

Family Business Transition Strategies That Turn Conflict into Opportunity

The Beringer Group

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Format

- Introduction by Barbara Spector, Family Business
- Time for questions (enter them from your computer using the “Ask a Question” button) **during** and **after** the presentation
- 60 Minutes
- Presentation and supporting material will be emailed to all participants after the webinar

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Today's goal: give you concrete ideas about your business

“Every business is in transition”

- Transition to
 - Third party
 - Family members
 - Employees and management
- Three Case Studies:
 - Owner executed a successful transition
 - 100 year old company thriving
 - Family business still controlled by family, partially controlled by employees
- Q & A

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Transition Causes Conflict

- Conflict with family
- Conflict with inactive shareholders
- Conflict with active shareholders
- Conflict with employees/management

SINCE CONFLICT IS INEVITABLE, the key is to manage the process and seek the solution that fits best



“All Businesses are in Transition”

Eventually, current ownership of all businesses will change. If your company is successful, one of these three transitions will happen:

- Third party (strategic or financial)
- Family
- Management



Process

- Keep/Sell?
- Valuations drive decisions
- Can you afford to sell?
- Are you in a position to sell?
- Shareholder and stakeholder alignment?
- Timing?



Transitional Issues to a Third Party

- Business disruption
- Closing is subject to overall economic issues
- Taxes usually not considered by financial buyer and often not by the seller
- Length of employment contract and non-compete for seller
- How will the third party incorporate the current employee base, and is that important?
- “Things will be the same after the acquisition”
- What ends the economic game for your family?



Transitional Issues to Family Members

- Who will run, family member or outside management?
- Control?
- Active vs. inactive shareholders (expectations vs. reality)
- Fair vs. equal
- Non-alignment of business future



Transitional Issues to Family Members (con't)

- Inactive looking for financial security from the business
- Active wants capital for growth, not dividends
- Should actives consolidate ownership?
- For first generation owners, is their equity becoming a liability?
- Valuation expectations



Transitional Issues to Employees and Management

- Structure
 - Seller paper
 - Bank financing
 - Managed recapitalization
 - ESOP
- Is the current management team strong enough?
- Are there active family members who are not part of senior management?



Process

- Consider splitting stock into voting and non-voting
- Don't start with valuation, it can create false expectations which can't be financed
- Internal buy out: find out what bank will lend, get expectation of valuation from those being bought out
- If there are numerous shareholders beside family members, buy out sooner rather than later. Impediment to outside sale



Process (con't)

- Valuation is an art, not a science
- A solution often discussed, but rarely acted upon, is an ESOP
- Evaluate a partial buy/out which provides capital and can increase future value
- In the old world, you had to sell the controlling interest
- In the new world, there are buyers who will purchase less than 50% of the company

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Case Study I

- Two family ownership
- One family buys out the other
- 2 brothers, conflicting objectives for how to exit
- G.M. turned the company around
- G.M. became the exit strategy: he bought out the brothers and the families are both happy
- Company has been successful
- New goal: transition to employees



Case Study II

- 100 shareholders, 3 prime families, 100 year old company
- Now one family
- Plan: transfer and not sell or go public
- Method:
 - Buy out shareholders
 - Capital – real estate & debt; no outside money
 - Buyout accomplished internally
 - Debt repaid
 - Company successful
 - Inactive shareholders happy with result
 - Third generation transitioned into full management

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Case Study III

- Parents founded rapid growth company
- 3 kids in their 30's, 2 active, 1 inactive, fight over who should be CEO
- Parents were concerned about community standing and family conflict
- Parents transitioned stock to children and “equalized” between active/inactive children, CEO fight still a problem
- Evaluated all transition options. Sale to third party would have negative impact on employee group. One active wished to remain with the company as CEO, other 2 wanted to cash out
- Ultimately decided to set up an ESOP and 2 kids cashed out. The third remained as president and bought back into the ESOP with a portion of his proceeds
- Company and family are a vibrant part of the community, all family members are happy



Wrap up

- “All businesses are in transition”
- We went through this process. We sold our company to a third party, and restarted after the sale
- Transition will not be successful without planning
- Conflict management and resolution are the only ways transition can be successful



Wrap up (con't)

- Start with keep or sell or grow
- Determine financial needs for family
- Determine social needs for family
- It is never too soon to start analyzing: you don't want the last buggy whip company
- Set your goals and be flexible
- “Hope is not a plan”





Today's Speakers



**THEODORE A.
BERINGER**
Chief Executive
Officer, The Beringer
Group



GERRY MURAK
President and CEO,
SoPark Corporation



**CHRISTOPHER M.
BERINGER**
President, The
Beringer Group



JOHN W. LEIGHBODY
Managing Director,
The Beringer Group



Speaker Bios

THEODORE A. BERINGER

Ted founded The Mid-Atlantic Companies, Ltd. in 1979 with the mission of serving the financial needs of private and closely held business owners and their families. Mid-Atlantic grew to become a national firm with more than 100 employees and offices throughout the U.S. In 1998 Mid-Atlantic's operations were acquired by First Union Corporation (now Wells Fargo.) In early 2000, Ted, his family, and a few select partners established The Beringer Group, a company providing business owners with transition, corporate development, and liquidity options. He specializes in the “keep/sell” discussion and its impact on the family business. Ted is a graduate of the University of Buffalo and holds a Master's Degree from the University of Oklahoma.

CHRISTOPHER M. BERINGER


Chris has been advising private businesses with intergenerational issues since 2004, when he joined The Beringer Group after working for AIG. He became President of The Beringer Group in 2010. Chris has direct experience in providing business owners with transitional planning in all stages of corporate life, from aligning personal and business plans to evaluating exit plan options. Chris also is responsible for strategic family enterprise oversight. He is a graduate of Villanova University.

GERRY MURAK

Gerry is currently the President and CEO of SoPark Corporation, an award winning electronics manufacturing services provider. Earlier in his career, he turned around the performance of a Fortune 500 in two different locations, as well as a “Top 100 WNY Corporation.” In 1991, he started his management consulting firm, Murak & Associates, LLC. Gerry is also the founder, President and CEO of Precision Scientific Instruments, Inc. He has served as adjunct business faculty for the University at Buffalo, Cornell University School of Industrial and Labor Relations, and Daemen College.

JOHN W. LEIGHBODY

Previously with Prudential-Bache and The Mid-Atlantic Companies, Ltd, John has been providing business owners with transition, corporate development and liquidity options for over 30 years. He has been successfully navigating these issues with The Beringer Group since 1987, and is a graduate of Westminster College.



Contact us....

- Our website is: www.theberingergroup.com
- Phone: Ellen Pierce at 610-293-2020
- Email: epierce@theberingergroup.com

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