

SUCCESSION STRATEGIES:
**Building Business Value
for Long-Term Wealth**



Alvina H. Lo

Chief Wealth Strategist

Stuart A Smith III

National Director, Business Value Strategies

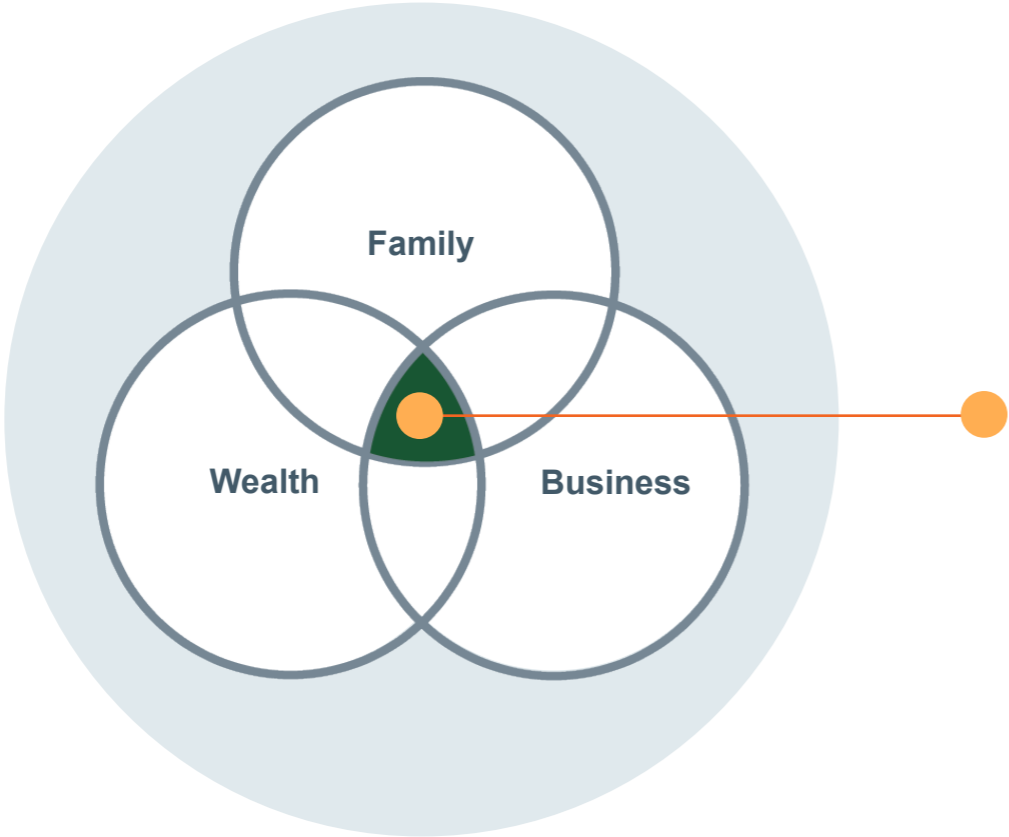
June 11, 2024

M&T Bank

 **WILMINGTON
TRUST**

Planning for Transitions

Three-pronged holistic approach to planning that seeks to integrate and align family, business, and wealth planning goals to help shareholders with “transition readiness”



Transition readiness

**Potential for maximum success
integration and alignment**

Business Transition Considerations

For most entrepreneurs, their business represents over 75% of their net worth. Consequently, planning well is critical and actions matter. So, what are owners focused on?

Replacing the income produced by the business to support their lifestyle. 70%

Developing and maintaining a well documented, written business transition plan. 42%

A Question

Have they established a formal transition advisory team? 78% 22% 14%

Statistics sourced from: Exit Planning Institute, 2023 National State of Owner Readiness Report

Case Study—Hypothetical Client Fact Pattern

As many owners approach their “transition event,” they focus so closely on the business that they fail to see how it “powers” other aspects of their lives

Family

Bill (66) and Mary (64) Davis

- Married 30 years
- Bill is President of D&M Manufacturing
 - Founded company in 1995
 - Technical background
- Mary is involved in volunteer efforts
- New York State residents
- Son: Steve (28) is in advertising, married
 - Expecting first child
- Daughter: Allison (26) is an attorney, single

Business

- D&M Manufacturing (“D&M”)
 - Manufactures specialty optical lenses
 - Used in commercial/industrial settings
 - Headquartered in Upstate New York
 - Worldwide sales
- 2023 Revenue \$100MM/EBITDA: \$10.5MM
- \$17.5MM in debt with cash balances of \$3MM
- 50% Partner is Dave McIntire, Head of Sales
 - Bill and Dave each receive \$500K salary plus \$800K of distributions
- Estimated enterprise value of \$100MM

Wealth Profile

- Estimated net worth of \$50MM
 - \$40MM in D&M Stock
- Real Estate Investments
 - \$3MM Upstate NY residence
 - \$1MM Palm Beach Condo
- Liquid Assets
 - \$1.5MM in Retirement Accounts
 - \$4.5MM in marketable securities
- Retirement target in 2026

Legacy Goals: \$1.75MM per year in retirement cash flow | Lifetime support for Mary
Responsible inheritance to kids/grandkids | Charitable gifts

FAIL

Divide and ~~Conquer~~

While an entrepreneur can hire all of the best planning talent, their challenge is to provide an environment in which functional experts can support planning objectives in an integrated manner



“Most of what we call management consists of making it difficult for people to get their work done.”

– Peter Drucker



“It doesn’t make sense to hire smart people and tell them what to do; we hire smart people so they can tell us what to do.”

– Steve Jobs



Combine and Prevail

Connecting advisors to the owner and each other is important to developing a wealth planning strategy seeking to minimize inherent or unplanned “disconnects”



“Plans are worthless, but planning is everything.”

– President Dwight Eisenhower



“It is amazing what you can accomplish if you do not care who gets the credit.”

– President Harry Truman



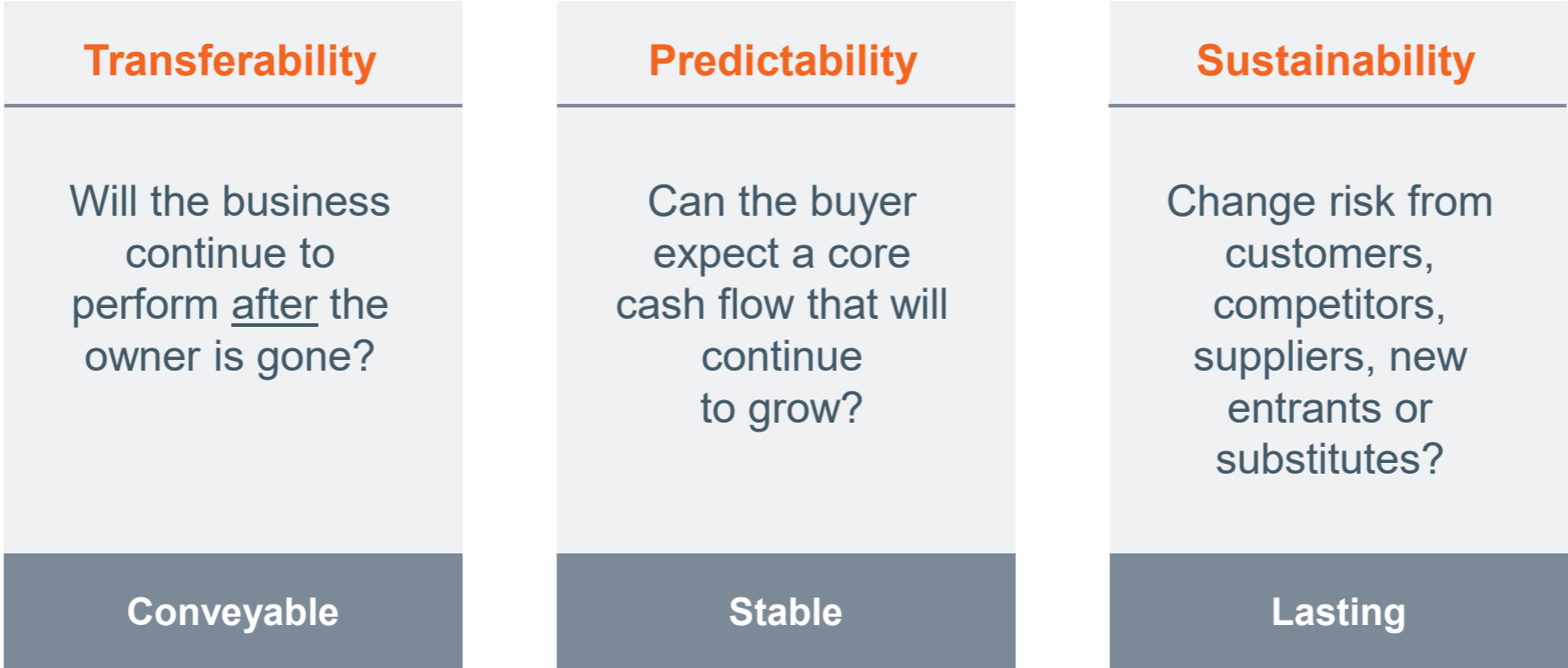
“Never tell people how to do things. Tell them what to do and they will surprise you with their ingenuity.”

– General George S. Patton



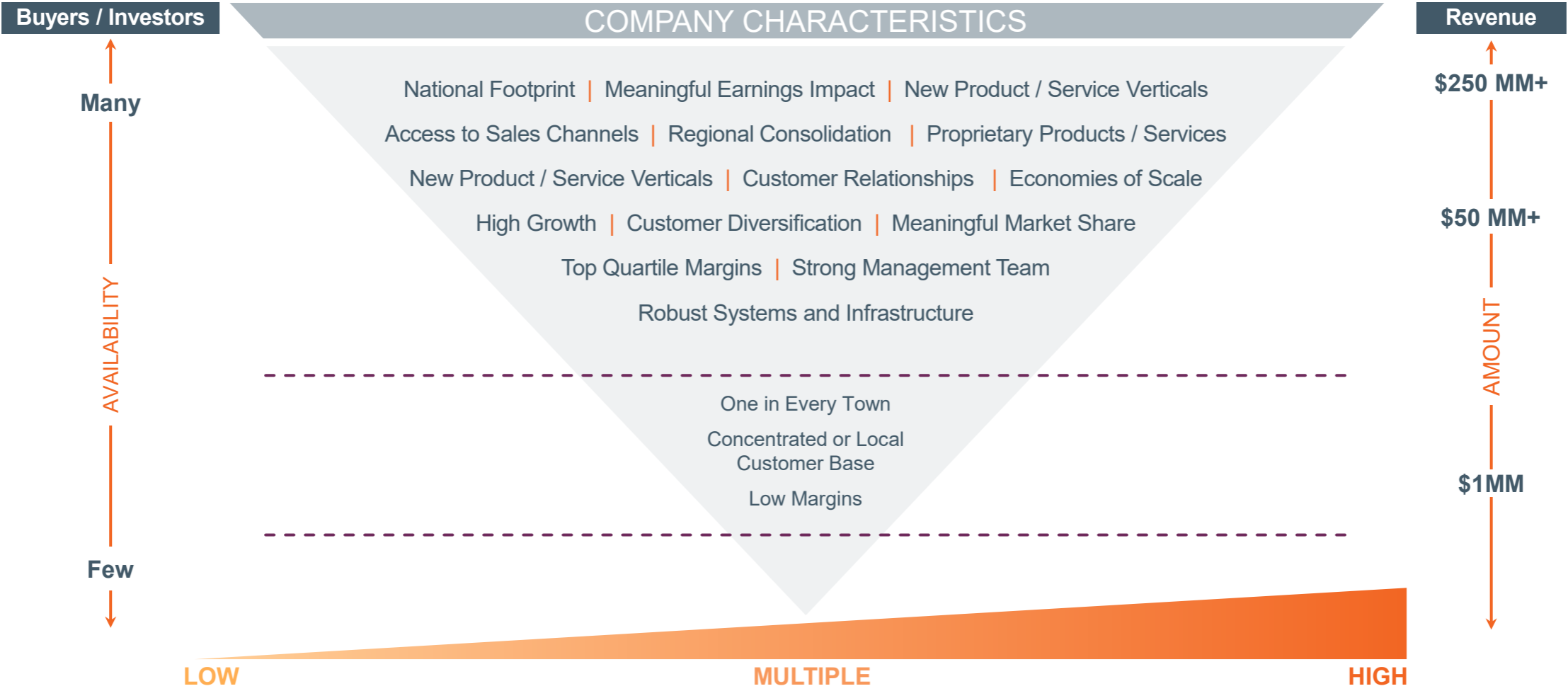
The Pillars—and Bedrock—of Business Value

Strong fundamentals are generally a result of consistent corporate stewardship that emphasizes planning and investment over quick profit to build long-term value



Moving the Needle

Successful entrepreneurs understand that an exit is an *event* that ends a *journey* of value creation. Building business value is an investment activity.



Recognizing What They Don't Know

In a transaction, entrepreneurs love to talk about what they know...the business, but that's only part of the story; it turns out that the details matter

DRIVING VALUE

“The SIZZLE”

Setting “Marketed” EBITDA (Earnings before interest, tax, depreciation, and amortization)

- **Platform Opportunity**
 - Core Business Projections
 - Organic Expansion Outlook
 - Acquisition Opportunities
- **Market Dynamics**
 - Demographic Trends
 - Market Consolidation
 - Regulation
- **Demonstrated Value-Building Mindset**
 - Past Reinvestment in the Business
 - Up-to-Date on Capital Spending
 - Scalable Processes/Systems
 - “Large Company” Practices
- **Communicating the Vision**
 - The “Why” of our Strategy
 - Executable and Achievable Plan
 - Focused Shareholders / Management
 - “Skin in the Game”
- **Mitigating Market Challenges**
 - Concentration
 - Financial Performance

REALIZING VALUE

“The STEAK”

- **Operating Performance**
- **Due Diligence**
 - Quality of Earnings
 - HR / Insurance
 - Legal
- **Closing Valuation Adjustments**
 - Working Capital Adjustment
 - Deferred Capital Expenditures
 - Confirming Diligence Findings
- **Transaction Documentation**
 - Purchase Agreement
 - Shareholders Agreement (as applicable)
 - Escrow Agreement
 - Earnout Agreement (as applicable)
- **Transaction Structure / Terms**
 - Stock Deal vs. Asset Deal
 - Form of Consideration
 - Type of Security (as applicable)
 - Reps & Warranties
 - Indemnifications
 - Insurance
 - Employment Agreements / Non-Competes

Thinking About Your Silent Partner

In virtually all business transitions, owners are highly focused on the income tax ramifications of the deal. While that's an immediate and important focus, emphasizing estate taxes is a smart move:

- Have you used your full federal gift tax exemption?
 - A: Yes
 - B: No – I would like to, but am hesitant on the real cost and benefit
 - C: No – I'm not interested in doing any gifting or tax planning
 - D: Not sure what that is

Federal Estate Tax System

Understanding the taxation landscape is important for long-term planning

- As indexed for inflation, the amount exempt from federal gift and estate tax in 2024 is \$13,610,000 per person (\$27,220,000 for a married couple).
- The federal estate tax is imposed on an individual's estate at a rate of 40% on the value of the estate which exceeds the estate tax exemption.
- A separate state estate tax may also be due.
- Under current law, the exemption amount is slated to sunset on December 31, 2025. Effective January 1, 2026 the exemption reverts to \$5,000,000 per individual (\$10,000,000 for a married couple), adjusted for inflation.

*Source: <https://www.kiplinger.com/taxes/estate-tax-exemption-amount-increases>

Paying Uncle Sam

Keeping the status quo could be costly

Hypothetical Estimated Wealth Transfer Tax & Wealth Distribution

	2024	2026
Closely Held Business Stock	\$40,000,000	\$59,062,500
Net Worth	\$50,000,000	\$69,677,500
Combined Lifetime Exemption	\$27,220,000	\$13,122,116
Taxable Estate	\$22,780,000	\$56,555,384
Federal & NY Estate Tax	\$13,912,000	\$29,311,193
After Tax Estate to Heirs	\$36,088,000	\$40,366,307
Percentage of Net Worth to Heirs	72.18%	57.93%

↑
**Current
Status**

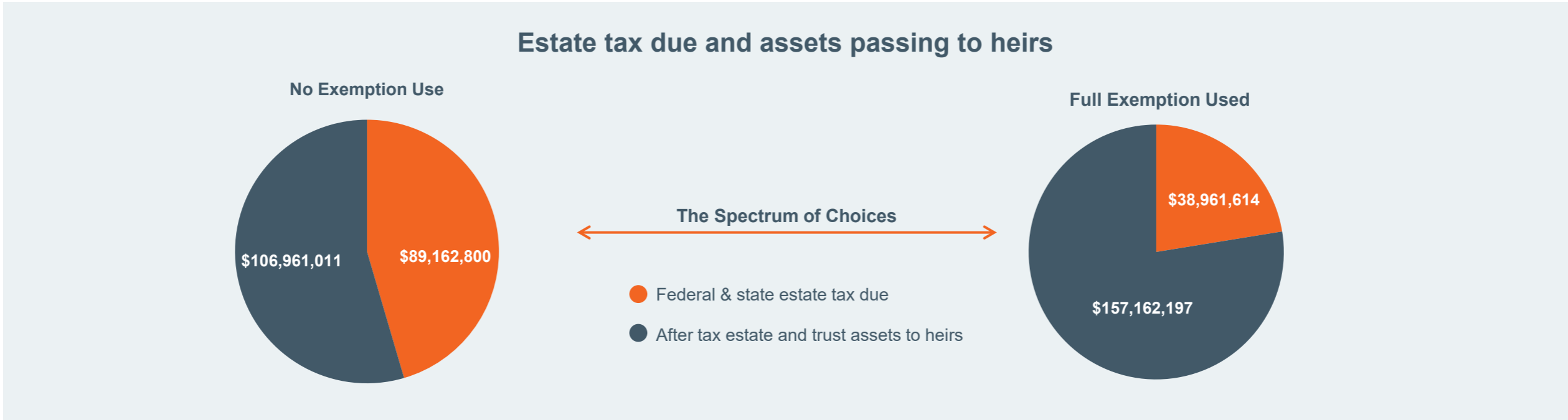
↑
**Sunset of
Jobs Act of
2017 Tax Cuts**

The above is hypothetical and is for illustration purposes only and does not reflect the actual performance of any actual client data or account. See Appendix for assumptions used for calculations.

Changing the Game

Reduce your estate tax bill by gifting up to the full exemption

	Net Worth (2024)	Projected Estate Value (2048)	Projected Trust Value (2048)	Total Estate Tax Due (Fed + NY)	Net to Heirs
No Exemption Use	\$50,000,000	\$196,123,811	\$0	\$89,162,800	\$106,961,011
Full Exemption Use	\$50,000,000	\$78,551,641	\$117,572,170	\$38,961,614	\$157,162,197



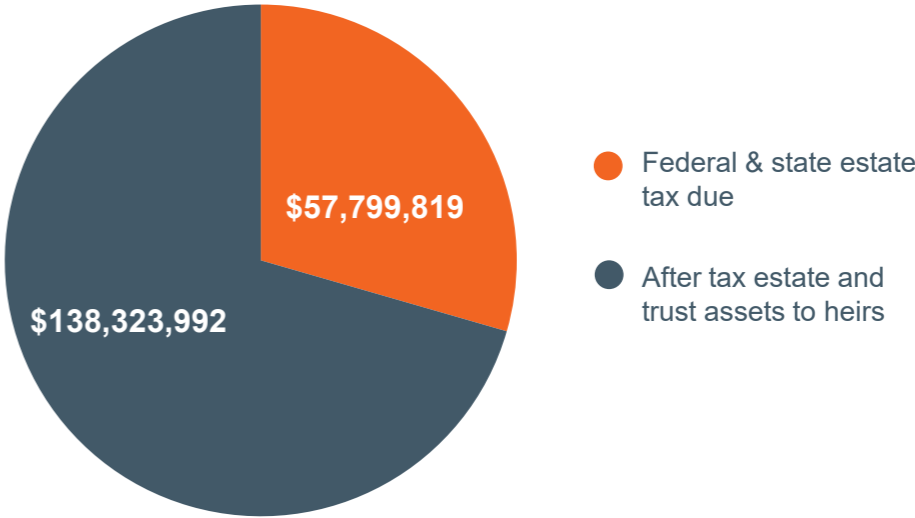
The above is hypothetical and is for illustration purposes only and does not reflect the actual performance of any actual client data or account. See Appendix for assumptions used for calculations.

Finding the Sweet Spot

Balancing exemption usage, lifestyle needs, and legacy

	2024
Gift	\$18,000,000
Net Worth (2024)	\$50,000,000
Projected Estate Value (2048)	\$118,375,866
Projected Trust Value (2048)	\$77,747,945
Total Estate Tax Due (Fed + NY)	\$57,799,819
Net to Heirs	\$138,323,992

Estate tax due and assets passing to heirs



The above is hypothetical and is for illustration purposes only and does not reflect the actual performance of any actual client data or account. See Appendix for assumptions used for calculations.

The Importance of Trusts

Managing assets – Responsibility can be transferred to a corporate or individual trustee

Protecting assets – Helps protect beneficiary from creditors and a divorcing spouse

Providing privacy – Assets, terms, and conditions generally not subject to public inspection

Avoiding Probate – Controlled by the terms of the trust, not by the courts, saving time and expense

Providing for multiple beneficiaries – Can provide for multiple beneficiaries and allow the trustee to use discretion in making distributions

Providing for special needs – Can address special needs of education, health, and so on

Wealth transfer features:

- Ability to customize and control how your wealth is distributed
- Potential to transfer business assets at a discounted value, allowing for a greater impact
- With certain trusts, assets transferred may be exempt from estate tax for multiple generations
- Once an asset is transferred to an irrevocable trust, the present value and the value of future growth is outside of the estate

Making Wealth Last

While multi-generational wealth planning is an incredibly valuable strategy, preparing ensuing generations for wealth can cement an owner's legacy.

- Do you feel that your family is prepared and ready for the wealth when you're gone?
 - A: Yes – I feel they're sufficiently prepared
 - B: Somewhat – They have some idea, but I'm not fully confident yet
 - C: No – I don't know how to begin the conversation
 - D: No – I don't want them to know anything about it

Family Legacy Planning

Three areas to focus: business legacy, parents' legacy, family legacy

1 BUSINESS LEGACY

Examine the foundational values of your business

- We would want to understand, what has been most important to you? Your relationship with your employees? Your community? Your customers?
- What is important to include in the exit plan to allow these values and the business legacy to continue?
- How will you communicate this exit plan to your important stakeholders?

2 PARENTS' LEGACY

Observe what is important to you

- We want to understand if the business legacy is tied to your personal legacy. Have you thought of your identity after your exit plan? How do you describe life after you exit the business?
- How will you spend your time after you exit the business? Are you interested in philanthropy?

3 FAMILY LEGACY

Look at what type of dialogue currently exists

- We want to understand if there is family alignment around your values and what type of communication exists.
- How much has been communicated to your children about the family's wealth and your estate plan? How much do you want your children to know?
- Do you want to include your children in your philanthropic goals?

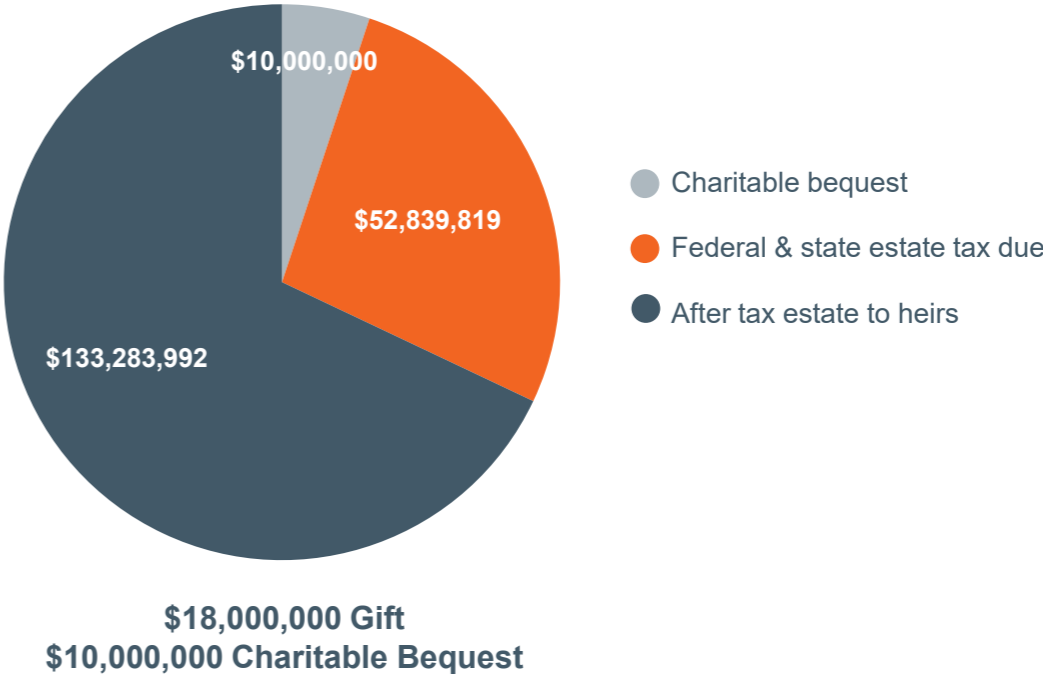
Spreading the Wealth

Adding charity into the equation

Estate tax due and assets passing to heirs and charity

2024

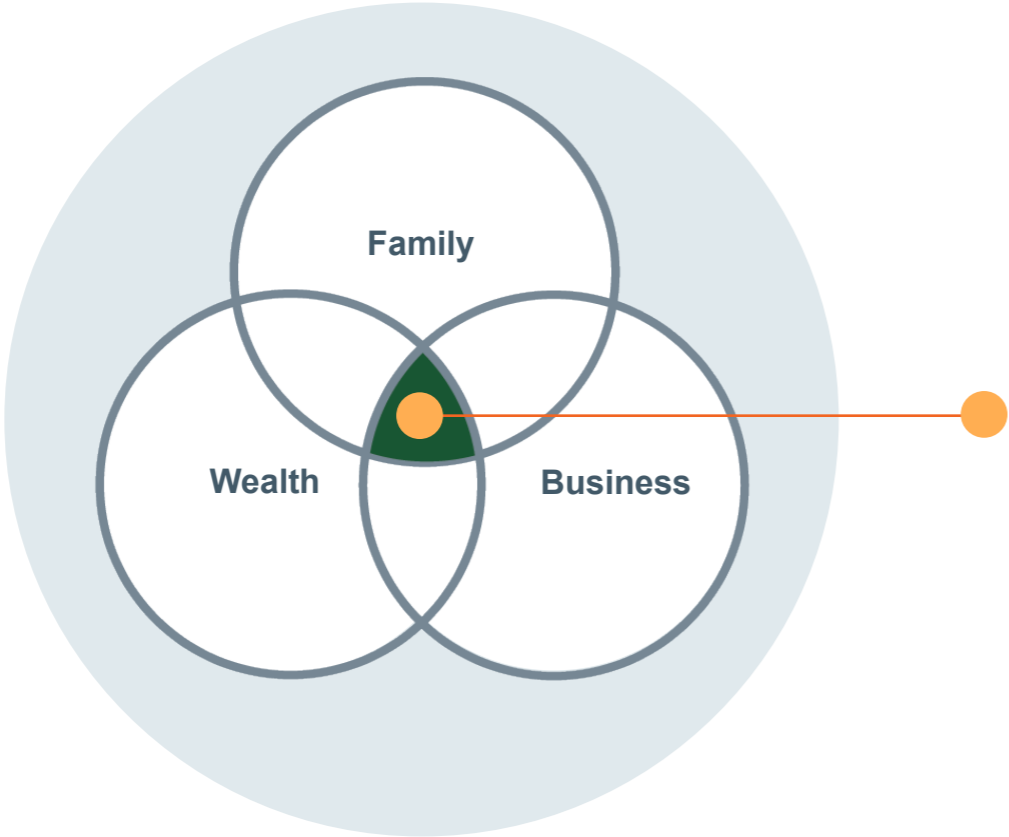
Gift	\$18,000,000
Net Worth (2024)	\$50,000,000
Projected Estate Value (2048)	\$118,375,866
Projected Trust Value (2048)	\$77,747,945
Charitable Bequest (2048)	\$10,000,000
Total Estate Tax Due (Fed + NY)	\$52,839,819
Net to Heirs	\$133,283,992



The above is hypothetical and is for illustration purposes only and does not reflect the actual performance of any actual client data or account. See Appendix for assumptions used for calculations.

Planning for Transitions

Three-pronged holistic approach to planning that seeks to integrate and align family, business, and wealth planning goals to help shareholders with “transition readiness”



Potential for maximum success
integration and alignment

Transition readiness

BIOGRAPHY

Alvina H. Lo

Chief Wealth Strategist



Contact information

277 Park Avenue
27th Floor
New York, NY 10172
212.415.0567
alo@wilmingtontrust.com

Specializing in:

- Estate and trust planning
- Succession planning
- Life insurance planning
- Cross-border planning
- Family office services

As part of the Wilmington Trust Emerald Family Office & Advisory® team, Alvina is responsible for wealth planning, family office services, and thought leadership development for Wilmington Trust's Wealth Management division. She oversees a national team of wealth strategists, family office services professionals, and thought leadership experts, who together, serve as advisors to high-net-worth individuals and families, business owners, entrepreneurs, and foundations.

Prior to joining Wilmington Trust, Alvina was a director at Citi Private Bank where she served as an advisor to U.S. and international ultra-high-net-worth clients. Previously, she served as a wealth strategist with Credit Suisse Private Wealth and practiced law at Milbank Tweed Hadley & McCloy, LLP. Earlier in her career, she was a consultant for Deloitte Consulting and Scient Corporation.

She holds a bachelor's degree in civil engineering from the University of Virginia where she was a Thomas Jefferson Scholar. She received her JD from the University of Pennsylvania, where she was a member of the Law Review and Order of the Coif. She also holds a Professional Tax Certificate in Estate Planning from New York University School of Law.

Alvina is a Fellow of the American College of Trust and Estate Counsel (ACTEC)*, a highly selective group of peer-elected trust and estate attorneys in the U.S. and abroad. She has been named as a recipient of the 2021 Outstanding 50 Asian Americans in Business Award* by the Asian American Business Development Center and also has been recognized by Crain's New York Business as one of their Most Notable Women in Financial Advice in 2020*. The honor recognizes leading women executives in New York City for their dedication to excellence in the financial industry and significant professional, civic, and philanthropic contributions. In addition, she was recognized as one of Worth's Groundbreakers 2020: 50 Women Changing the World.*

She is a published author and frequent lecturer at leading industry conferences for the American Bankers Association, American Bar Association, Delaware Trust Conference, Hawaii Tax Institute, and Barron's Top Women Advisors Summit. She has been quoted in the New York Times, Wall Street Journal, Barron's, Bloomberg, and Business Insider. She is also a member of the Society of Trust and Estate Practitioners (STEP) and Women In America, a professional mentoring group. She is active with the American Bankers Association as a Board member for Wealth Management and Trust and lecturer of the Trust School. She is currently Chair of the New York City Walentas Scholars Program for the University of Virginia. Alvina is bilingual and speaks fluent Chinese-Cantonese and basic Chinese-Mandarin.

* Please see link for more information about awards: <https://www.wilmingtontrust.com/about-us/awards>

BIOGRAPHY

Stuart A. Smith III

National Director, Business Value Strategies



Contact information

One Light Street
Baltimore, Maryland 21202
410.244.4876
sasmith@wilmingtontrust.com

Specializing in:

- Mergers & acquisitions
- Closely held business valuation
- Business planning and governance

As part of the Wilmington Trust Emerald Family Office & Advisory® team, Stuart leads strategic family business advisory services at Wilmington Trust. In that capacity, he collaborates with planning and wealth management colleagues to develop comprehensive, holistic strategies and solutions for clients and prospects with family business holdings.

Prior to joining Wilmington Trust in 2019, Stuart was a managing director in the M&T Investment Banking Group, where he co-founded the bank's M&A/Corporate Finance business in 2001 and was co-head of the team since 2014. Stuart has more than 25 years of diversified financial services experience including senior and subordinated debt raises, private equity raises, mergers and acquisitions, and leveraged buyouts across a wide range of industries. Earlier in his career, Stuart was a director in the Consumer and Industrial Products Group at PricewaterhouseCoopers Securities, the investment banking division of PricewaterhouseCoopers. He began his career at First National Bank of Maryland in the Private Banking division.

Stuart holds an MBA from Georgetown University, where he was elected to Beta Gamma Sigma for academic achievement, and a bachelor's degree in history from the University of Virginia. He is actively involved in the Baltimore community and is currently Vice Chairman of Gilchrist Hospice Care. He also serves on the audit and finance committees of the Greater Baltimore Medical Center. Stuart is a recipient of the Wilmington Trust Chairman's Club award.



Appendix

Appendix

Used for calculations throughout presentation:

- Closely held stock is currently valued at \$40,000,000
- Real estate and illiquid assets are assumed to total \$4,000,000 and do not increase in value
- Liquid assets outside of closely held stock are assumed to total \$6,000,000 and grow at 5% annually
- Closely held stock is sold in 2025 and nets \$56,250,000
- Net proceeds are invested and grow at 5% annually
- Federal estate taxes of 40% at death of survivor
- Current federal estate tax exemption of \$13.61MM per individual (\$27.22MM per couple) will revert to the 2017 level of \$5.49 million per individual as adjusted for inflation, per the 2017 Tax Cuts and Jobs Act. We assume 2% inflation for projecting exemption into the future.
- Trust assets grow at 5% annually
- Annual retirement spending totals \$1,750,000 (today's dollars), inflating annually at 2%
- Life expectancy of age 92 assumed, with projections commencing in 2023 and ending in 2048

The above is hypothetical and is for illustration purposes only and does not reflect the actual performance of any actual client data or account.

Disclosures

Wilmington Trust is a registered service mark used in connection with various fiduciary and non-fiduciary services offered by certain subsidiaries of M&T Bank Corporation including, but not limited to, Manufacturers & Traders Trust Company (M&T Bank), Wilmington Trust Company (WTC) operating in Delaware only, Wilmington Trust, N.A. (WTNA), Wilmington Trust Investment Advisors, Inc. (WTIA), Wilmington Funds Management Corporation (WFMC), Wilmington Trust Asset Management, LLC (WTAM), and Wilmington Trust Investment Management, LLC (WTIM). Such services include trustee, custodial, agency, investment management, and other services. International corporate and institutional services are offered through M&T Bank Corporation's international subsidiaries. Loans, credit cards, retail and business deposits, and other business and personal banking services and products are offered by M&T Bank. Member, FDIC.

Wilmington Trust Emerald Family Office & Advisory™ is a registered trademark and refers to wealth planning, family office and advisory services provided by Wilmington Trust, N.A., a member of the M&T family. Wilmington Family Office is a service mark for an offering of family office and advisory services provided by Wilmington Trust, N.A.

Third-party trademarks and brands are the property of their respective owners. Third parties referenced herein are independent companies and are not affiliated with M&T Bank or Wilmington Trust. Listing them does not suggest a recommendation or endorsement by Wilmington Trust.

Wilmington Trust is not authorized to and does not provide legal or accounting advice. Wilmington Trust does not provide tax advice, except where we have agreed to provide tax preparation services to you. Our advice and recommendations provided to you are illustrative only and subject to the opinions and advice of your own attorney, tax advisor, or other professional advisor.

This presentation is provided for informational purposes only and is not intended as an offer or solicitation for the sale of any financial product. Investors should seek financial advice regarding the suitability of investment strategies based on their objectives, financial situations, and particular needs. The investments or investment strategies discussed herein may not be suitable for every investor.

There is no assurance that any investment, financial or estate planning strategy will be successful. The information in this presentation has been obtained from sources believed to be reliable, but its accuracy and completeness are not guaranteed. The opinions, estimates and projections constitute the judgment of Wilmington Trust and are subject to change without notice. This document is not designed or intended to provide financial, tax, legal, accounting, or other professional advice since such advice always requires consideration of individual circumstances. All investing is subject to risk, including the possible loss of the money you invest.

Investments: Are NOT FDIC Insured • Have NO Bank Guarantee • May Lose Value