

FAMILY BUSINESS CENTER | JUNE 2019 WEBINAR

Strategies for Monetizing Private Shares Without Losing Control



QUINLAN
SCHOOL of BUSINESS

Today's Experts



Laura Clark
Managing Director Oxford
Financial Group, Ltd.



Stephanie Van Vlerah
Managing Director
Oxford Financial Group, Ltd.

Strategies for Monetizing Private
Shares Without Losing Control

**LOYOLA FAMILY BUSINESS
CENTER WEBINAR**

June 4, 2019



Presented By:

Laura J. Clark, CFA, Managing Director and
Stephanie A. Van Vlerah, CFP®, MBA, Managing Director

Thoughtful. Insightful. Committed.



STRATEGIES FOR MONETIZING PRIVATE SHARES WITHOUT LOSING CONTROL

TODAY WE WILL ANSWER THE FOLLOWING QUESTIONS

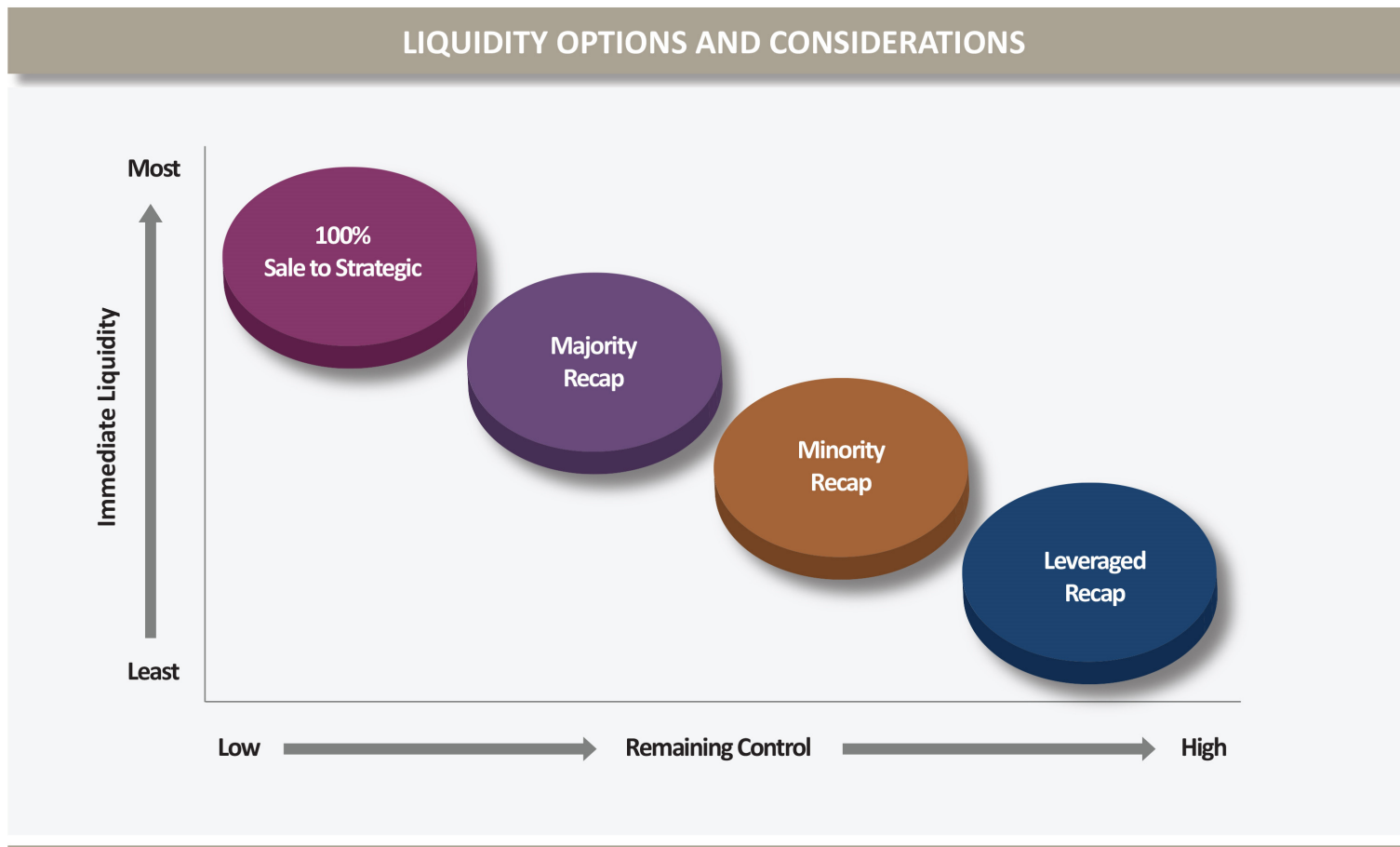
- How can you, as a shareholder in your family business, create liquidity without disrupting the success and legacy of the family business?
- How can your business fund growth capital on potential strategic acquisitions if the business isn't creating the necessary cash flow?





OPTIONS FOR LIQUIDITY

A “recap”, or recapitalization, is loosely defined as a reshuffling of capital structure (equity and/or debt) within an entity and includes a sale of stock by existing shareholders where no new shares are being created.





SALE AND RECAPITALIZATION CONSIDERATIONS

	100% SALE	MAJORITY RECAPITALIZATION	MINORITY RECAPITALIZATION	LEVERAGED RECAPITALIZATION
	Sale of all stock or assets to a financial, or more typically, strategic buyer	Sale of controlling equity stake by shareholder(s)	Sale of minority equity stake by shareholder(s)	Replace some equity with debt
Potential Benefits	<ul style="list-style-type: none"> • Maximize upfront liquidity • Expertise and outside capital for the business • Flexible post-transaction options • Typically minimal post-closing responsibilities for seller 	<ul style="list-style-type: none"> • Retain minority equity and options • Valuable new business partners and capital • Accelerated growth potential • Possible premium for change of control • Second liquidity event possible 	<ul style="list-style-type: none"> • Outside capital for growth and acquisitions • Retained control • Valuable new business partners • Preserves upside potential with second liquidity event possible 	<ul style="list-style-type: none"> • Liquidity event via dividends • Limited process • No change of control • Retain 100% of the future upside
Potential Risks	<ul style="list-style-type: none"> • Loss of control for seller • New management and culture for remaining employees • Limited or no participation in future performance 	<ul style="list-style-type: none"> • Loss of Board control • Adjusting to new partners • May require meaningful levels of debt • Majority owner enjoys most upside potential 	<ul style="list-style-type: none"> • Offers less upfront liquidity • Adjusting to new partners • Lower valuation due to minority discounts 	<ul style="list-style-type: none"> • Leverage risk and growth constraints • Less liquidity typically • No premium for change of control • Personal guarantees may be required for senior debt recap



OVERWHELMING SCOPE OF TRANSFER OPTIONS

EXIT STRATEGY	POSSIBLE TRANSFER TECHNIQUES	VALUATION, FUNDING AND OTHER CONSIDERATIONS
<p>Transfer of Interest to Family Member</p>	<ul style="list-style-type: none"> • Partial or total gift of interest during life • Bequest of interest at death pursuant to terms testamentary documents • Installment Sales or Self-Cancelling Installment Notes (SCINS) • Family Limited Partnerships or LLCs • Sales of interest pursuant to terms of Buy-Sell or Cross Purchase Agreement • Stock redemptions • Transfers pursuant to various Trust vehicles (through beneficiary designations) <ul style="list-style-type: none"> ○ GRATs (Grantor Retained Annuity Trusts); Sales to IDGT (Intentionally Defective Grantor Trusts); ILITs (Irrevocable Life Insurance Trusts); Split Interest Charitable Trusts (Charitable Lead or Remainder Trusts) 	<ul style="list-style-type: none"> • Voting versus non-voting shares • Separating control from taxable value • Valuation discounts for minority interest and lack of control marketability • IRS scrutiny of intra-family sales arrangements • Requirements of arms length terms – AFR rates • Adequate grooming of successor management team • Funding considerations – Life insurance, financing and installment arrangements • Entity structure / possible conversion
<p>Transfers to Key Employees, Partners or Co-Owners</p>	<ul style="list-style-type: none"> • Installment Sales Agreements • Management Buy-Outs • Employee Stock Option Plans (ESOPs) • Leveraged Buy-Outs (LBOs) • Buy-Sell, Cross Purchase and Hybrid Agreements, Stock Options 	<ul style="list-style-type: none"> • Funding considerations • Key Man Life Insurance, Financing arrangements, Installment terms • Third party appraisals • Clarity in valuation provisions
<p>Sale to Strategic Buyer, Private Equity Firm or the Public</p>	<ul style="list-style-type: none"> • Mergers • Acquisitions <ul style="list-style-type: none"> ○ Asset Purchase Agreements ○ Stock Purchase Agreements • Recapitalizations (restructuring of debt / equity mixture) • Sale of controlling or substantial minority position to Private Equity Firm • IPO – shares offered to the public through public offering 	<ul style="list-style-type: none"> • Entity structure and possible conversion • Negotiated valuations • Window dressing and maximizing IBITDA (earning before interest, taxes, depreciation and amortization, a measure of a company’s ability to produce income in a given year)



WEALTH PLANNING ISSUES FOR SHAREHOLDERS

- Numerous options for exit and diversification strategies and transaction financing.
- Tax considerations and certain elections can address Buyer/Seller polarity.
- Preparation for capital gains recognition: plan to pay, delay or mitigate.
- Disinheriting the IRS with pre-transfer tax planning.
- Preparing for the liquidity event:
 - Modeling future cash flows to give confidence lifestyle and legacy goals will be accomplished.
 - Create a plan for transitioning from income based upon salary / entity earnings to income from investment portfolio.
 - Identify any insurable risks and create a plan for any claw back or other potential contingent liabilities.
 - Consider re-introducing aspirational assets into overall asset allocation.





FINANCIAL LIFE AFTER LIQUIDITY IS TAKEN OUT OF THE BUSINESS

- How will the family meet its objectives with the new balance sheet?
- How do the business owner's risk appetite and objectives change?
- To be prepared, careful financial modeling and testing is needed. The following basic elements of a plan should be considered well in advance of the sale of the business:
 - Define objectives with realistic values and growth expectations taken into consideration.
 - Determine the appropriate size of a safety net for the family.
 - Design a strategy to support and continue the lifestyle of family members.
 - Identify aspirational objectives and generational intentions. An ESOP is a qualified retirement plan (an ERISA plan) designed to hold employer stock.





MODELING SCENARIOS FOR PEACE OF MIND

- Stochastic modeling and stress testing for the liquidity event.
- Projections to determine the proper amount of business interest to fund a freezing strategy.
- Impact analysis of a partial sale.
- Model and stress test the cash flow impact of other estate planning techniques.
- Enables estate planning recommendations to be made with confidence.





STRATEGIES FOR MONETIZING PRIVATE SHARES WITHOUT LOSING CONTROL

SCENARIO 1



FAMILY MEMBER SHAREHOLDER DESIRES LIQUIDITY OUT OF THE BUSINESS FOR INVESTMENT

Consider: Dividend recap using senior bank debt to provide liquidity to shareholders

PROS:

- Liquidity event via dividends
- Limited process
- No change of control
- Retain 100% of the future upside
- No change in shareholders

CONS:

- Leverage risk and growth constraints
- Typically less liquidity
- Personal guarantees may be required
- Enhanced debt structure may be needed



STRATEGIES FOR MONETIZING PRIVATE SHARES WITHOUT LOSING CONTROL

(continued)

SCENARIO 2



FAMILY MEMBER SEEKS TO SELL OR GIFT SHARES OF THE FAMILY BUSINESS WHILE STILL MAINTAINING CONTROL

Consider: Voting and non-voting shares to separate economic value from control

PROS:

- Provides liquidity for the current shareholder
- Estate planning opportunity
- Maintain control of voting share while transferring economic value
- Potential valuation discounts for lack of control

CONS:

- Documentation process for entity structure
- Potential IRS scrutiny for intra-family sales



SCENARIO 3



COMPANY NEEDS GROWTH CAPITAL OR CAPITAL TO MAKE AN ACQUISITION

Consider: Raising minority capital

PROS:

- Outside capital source to provide liquidity
- Maintain majority control
- Preserve upside with remaining equity

CONS:

- Outside partner as new equity holder
- Less initial liquidity
- Ideal partners may be difficult to find

Questions?



QUINLAN
SCHOOL of BUSINESS



BUILD THE BOARD OF YOUR DREAMS
GOVERNANCE INSTITUTE

Join the next class • July 16-17, 2019

Learn more at
LUC.edu/fbc or 312.915.6409

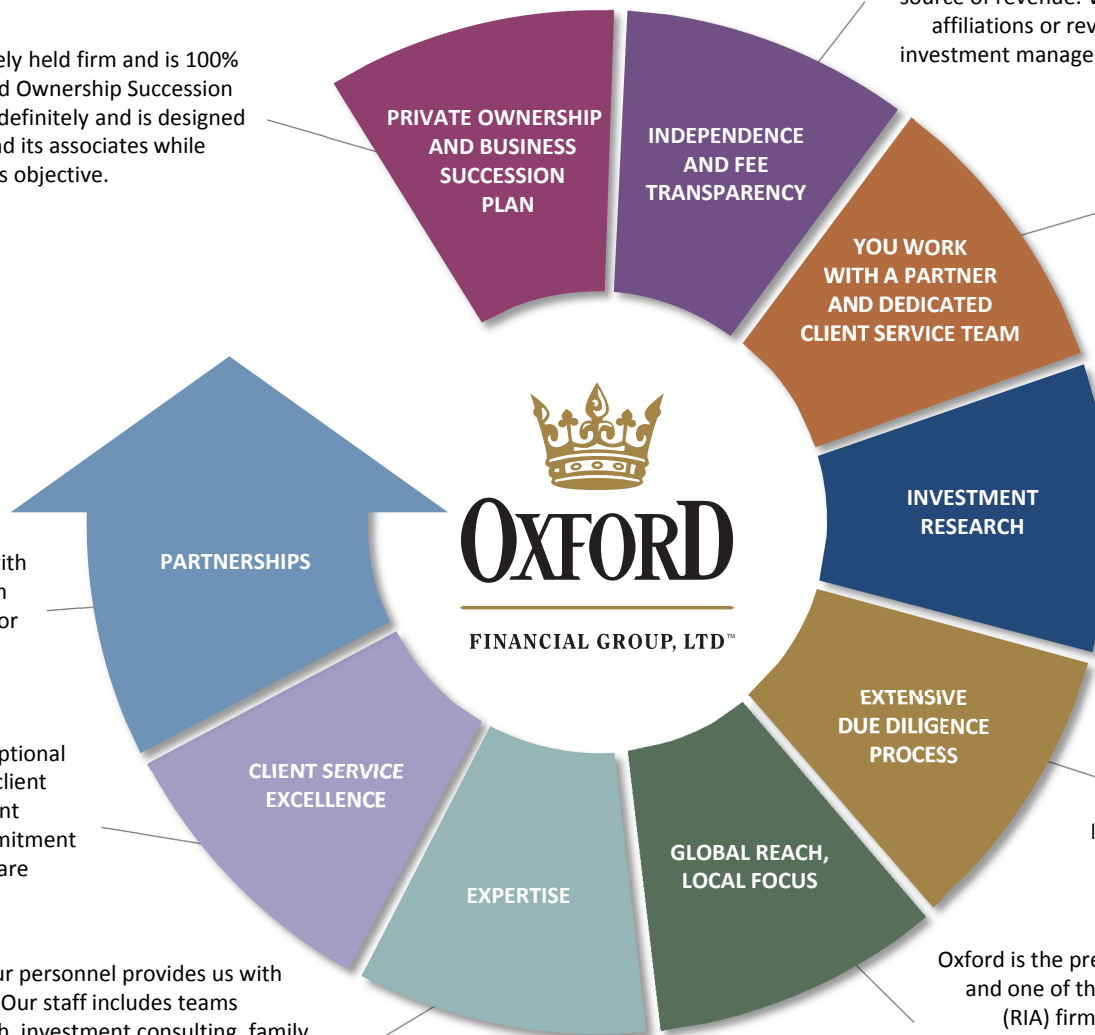


HOW OXFORD ADDS VALUE

Oxford is an independent, privately held firm and is 100% owned by its partners. The Oxford Ownership Succession Plan ensures this will continue indefinitely and is designed to protect our clients, the firm and its associates while assuring our advice and counsel is objective.

Oxford is a fee-only firm and, as such, we have a single source of revenue. We have no proprietary products and no affiliations or revenue-sharing arrangements with banks, investment managers, broker-dealers or financial providers.

As an Oxford client, you work with a partner in our firm who is totally committed to your success.



Oxford builds true partnerships with our clients. Our relationships form a lasting collaboration with, and for the advantage of, our clients.

Our dedication to providing exceptional service has resulted in enduring client relationships. The firm's high client retention rate confirms our commitment to client satisfaction. Our clients are always our first priority.

The depth of expertise among our personnel provides us with a strong competitive advantage. Our staff includes teams dedicated to investment research, investment consulting, family office services, trust administration, and performance reporting. All of this means exceptional counsel to our clients.

Oxford maintains one of the largest investment research teams in the industry, dedicated to ensuring a consistent philosophy, access to unique opportunities and a personalized client experience.

Oxford conducts more than 350 manager meetings each year. Before any manager can be recommended to a client, our research analyst(s) must present the manager to Oxford's Investment Strategy Group for approval.

Oxford is the premier multi-family office in the Midwest and one of the largest Registered Investment Advisor (RIA) firms in the country. Our size also affords us extraordinary access to top-tier money managers in areas such as private equity, real estate and hedge funds, as well as the traditional asset classes.



LEADERSHIP PROFILES



Laura J. Clark, CFA
Managing Director

Oxford Financial Group, Ltd.

980 North Michigan Ave, Suite 1500
Chicago, Illinois 60611
Direct: 312.202.6483
Email: lclark@ofgltd.com

Laura Clark is a Managing Director with Oxford Financial Group, Ltd. and is a member of Oxford's Retirement Plan Committee. Prior to joining Oxford in 2011, Laura was an investment principal at Lowry Hill, a private asset management firm. She has extensive experience in portfolio management and managing client relationships.

Prior to joining Lowry Hill, Laura was a principal and equity partner with Front Barnett Associates, LLC, an independent wealth consulting firm headquartered in Chicago. She also spent 13 years with J.P. Morgan, where she held a variety of positions in corporate finance, institutional equity sales, recruiting and cash management.

Laura earned a Master's degree in Humanities from the University of Chicago and Bachelor's degree in Operations Research Engineering from Cornell University. She is a Chartered Financial Analyst (CFA) and a member of the CFA Institute and CFA Society of Chicago.

Laura is active in supporting her alma mater, Cornell University. She was appointed to the board of trustees in 1992, the youngest person to ever receive this distinction and was appointed emeritus trustee in 2000. She was instrumental in founding the Young Alumni Giving Program and served as the first national chair from its inception in 1989 until 1997. She also worked with seniors at the university to increase class participation, and served as the national chair of the Cornell Fund from 1999 to 2002, promoting unrestricted giving.

Laura is currently Chairman of the Board of Trustees for Holy Trinity High School in Chicago, an inner-city Catholic school. She serves as a member of both the executive committee and the capital campaign steering committee. She is an emeritus advisory board member for the Glamour Gals, a national organization based in New York City that provides makeovers for nursing home residents.



Stephanie A. Van Vlerah, CFP®, MBA
Managing Director

Oxford Financial Group, Ltd.

980 North Michigan Ave, Suite 1500
Chicago, Illinois 60611
Direct: 312.202.6484
Email: svanvlerah@ofgltd.com

Stephanie Allsopp Van Vlerah is a Managing Director with Oxford Financial Group, Ltd. and is a member of Oxford's Value Council Committee. She has dedicated her entire career to working with and advising owners of privately held businesses and their families. Prior to joining Oxford in 2013, Stephanie was a Vice President and Private Banker with J.P. Morgan where she led a team of specialists in advising high net worth clients, primarily on investments, banking, credit and trust and estate planning.


Prior to joining J.P. Morgan, Stephanie was a Vice President and Relationship Manager in the Commercial Bank of Banco Popular North America. While there, she excelled at developing and managing a diverse portfolio of complex commercial clients, as well as structured and negotiated financing transactions to meet the needs of clients, prospects and the institution.

Stephanie earned a Master's degree in Business Administration from the Kellogg School of Management at Northwestern

University and a Bachelor's Degree from DePaul University with a major in Finance and a minor in Accounting, graduating with high honors. She previously held both the Series 7 and 63 licenses.

Stephanie currently serves on the Rosecrance Foundation Chicago Board of Directors. She also serves on the Board of Directors of Facing Forward to End Homelessness. She previously served on the Advisory Council of Concern Worldwide, U.S. and remains an active supporter of the organization. For six years she served as a member of the Board of Trustees of the Norwegian American Hospital Foundation, including as a member of the executive committee. Additionally, Stephanie is a member of the Kellogg Alumni Club of Chicago, a member of the Chicago Estate Planning Council and a mentor and volunteer with the DePaul University Alumni Sharing Knowledge Program, where she mentors current students and helps them navigate their career and future aspirations.

A Michigan native, Stephanie and her family live in Chicago.



APPENDIX



Thoughtful. Insightful. Committed.



EMPLOYEE STOCK OWNERSHIP PLANS

GENERAL FEATURES OF AN ESOP PLAN

- An ESOP is a qualified retirement plan (an ERISA plan) designed to hold employer stock.
- Employer makes annual contributions to the plan for employees' benefit.
 - Annual contributions to the ESOP from the employer are deductible by the employer.
 - Contributions to an ESOP are subject to the limitations for qualified retirement plans.

BENEFITS TO THE COMPANY AND EMPLOYEES

- An ESOP is a stock based incentive and retirement program.
- Employees have an ownership stake in the company and therefore an opportunity to share in the company's success.
- Performance and growth of the portion of the employees' retirement savings invested in the ESOP is directly tied to the performance of the company.
- ESOPs are a part of the company's overall benefit package and may assist in motivating and retaining quality employees.

OWNERSHIP AND CONTROL

- A trust is created to hold the plan assets (i.e. the company stock) for the benefit of the employee beneficiaries.
- The trustee is the legal owner of the shares.
 - The trustee can be an external trustee (i.e. a bank) or an internal trustee.
 - The trustee takes on fiduciary responsibility for the plan.
- ESOPs must hold shares with voting rights.
 - If the company is publicly traded, voting rights are generally passed through to the participants who may instruct the trustees on the voting of shares allocated to their accounts.
 - If the company is privately held, the voting rights of participants are generally limited to issues related to merger or consolidation, recapitalization or reclassification, liquidation, dissolution or sale of substantially all assets.
 - Other issues will be voted by the trustees as directed by the Board of Directors or a committee appointed by the board.



EMPLOYEE STOCK OWNERSHIP PLANS *(continued)*

ESOP CANDIDATE PROFILE

- Owner seeking an exit strategy – may be approaching retirement.
- Alternatively, one or more minority owners desiring to be bought out.
- An alternative to a third party/strategic buyer.
- Existing management team/employees interested in ownership.
- Company has sufficient cash flow/profits to support ESOP debt service.
- Sufficient size of business to justify the costs involve in establishing and monitoring the ESOP.
- Motivated by tax advantages.

POTENTIAL ADVANTAGES TO THE SELLER

- Provides a succession plan/exit strategy with a known buyer, without ceding control.
- Partial ESOP ownership is possible, so may retain a portion of the equity in the business.
- Section 1042 Rollover (see 'Tax Implications of Sale' section).
- Diversify investment assets of the seller.





DISCLAIMER

Oxford Financial Group, Ltd. (“Oxford”) is the premier multi-family office in the Midwest and one of the largest Registered Investment Advisor (RIA) firms in the country. Oxford has oversight of approximately \$23.7 billion in assets (which includes assets under management), with 20 Managing Directors serving over 700 families and institutions in 37 states.

Oxford is an independent, fee-only firm providing families generational estate planning advice and institutions forward-thinking investment strategies for over 37 years. With special expertise in Aspirational Solutions and Niche Growth Strategies, Oxford has offices in five Midwestern states and specializes in addressing the needs of eight and nine figure clients. Oxford is a Registered Investment Advisor with the U.S. Securities and Exchange Commission.

This presentation has been prepared from original sources and data believed to be reliable. However, no representations are made as to the accuracy or completeness thereof.

Past performance is not a guarantee of future results.

The information in this presentation is for educational and illustrative purposes only and does not constitute investment, tax or legal advice.

