Deutsche Bank
Wealth Management

Transition by Design: Successful Succession of the Privately Held Business and Wealth

Redwood Empire Estate Planning Council

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Some Legends Never Die

Wisdom from one of the All-Time GREATS!

Business Succession Planning. . . and Yogi Berra

“It's like déjà vu all over again!”

- New “what ifs" on a consistent basis
- September 8, 2016
- Better to wait and see?
- Be ready: NAEPC *Journal of Estate and Tax Planning* and Annual conference
    - ✓ October 19 - 23, 2025 Washington, DC
    - ✓ Registration at naepc.org/conference

“When you come to a fork in the road – take it!”

- Plan – No matter which turn is taken, the path is clear
- Static documents interpreted in light of dynamic new law
- FLEXIBILITY
- Disinherit spouse or other beneficiaries?

“If you don’t know where you’re going, you wind up somewhere else.”

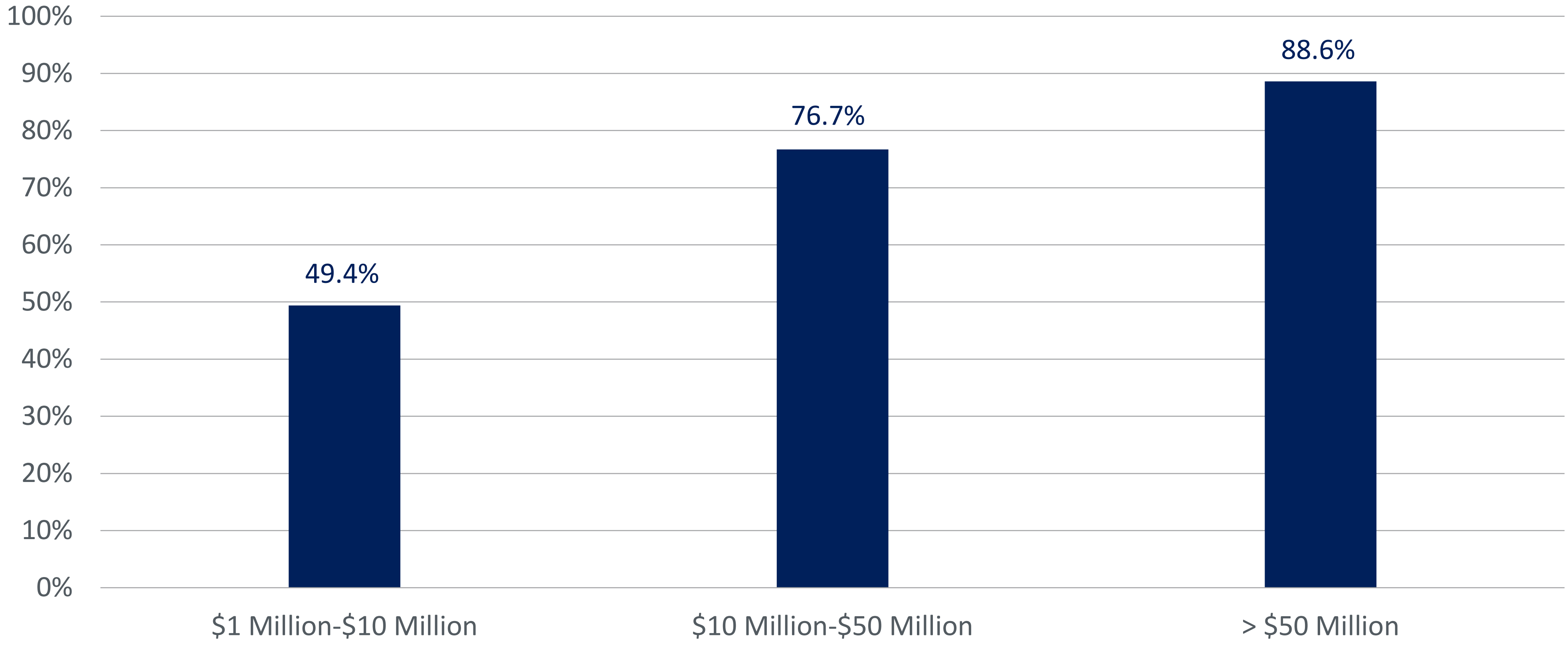
- Wealth in motion will be taxed!
- Income tax and basis planning – The New Black
- Capital gains tax
- State tax regimes

Source: USA Today – 50 greatest Yogi Berra quotes

A Changing Marketplace and Business Owner Demographics

Wealth Creation in the United States

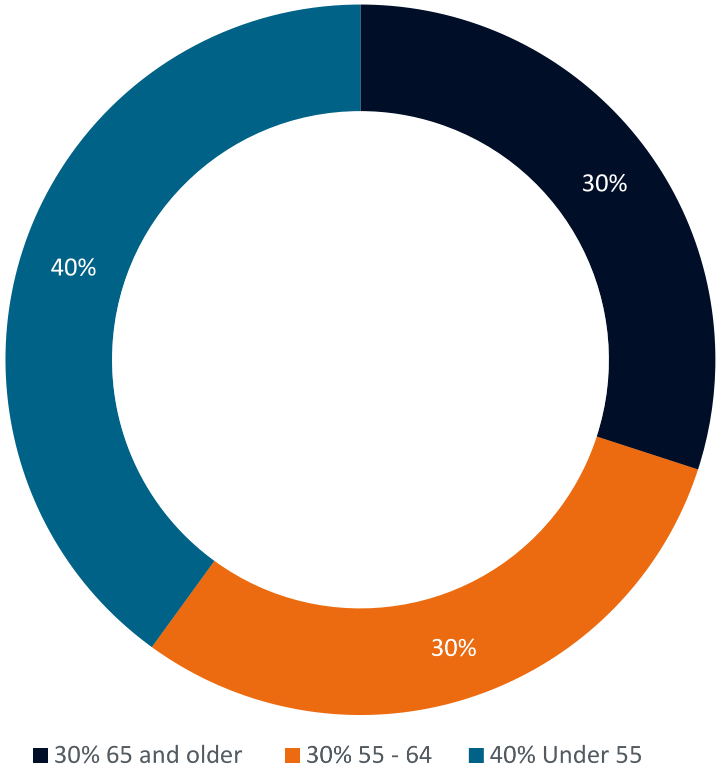
Percentage of Millionaire Households That Own a Private Business by Net Worth Tier[1]



[1] Federal Reserve Survey of Consumer Finances.

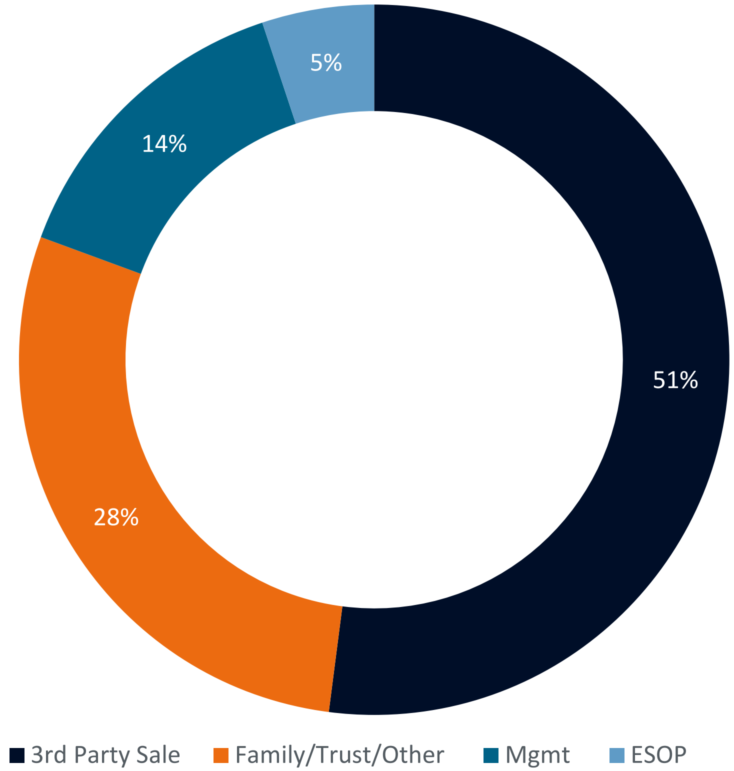
Winds of Change

Business Owner Age



Source: New York Times "Are Baby Boomers Ready to Retire?"

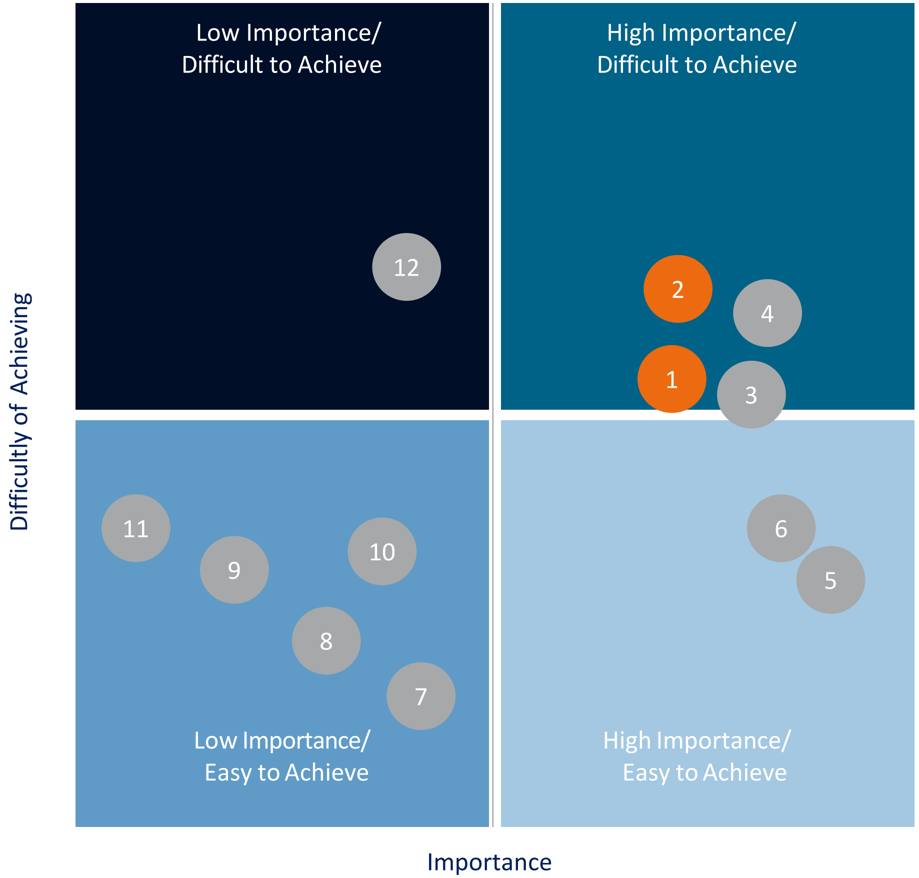
Ownership Transition



Source: VIP Forum Survey of Business Owners

Mission Critical

Issues of Greatest Importance and Difficulty for Family Businesses



1. Resolving conflicts among family members who are in the business
2. Formulating a succession plan
3. Developing a strategic plan
4. Developing a retirement and estate plan
5. Ensuring that the family's core business values are maintained
6. Financial growth plan
7. Compensating family members in the business
8. Bringing family members into the business
9. Ensuring family members benefit from owning shares
10. Bringing non-family executives into the business
11. Transferring wealth and equity to family members not involved in the business
12. Transferring wealth outside the business

Source: Grant Thornton, *Results of Family Business Survey*

Challenges Facing Family Businesses

- 85% of the crises faced by the family business is focused around the issues of succession.[1]

- According to the Small Business Association:[2]
  - 90% of America's businesses are family owned
  - 30% make it to 2nd generation
  - 12% survive to 3rd
  - 3% reach the 4th

- Primary reason is failure to properly structure a succession plan[3]
  - 90% agree on importance of exit planning
  - 33% have a business succession plan
  - Only 29% feel their team of advisors is qualified to help

[1] Keeping it in the Family: Business Succession Planning; Charles D. Fox IV; A.L.I.-A.B.A.
[2] Challenges in Managing a Family Owned Business; Small Business Administration (SBA.gov).
[3] VIP Forum Survey of Small Business Owners

Integrated Master Plan Design

The Process Driven Strategic Model and Strategic Assessment

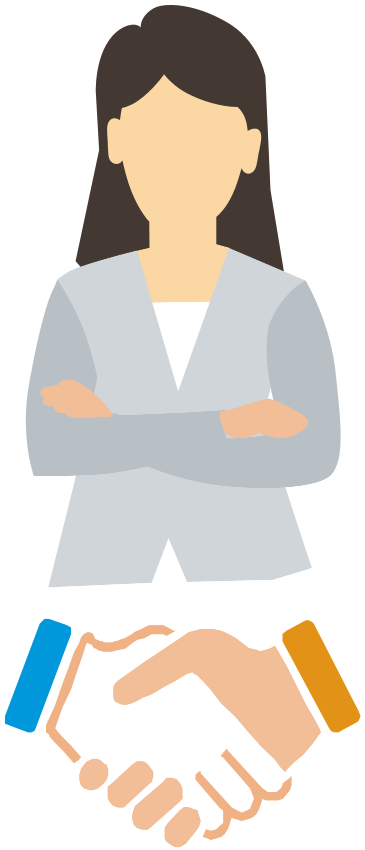
Transition by default can be a real juggling act. . .

. . .with serious consequences

The Drivers – Business and Family Dynamics

Wealth Creation

- Strategic Vision
- Tax, Legal, Finance
- People and Culture
- Reward



Wealth Preservation

- Strategic Vision
- Tax, Legal, Finance
- People and Culture
- Reward

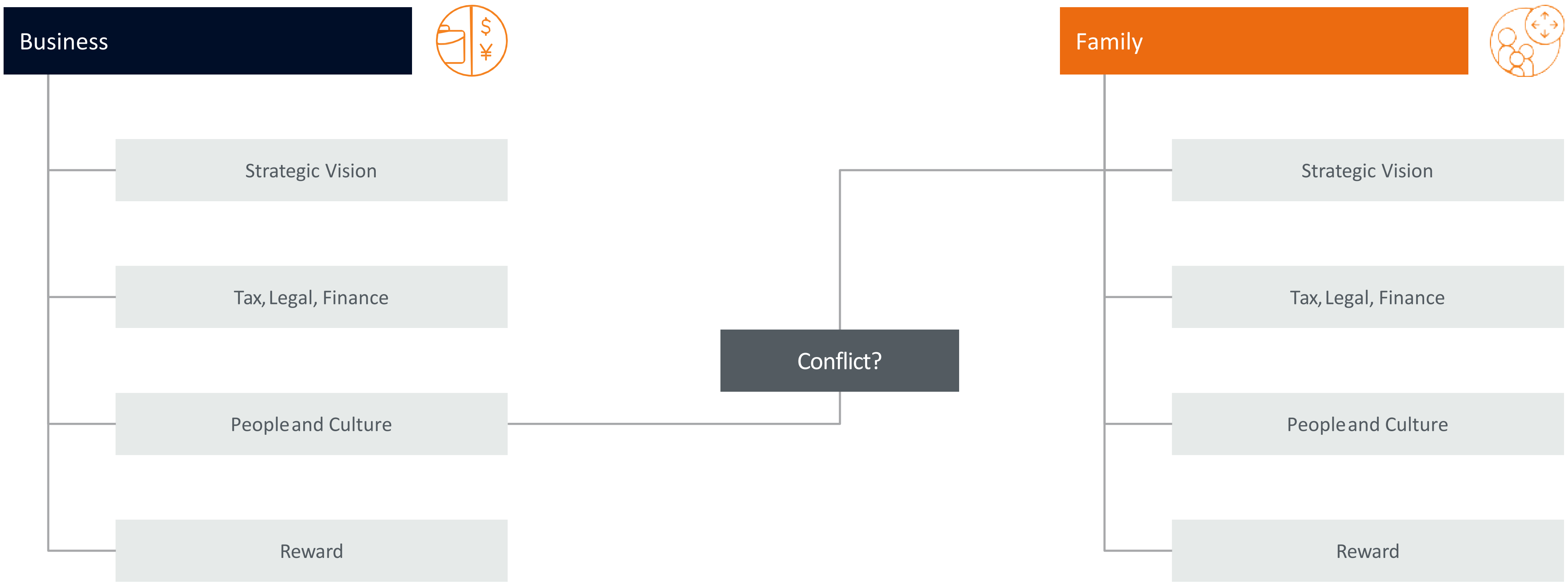
Strategic Assessment

Business – Wealth Creation	
Strategic Vision	• Business Plan • Competitive Analysis • Management Succession • SWOT and Concentrations
Tax, Legal, Finance	• Choice of Entity – C, S, LLC • Asset Protection and Core Assets • Dividend/Profit Payout Policy • Financial Statements
People and Culture	• Demographics • Performance, Potential, Readiness • Corporate Culture
Rewards	• Attract and Retain Top Talent • Targeted Incentive • Exit • Strategic Communication

Family – Wealth Preservation	
Strategic Vision	• Legacy • Wealth Transfer Philosophy • Personal Financial Goals • Family Business Council/Board of Advisors
Tax, Legal, Finance	• Financial Stability • Diversification • Asset Protection • Estate Tax
People and Culture	• Rules of Entry • Family Participation Policy • Compensation
Rewards	• Equity/Income • Fair vs. Equal • Business and Family Alignment • Strategic Communication

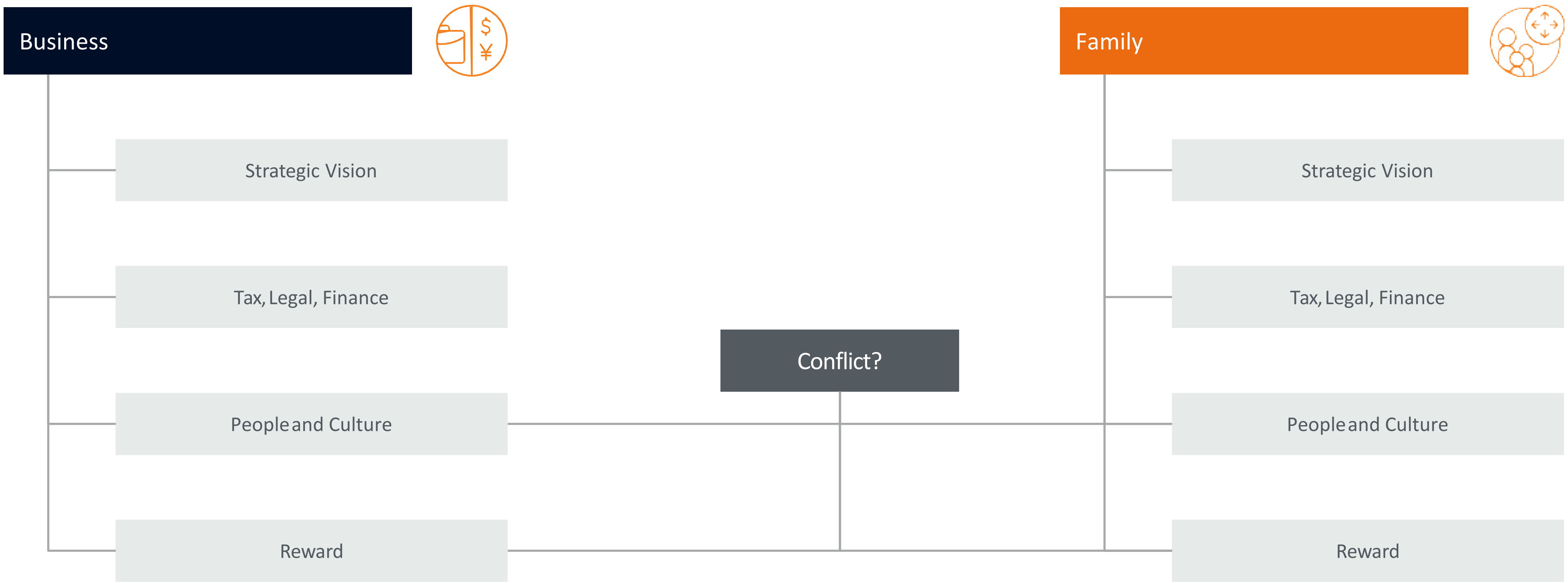
Final Phase: Resolve Conflicting Objectives – 1

- The owner of a family business envisions naming her son CEO.
- The CFO—a critical employee and NOT a family member—neither likes nor respects the son.
- In fact, the CFO, and others, will likely quit if the son is named CEO.



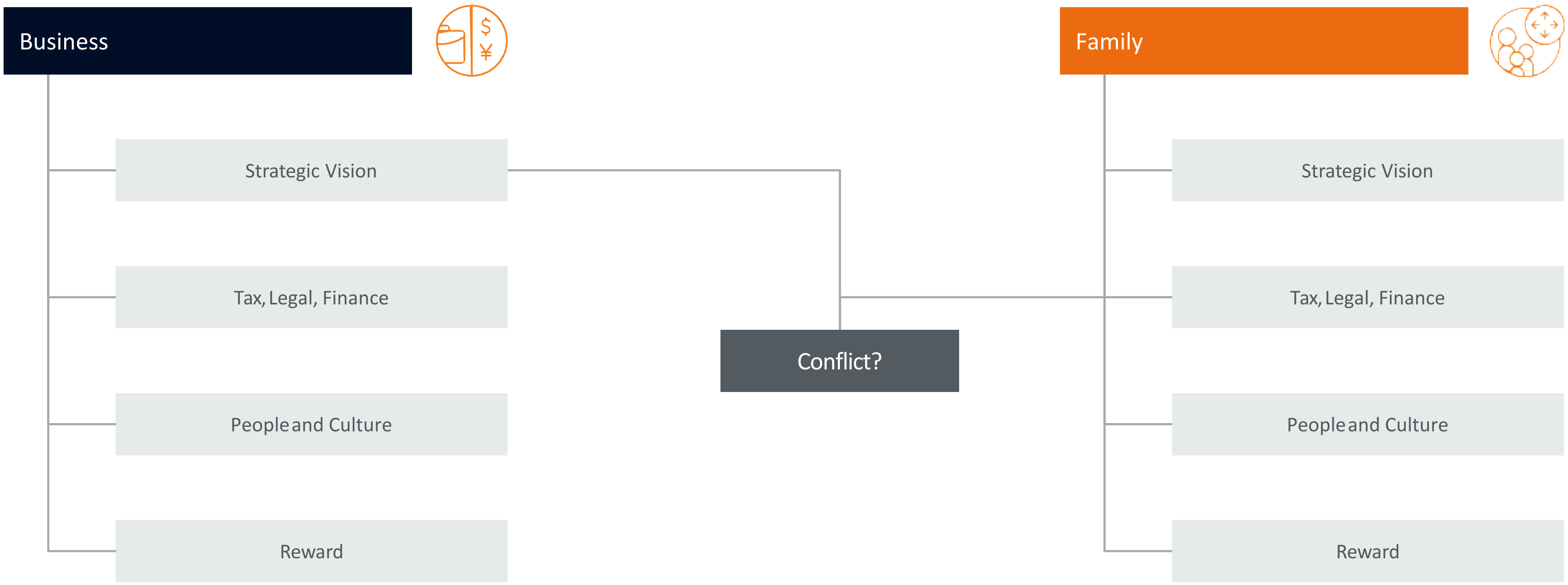
Final Phase: Resolve Conflicting Objectives – 2

- Kids in the family paid birthright v. market rate
- Non-family members know that family employees are being overpaid – they see cars, neighborhood, vacation, etc.



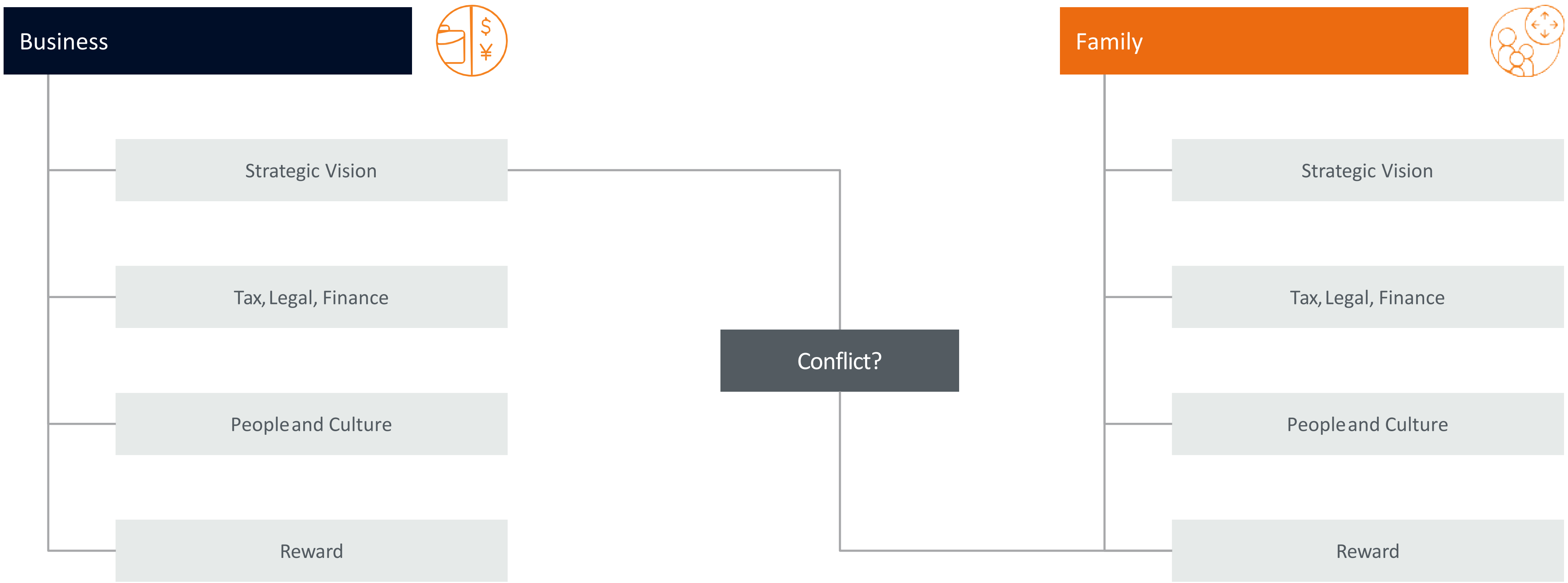
Final Phase: Resolve Conflicting Objectives – 3

- Business owner has a vision of growing the business but wants to retire soon.
- Growth will take cash
- Owner has liquidity needs at retirement.



Final Phase: Resolve Conflicting Objectives – 4

- Inactive family shareholders in business are frustrated with active family members being paid huge salary and receiving company car, while the inactives get low or no dividend
- Active kids say, “you are getting a free ride on my equity!”

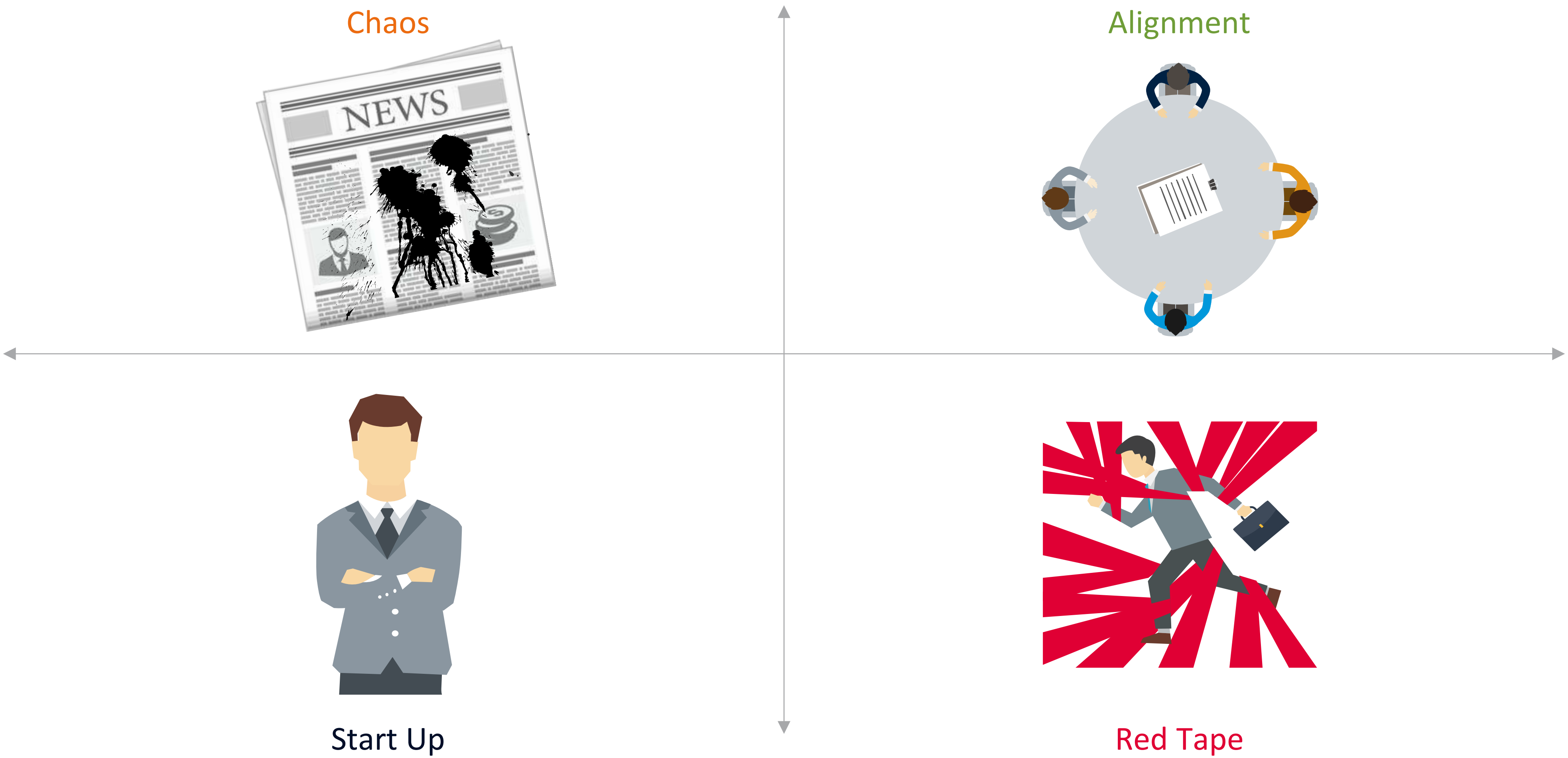


Strategic Opportunities

Know Your Numbers

Prevailing Factors	Amounts/Rates
Valuation Options	Strategic-Financial-Estate
Long-Term Capital Gain Rate	20%
Qualified Dividend Rate	20%
Top Income Tax Rate	37%
Annual Gift Exclusion	$19,000 individual/$38,000 married ("Use it or lose it")
Lifetime/Death/GST Exemption	$13,990,000 individual/$27,980,000 married (portable) (+$380k/$760k)
Top Transfer Tax Burden	40%
Additional Tax Burden	$66,000/month (per $20 million Taxable Estate @7.2%)
Applicable Federal Rate (AFR)	Low by historical standards
February 2025 October 2024	AFR Short – 4.34%; Mid – 4.52%; Long – 4.86% & 7520 – 5.40% 4.21% 3.07% 4.10% 4.40%
Medicare Surcharge	3.8%

Evolution of a Business. . . .or De-evolution?



Ownership Transition Model—Avoiding Chaos

Chaos

- Many Active & Inactive Members
- Cross Purposes
- Unmet Needs
- Nobody Happy
- Litigation Risk
- Forced Sale Risk

Many Inactive Owners

"Cousin Consortium"

"Sibling Rivalry"

Private Business Governance

- Business & Family Alignment
- Align Active & Inactive Members
- Fiduciary role & responsibility
- Rules for Control, Entry, Compensation & Promotion
- Dividend Policy (distribute or re-invest)
- Embodiment of Family Wealth Philosophy & Community Involvement

No Rules

Many Rules

Ownership in Transition

- More owners in picture
- Children starting to join business
- Business starting to be viewed as "cash cow"
- Stakes are rising

Active Owners Only

- Ownership = Control
- Few Formal Rules
- Daily Collaboration

Owner-Operated

Bureaucracy

- Too many rules
- No reason for them
- Inefficient operations

Strategic Opportunities: All In The Family

- Create Financial Stability
  - Take some chips off the table
  - Tax-free distribution
  - Diversify

- Prepare for Management Succession
  - Identify and groom an heir apparent
  - Design incentive to attract/retain/reward top talent

- Establish Private Business Governance Model
  - Family Business Council
  - Board of Advisors
  - Dividend policy

Strategic Opportunities: All In The Family

- Classic Freeze
  - Valuation discounts
  - Low AFR cycle
  - The “No Plan” plan can result in additional $66,000/month in estate taxes[1]!

- Consolidate Ownership
  - Buy out non-optimal shareholders
  - 3.8% Medicare surcharge
  - Low capital gains

[1] For illustrative purposes only.

Strategic Opportunities: Sale to Third Party

- Wear Hat of Buyer
  - Curb appeal
  - Assess drivers
  - Talented and likeable managers
  - Audited financials
- State of the Market
  - Frothy?
  - “Private equity firms now have more than $1 trillion of available capital. Expect more deals at higher prices.” – Fortune.com

Strategic Opportunities: Sale to Third Party

- What's It Worth?
  - Strategic vs. financial buyers
  - EBITDA vs. adjusted EBIDTA
  - Multiplier
    - Industry specific
    - Growth prospects
    - Firm size
    - Established financial history
    - Earnings stability/volatility
    - Top talent in place
    - Owner participation
    - Concentrations
    - Unique vs generic product/service

- Strategic Positioning
  - "It's not what you get – it's what you keep
  - Long-term capital gain rate still low (20%).
  - Core Assets – Real Estate – Cash

Strategic Opportunities: The Rest of the Story

- Other Options
  - Internal management buy-out
  - ESOP
  - IPO

- Polishing the Apple
  - Knowledge is power!
  - Manage as a dual track process
    - Plan A as chosen with
    - Back-up Plan B

  - Analyze value, cash flow, liquidity and risk

Changing Paradigms

Valuation Planning

The Old Paradigm

“I know what my business is worth based on the offers I get.”

Valuation Planning

The Old Paradigm

"I know what my business is worth based on the offers I get."

The New Paradigm

"Valuation is an art . . . and a science."

- Strategic $30 million
- Financial $25 million
- Estate $18 million

- Purpose driven
- Preserve confidentiality

Family Business vs. Family Wealth

The Old Paradigm

"My grandparents started this business and I am keeping it for my kids and grandkids."

Family Business vs. Family Wealth

The Old Paradigm

"My grandparents started this business and I am keeping it for my kids and grandkids."

The New Paradigm

"The business world is more complicated than it used to be. My family wants to do something else."

- Control of family wealth is more critical than control of family business
- Opportunity cost. Would you buy your business at the same price?

Static Documents vs. Dynamic Objectives

The Old Paradigm

"I own my business 100%, so no need for employment agreement, incentive plan or shareholder's agreement."

Static Documents vs. Dynamic Objectives

The Old Paradigm

"I own my business 100%, so no need for employment agreement, incentive plan or shareholder's agreement."

The New Paradigm

"I have to strategically position the business and wealth. Protect the business, my family and employees."

- Keep
  - Death, disability and retirement
  - Ownership and management continuity
  - Establish rules of entry and family business governance
  - Market rate vs. birthright

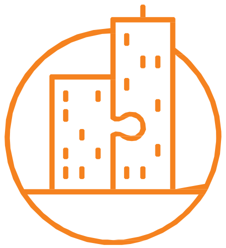
- Transition to third party
  - Position/protect A-team players
  - Conflicting documents

Strategic Positioning – Next Steps

- Put Team together
  - AEP® is collaboration designation!
  - Attorney, CPA, Trust Officer, Philanthropy, Banker, Financial Advisor
- Understand your options
- Learn where business and family goals are at cross-purpose—and align
- Establish legacy for future generations
- Plan and fund away the estate tax obligation

Freedom of Choice

More dollars to



Your Businesses

Your Family

Your Community

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Susan P. Rounds is a Director and Head of U.S. Wealth Planning for Deutsche Bank Wealth Management – Americas.

Ms. Rounds specializes in providing services and solutions to clients in the areas of tax and estate planning, business succession, risk management, philanthropy, family governance, intergenerational wealth transfer, and legacy planning. In a career spanning over 25 years, Ms. Rounds has advised ultra-high-net-worth individuals, families, and privately-held business owner clients during her tenure in Big Eight Accounting, global financial institutions, and private legal practice. Ms. Rounds was inducted into the NAEPC Estate Planning Hall of Fame® Class of '22.

As a national speaker, author, and commentator, her articles have been featured in leading publications such as *Trusts & Estates Magazine*, *The Journal of Practical Estate Planning*, and *The Journal of Private Wealth Management*. Ms. Rounds makes frequent presentations at national seminars and Estate Planning Councils across the country.

Ms. Rounds sits on the Editorial Board for Opportunity Zone Magazine and has been named as one of the Top 25 Opportunity Zone Influencers in the country for the past 5 years. She recently joined the Executive Committee for the Los Angeles branch of the Society of Trust and Estate Professionals (STEP) and previously served as a member of the board of directors for the National Association of Estate Planners and Councils, and as Editor for the *NAEPC Journal of Estate and Tax Planning.*

Ms. Rounds taught *Federal Estate and Gift Tax* at the University of Georgia School of Law, *Federal Income Tax* and *Principles of Accounting* at the University of Georgia Terry College of Business, and all sections for the National CPA Examination, including Financial Reporting; Income Tax and Regulatory Reporting; Business Law; and Audit. She also served as a faculty member for the NYU Summer Institute on Taxation.

Formal degrees and designations include a BBA in Accounting, *cum laude*, from UT El Paso, a Juris Doctor from the University of Georgia, and an LL.M. in Taxation from Emory University School of Law. Ms. Rounds passed the comprehensive four-part CPA exam on the first sitting and is a registered TEP (Trusts and Estates Practitioner) and earned the STEP Advanced Certificate in Cross-Border Estate Planning. Most notably, Ms. Rounds is an Accredited Estate Planner® (*Distinguished*).

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