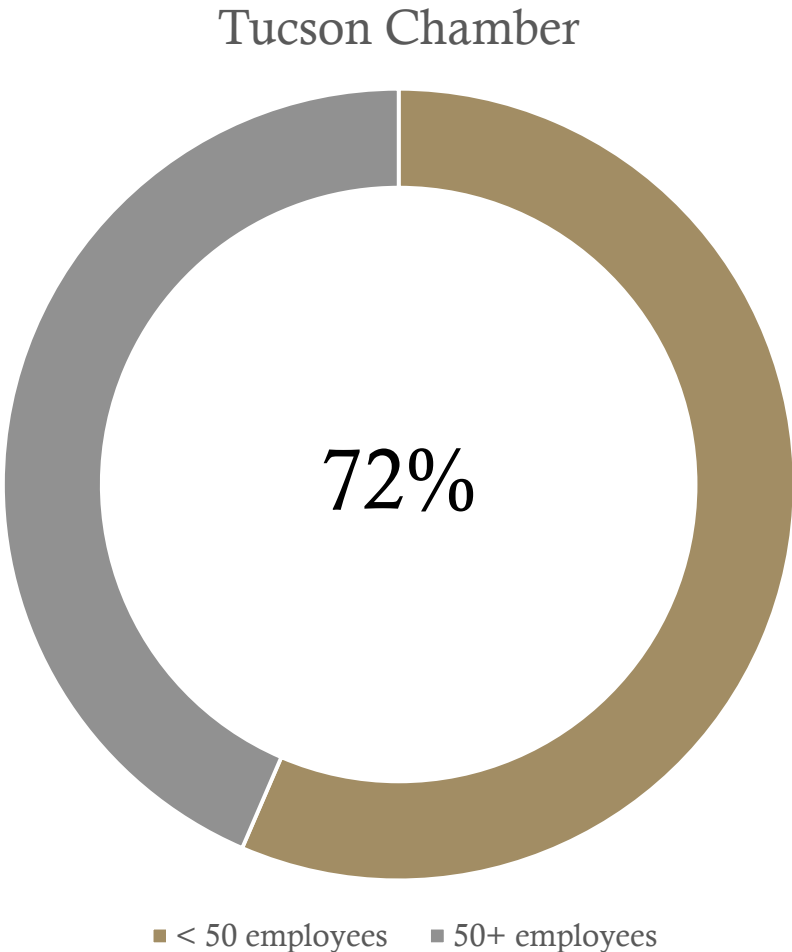
Arizona's Private Workforce



OUR MUTUAL CLIENTS

*What percentage
of Tucson's
chamber members
employ less than
50 employees?*

Over 72% of the Tucson Metro Chamber's membership are companies with less than 50 employees.



5 RETIREMENT MISTAKES SMALL BUSINESS OWNERS MAKE

MISTAKE 1: LACK OF PLANNING

- 34% of respondents of one survey said they have no retirement strategy.
- While 12% of the same study have no plans to retire at all.



WHAT CLIENTS CAN DO NOW

- **Help clients define their ideal retirement.**

- Do they want to take additional time off to enjoy longer vacations or take every other Friday off?
- What lifestyle do they hope to enjoy in their later years?

- **Build strategies to address retirement concerns.**

- Analyze gaps between current assets and income needed to achieve that lifestyle

- **Regular check-in's**

- Don't allow the busy life of business ownership keep clients from staying on track.

MISTAKE 2: NOT DEFINING A TRUE EXIT

- Nearly 1/3 of US businesses survive to the second generation.
- While 12% survive to the third.
- Jim's Family Background
 - Family Owned Construction Engineering Business with 1 Partner
 - No succession plan
 - Late 1970's – Rising Inflation and Interest Rates put business on hold
 - Limited Liquidity & Bank's reduced working capital LOC
 - Resulted in Early Closure of Business due to economic downturn



WHAT CLIENTS CAN DO NOW

- **Define an Exit Strategy**

- Do you want to sell the business outright? Pass it to the next generation? Find outside successor?

- **Determine the real value of the business**

- Calendar future revaluations depending on time to the ideal retirement date.

- **Develop a strategy for the key employees – and implement it!**

- The exit strategy may require clients to hire new employees to help with the transition, adjust the business service offerings based on the new trajectory, or implement other changes.

MISTAKE 3: MY BUSINESS = MY RETIREMENT SAVINGS

- 61% of respondents a recent survey claimed that preparing for retirement makes them feel stressed.
- Diversification Deficiency
- Example: Relative who was a Partner of Arthur Andersen
 - Except for a modest 401k, all retirement savings in Arthur Andersen stock
 - Arthur Andersen went out of business in early 2000's, stock went to \$0 in 2 months (Stock was frozen - Partners were unable to liquidate stock)
 - Forced client to start over: formed boutique consulting firm



WHAT CLIENTS CAN DO NOW

- **Balance personal and professional finances when there is free cash flow**
- **Explore available tax-minimization and retirement-saving tools with their team of advisors (and you)**
- **Maintain a disciplined savings approach**
- **Ask clients:**
 - Would you and your family be able to enjoy a comfortable retirement without your current income or profits from selling your business?
 - If you had cash today and were looking at investing it, would you invest the amount you have in your company now?

MISTAKE 4: NOT EVALUATING PERSONAL RISK

- In effort to save money, some small business owners don't carry any insurance at all.
- Lack of Buy/Sell Agreements or LT Disability Insurance
- Example:
 - Private Design and Build Firm with 300 Employees
 - Owner had health issues, and became permanently disabled
 - No buy/sell agreement in place at the time
 - No formal succession plan in place
 - Result: Business ceased to exist



WHAT CLIENTS CAN DO NOW

- **Analyze current coverages. Clients often addressed life or disability insurance years ago.**
 - At a minimum, we review policies with clients annually to confirm if current coverage fits their exit plan.
- **Address family life insurance needs. Calculating total debts and expenses to confirm if the proceeds would be sufficient if the businessowner were to pass away prematurely.**
- **Work with a professional to determine how life insurance might be able to help support both business and personal needs.**

MISTAKE 5: LACKING A TEAM FOR SUPPORT

- Over 60% of small-business owners report that regulations negatively impact their growth.
- Recent example of confusing legislation:
 - SBA Loans in the CARES Act (Forgivable or Non-Forgivable)
- Business Example:
 - Family Business: Highly Regulated International Business
 - Husband/Founder ran all aspects of business with small staff
 - Spouse takes over business ownership after husband passed away
 - Existing Support Team was limited to CPA
 - Needed help to
 - 1) determine if she wants to run company or
 - 2) wants to sell business

WHAT CLIENTS CAN DO NOW

- **We will develop a team of advisors who want to (and actually do) collaborate. Our mutual clients need at team of Advanced Credentialed Professionals:**
 - ❖ CPAs
 - ❖ Estate and Business Attorneys
 - ❖ Certified Financial Planners® (CFP®)
 - ❖ Certified Exit Planning Advisors (CEPA)
 - ❖ Valuation Specialists
 - ❖ Exit Strategy Experts
- Aligning a client's financial life requires an understanding of its many facets. Make sure the team is working off the same clear picture of a client's exit strategy.
- Host an annual dress rehearsal to be sure all professionals (and key decision-makers) are on the same page.

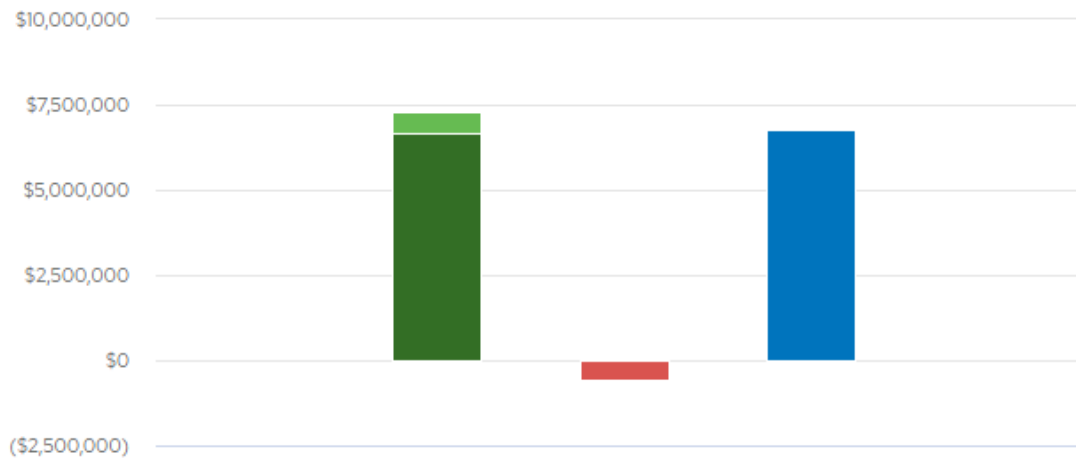
THE BIGGEST QUESTION

How do I avoid
running out of
money in
retirement?

STEP 1: BALANCE SHEET MGMT PRE & POST BUSINESS SALE

Summary

Detail










Show Category Details

Investment Assets	\$665,000
Employer Retirement Plans	\$445,000
Taxable and/or Tax-Free Accounts	\$150,000
College Saving Plans	\$70,000
Other Assets	\$6,650,000
Home and Personal Assets	\$650,000
Business and Property	\$6,000,000
Total Assets	\$7,315,000
Liabilities	(\$550,000)
Personal Real Estate Loan	\$300,000
Business Loan	\$250,000
Net Worth	\$6,765,000

STEP 2: IDENTIFY & PRIORITIZE GOALS

Tim & Katie's Goals

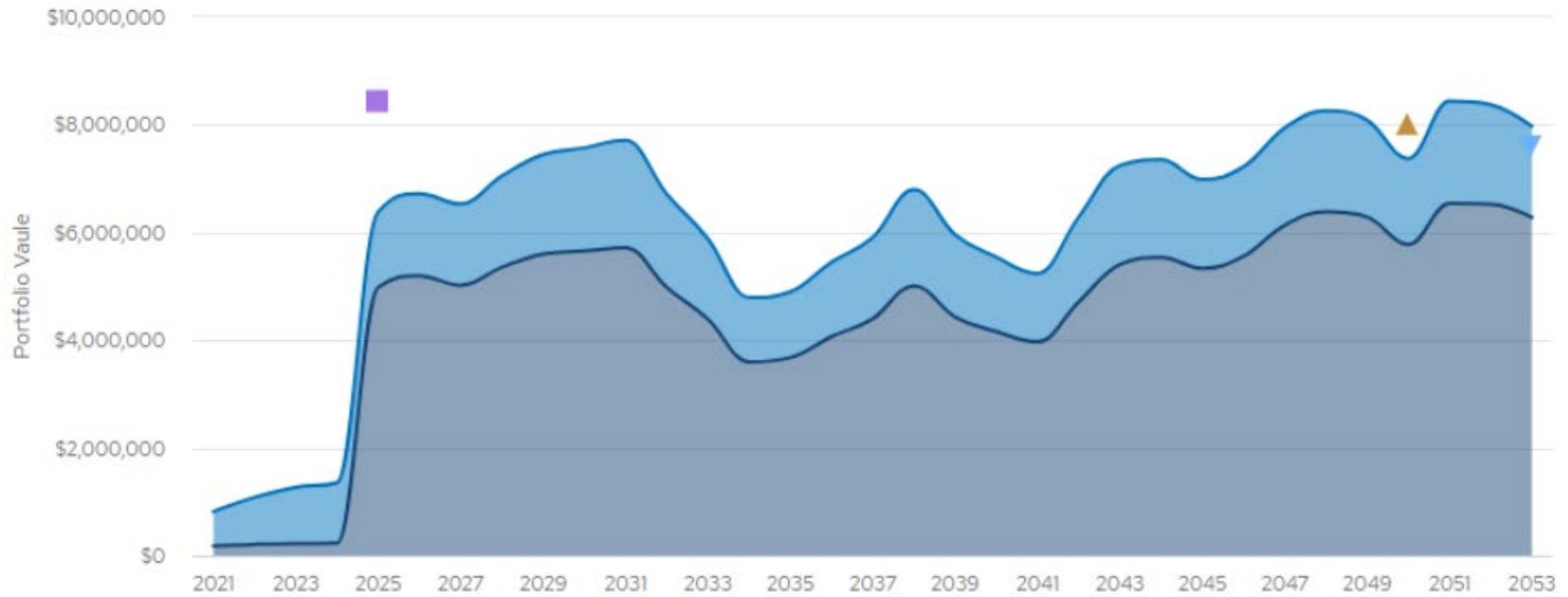
Needs	Wants	Wishes
 Retirement - Basic Living Expense	 Wedding	 Cabin
 Travel	 Wedding	
 Health Care	 Gift or Donation	

PORTFOLIO VALUE USING MONTE CARLO SIMULATION

Portfolio Value Graph ?

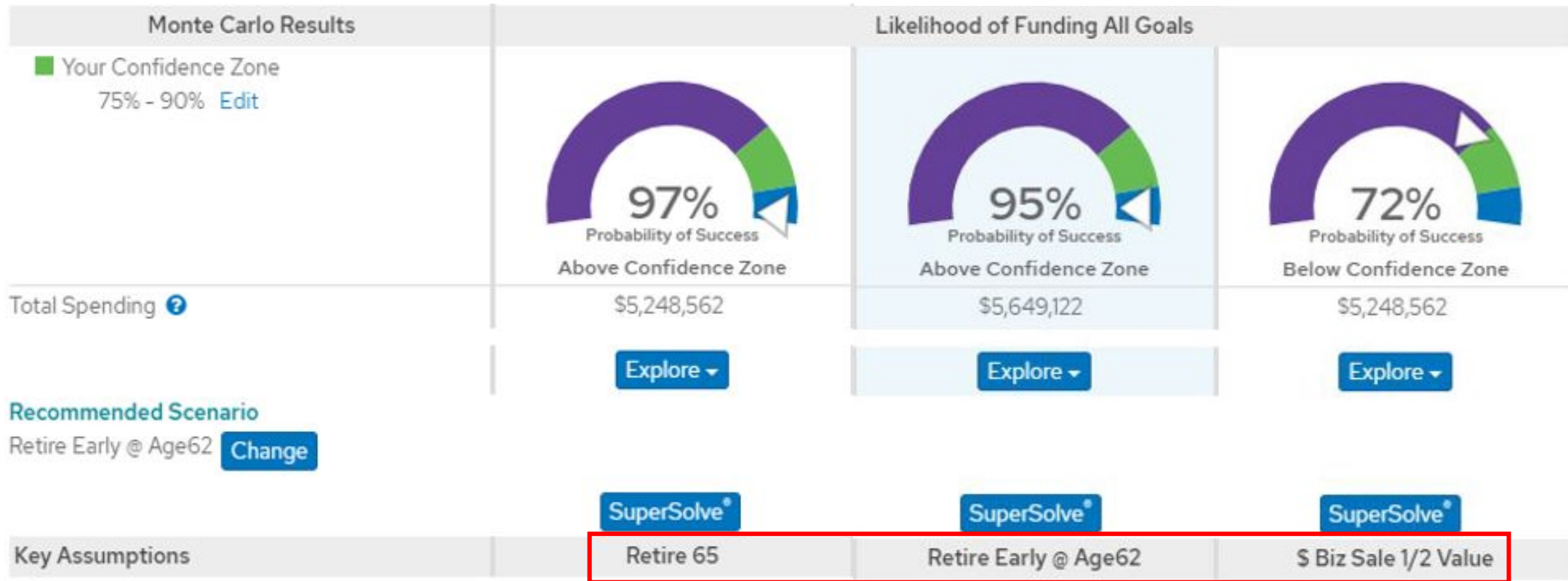
Stack

Overlap



Tax Categories and Ending Values

STEP 3: DETERMINE PROBABILITY OF SUCCESS



STEP 4: BUILD A ROADMAP FOR RETIREMENT

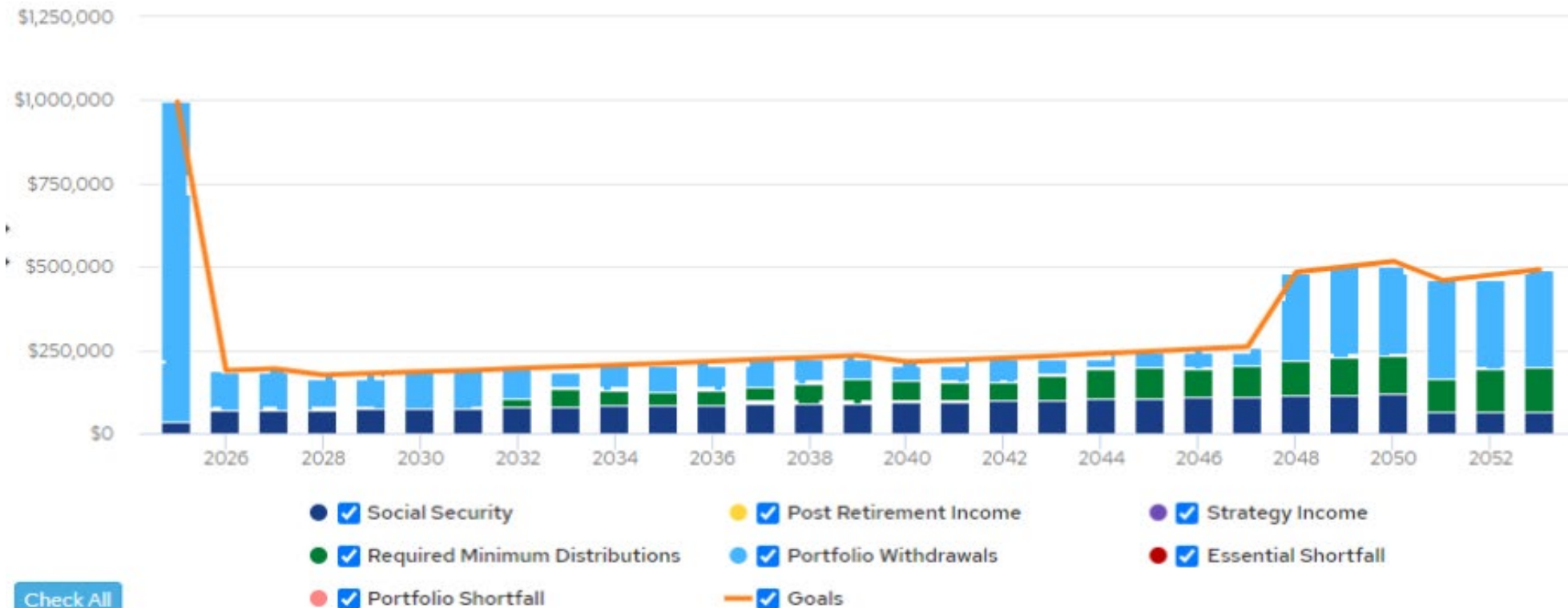
Total Income Analysis ?

Cash Flow

Probability

Secure Income

Return to Recommended ↑



Lifetime Income Sources ?

Surplus

\$3,911,626



Values are in Current Dollars

MONTE CARLO SIMULATION DISCLOSURE

The projections or other information generated by this Monte Carlo simulation regarding the likelihood of various investment outcomes are hypothetical in nature, do not reflect actual investment results and are not guarantees of future results.

There is no guarantee that the results generated by this simulation will be achieved or sustained, and results may vary with each use and over time. Actual results vary with each use over time and may be better or worse than those previously generated.

ASSEMBLING THE RIGHT TEAM



ESTATE PLANNING
TEAM

OTHER
PROFESSIONAL
Business Succession
Strategist

WEALTH MANAGEMENT
PROFESSIONAL



LEGAL
PROFESSIONAL

TAX
PROFESSIONAL

DISCLOSURES

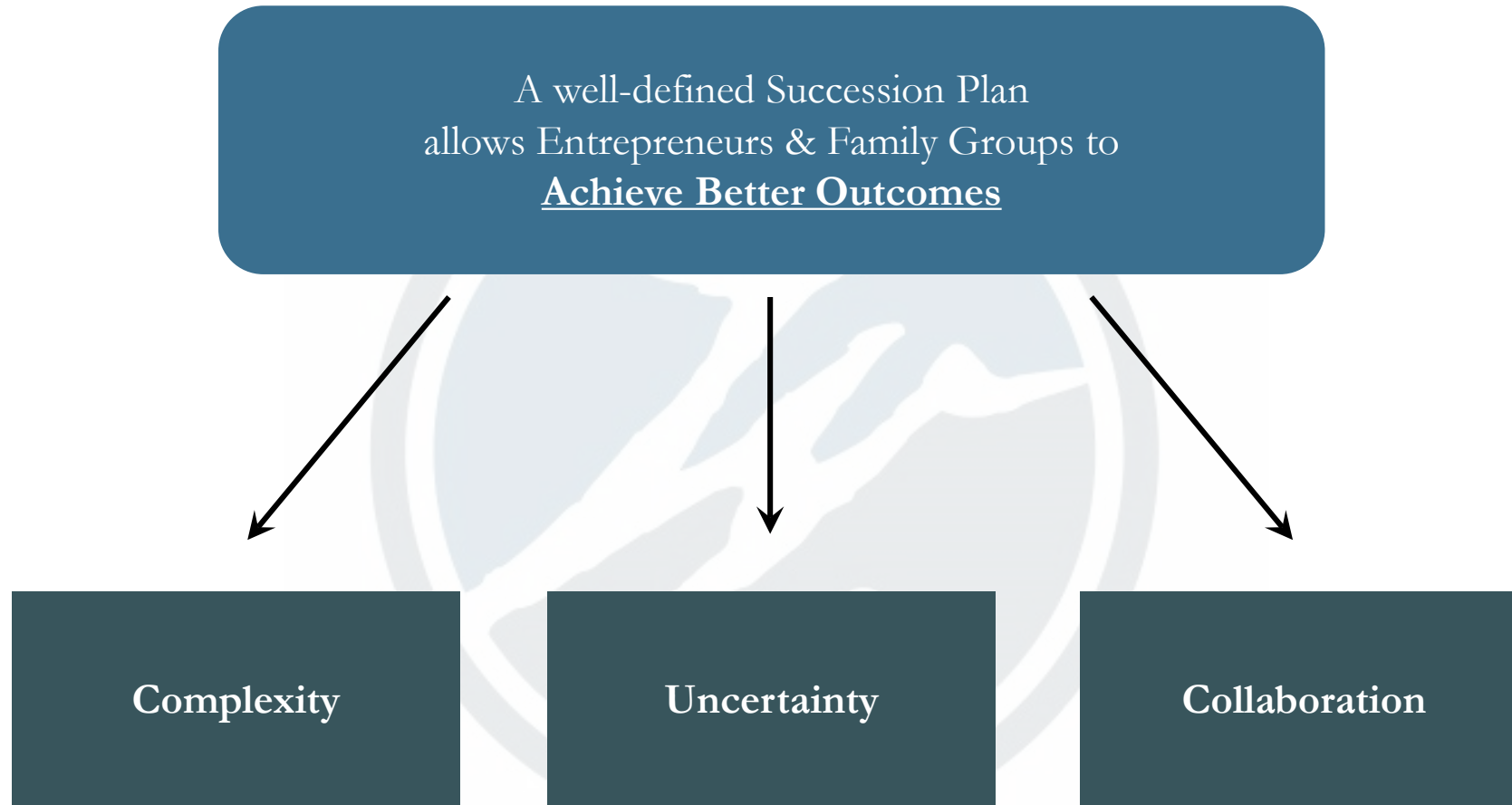
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“Why, How and What” of Succession Planning

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- ④ What, Why, Who and How of Succession and Exit Planning
 - ④ What are the “Hurdles” and “Pitfalls” to be aware of?
 - ④ Why and where does planning get stuck?
 - ④ Learn from those who have gone before us.
 - ④ How do I get started?
-

- ④ What is Succession/Exit Planning?
 - Owner becomes financially independent of operating asset
 - Operating asset becomes operationally independent of the owner

 - ④ Why do Exit/Succession Planning? Everyone will exit their business some day...
 - Death
 - Disability
 - Voluntary sale
 - Retirement
 - Bankruptcy/Orderly liquidation

 - ④ Change the game
 - Move from “planning” process to “decision making” process
 - Must focus on value protection AND value creation
 - Can’t just be defensive

 - ④ Must get over three key “relational or family” hurdles and avoid a few common pitfalls
 - “Family first business” to a “business first business”
 - Evolving from a Entrepreneurial to a Professionally-Managed Business
 - Address succession at all 5 levels
-

HURDLE 1: MOVE FROM FAMILY FIRST TO BUSINESS FIRST COMPANY

Family First

- ⌘ We'll find a place for all family members
- ⌘ Equal pay for all – no direct accountabilities
- ⌘ Business resources used for family perks
- ⌘ Leadership is bestowed
- ⌘ Do whatever avoids family conflict
- ⌘ Longevity in family business important
- ⌘ Only “insiders” on Board

Business First

- ⌘ If family is qualified and experienced, they can join
- ⌘ Compensation based on position and performance
- ⌘ Business resources used strategically
- ⌘ Leadership is earned
- ⌘ Clear boundaries; process to address conflict
- ⌘ Skills, experience and track record more important than longevity
- ⌘ Strong outside influences on Board



HURDLE 2: ENTREPRENEURIAL TO PROFESSIONALLY-MANAGED BUSINESS



HURDLE 3: MUST ADDRESS “SUCCESSION” ON ALL 5 LEVELS

⌘ Ownership

⌘ Management

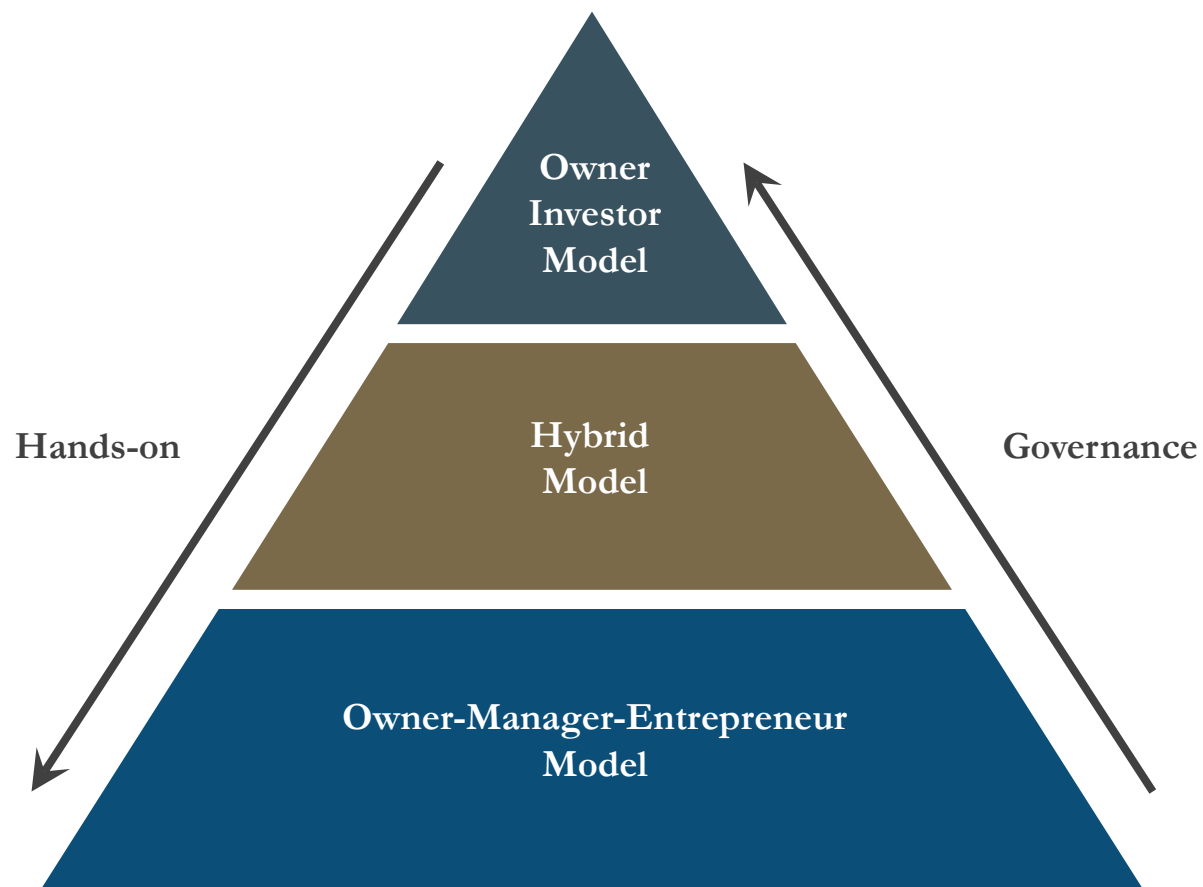
⌘ Relationship

⌘ Cultural

⌘ Leadership

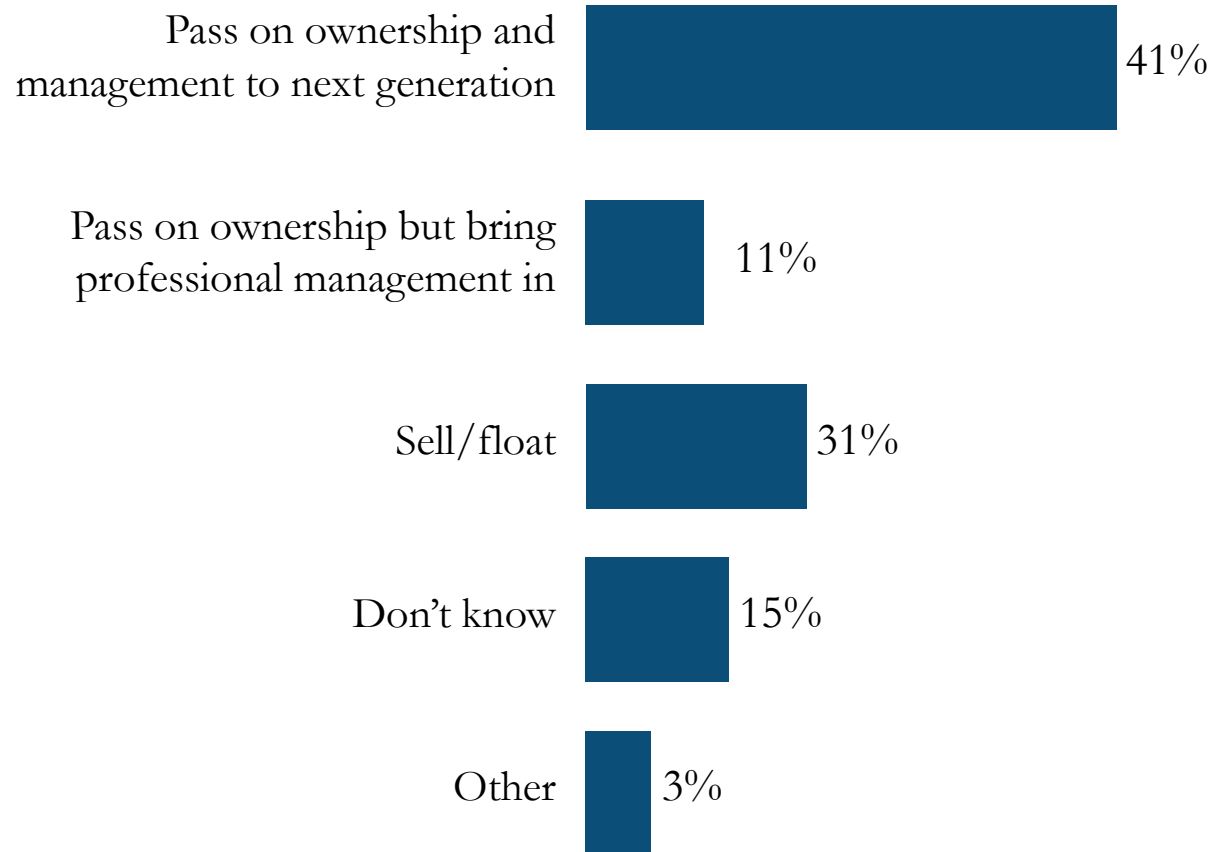


Generational Business Differences



Ownership Succession

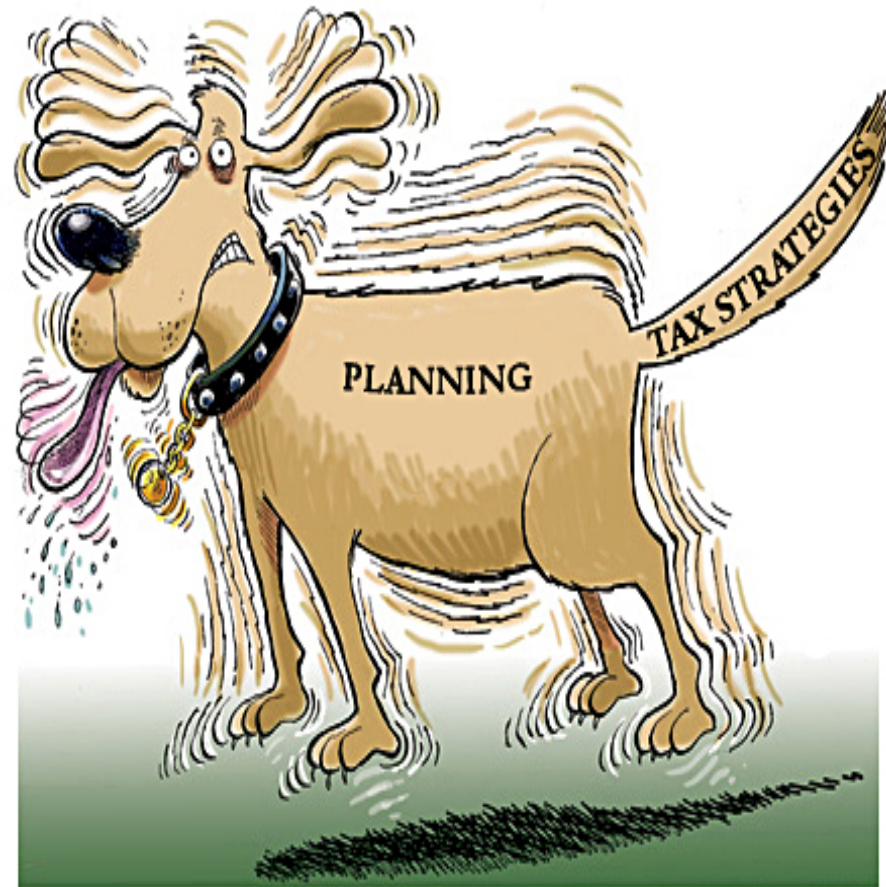
**Fewer than half of family businesses plan to pass the business fully
(ownership and management) to the next generation.**



- ⌚ Family financial security?
- ⌚ Keep in the family or sell?
- ⌚ Does planning need to be coordinated with siblings, cousins, or other partners?
 - How to involve the family in the decision process?
- ⌚ Will your professional advisors push on sensitive issues? Conflicts?
 - Mom and Dad's advisors?
- ⌚ Lifetime transfers – when and how much?
- ⌚ Change of control (family) – when?
- ⌚ Management issues – who will run?
- ⌚ How will family “glue” be maintained?

These are all emotional issues -- not tax, business or investment issues.

- ⌚ Recaps
- ⌚ Valuation Discount Planning
- ⌚ GRAT (Grantor Retained Annuity Trust)
- ⌚ Lifetime Use of Unified Credit
- ⌚ Lifetime Sales (to a Defective Trust)
- ⌚ New Entities/NewCo
- ⌚ FLPs (Family Limited Partnership)
- ⌚ Non-qualified retirement plans
- ⌚ ESOPs

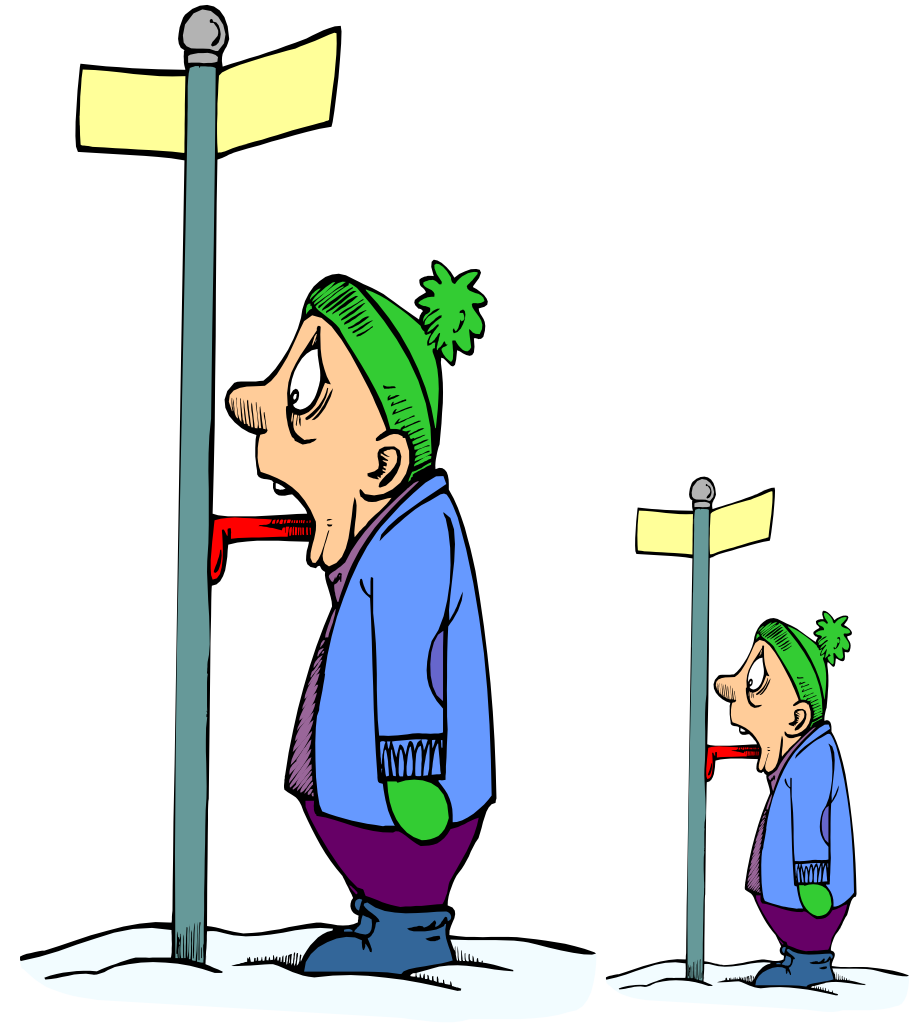


Management Succession.

REQUIREMENTS FOR NEXT-GENERATION TOP MANAGERS

- ④ Background and qualifications of candidate(s)
 - ④ Difference between knowing the job and knowing the company
 - ④ Trust and respect between long-term key execs and next-generation family
 - ④ Managed a particular project to a successful conclusion
 - ④ Understands the “numbers”
 - ④ Strategic thinking skills
 - ④ Communication and relationship skills
 - ④ Ability to “Lead”
-

- ⌘ They ignore family dynamics
- ⌘ They ignore basic business issues
- ⌘ They are primarily estate and/or income tax-driven
- ⌘ They rely upon the owner(s) to drive implementation
- ⌘ They fail to address the “void” left by the involvement in business
- ⌘ Too many moving parts (complex)
- ⌘ They don’t involve “the next generation”
- ⌘ They don’t involve “the key employees”
- ⌘ Everyone wants to avoid confrontation
- ⌘ There is no way to measure success



Become Aware

- Understand all stakeholder objectives
 - Define where each stakeholder is today and where they want to go
- Identify the intended solutions and any unintended consequences

Gain Alignment

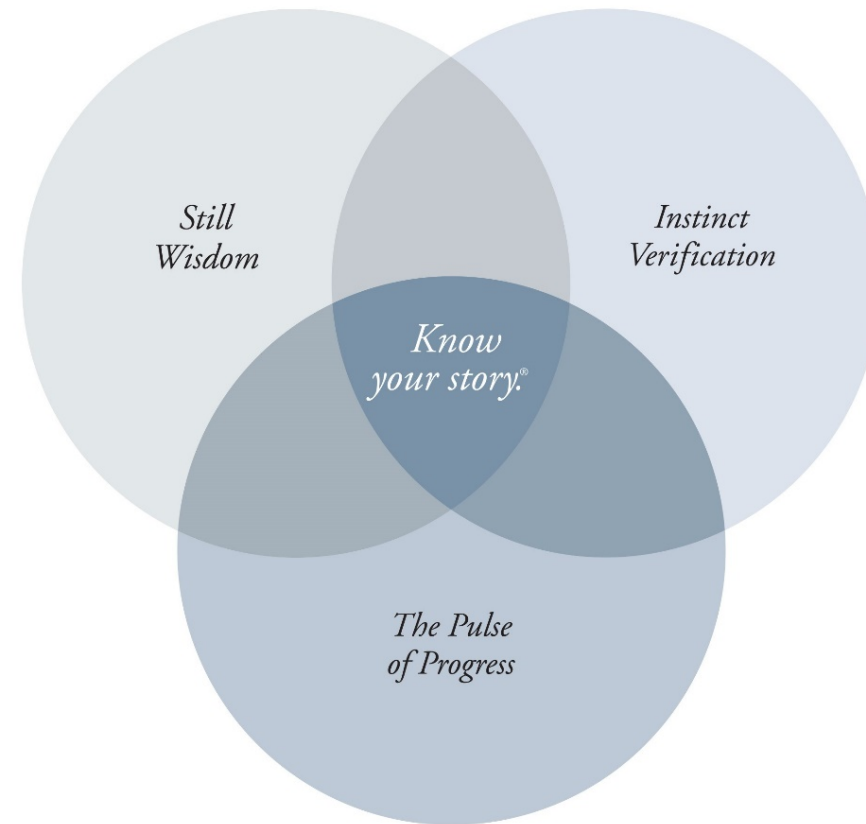
- Ensure all stakeholders are moving in the same direction
- Advisory team must shift from communication to true collaboration
 - Present “one voice” to the stakeholder group

Take strategic Action

- Manage the list of projects and tasks to ensure planning is being completed

Must Assess progress

- Anything meaningful can be measured
-



Know your story.[®]

QUESTIONS?

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