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Owner Transition for Manufacturers

What Manufacturing Owners Need to Know to Prepare for Transition
and Succession

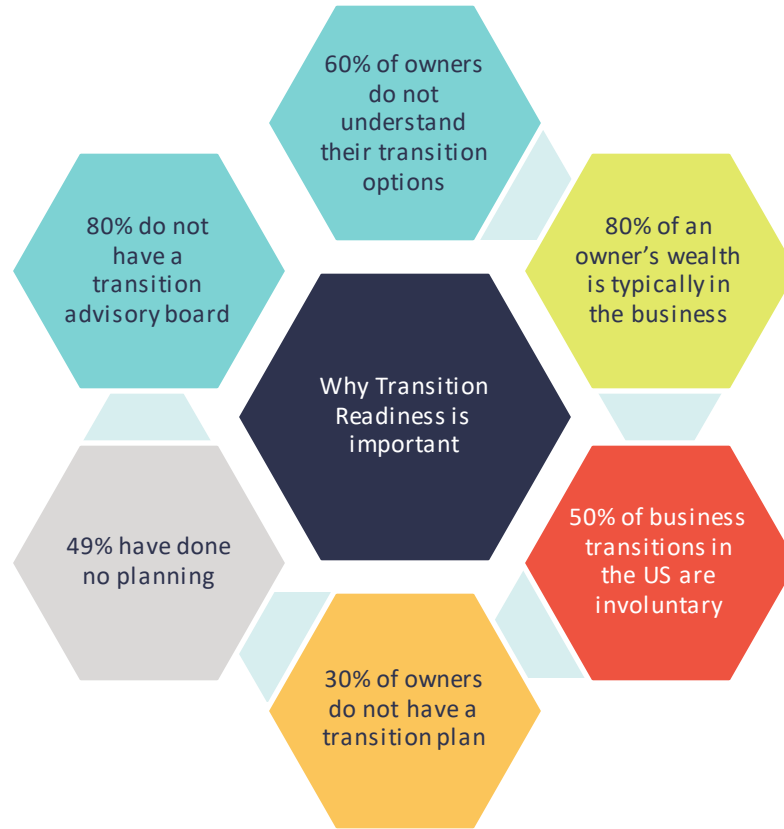
December 12, 2023



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Historical transition success rates are in the range of only **20 to 30%** nationally – the alternative being a business shut down.



75% of business owners regret their decision to sell one year after.

Source: Exit Planning Institute 2023





What are the Typical Transition Challenges or Issues Owners Face?



Common Readiness Challenges

Loss of identity

Lack of support

No goals post-transition

No passions outside of the business

No contingency plans

Lack of alignment with shareholders or family

Income needs post transition/wealth gap

Financial plan includes an overstated business value

Financial plan not aligned with personal plan

Inadequate tax planning

No net proceeds analysis

Complications with generational transitions





Start by Defining Your Goals






Polling Question

What is the top priority for you in transition planning?

- Taking care of your employees
- Continuing the company's legacy (mission /values /culture)
- Maximizing your return
- Keeping it in the family



Value is about more than just numbers.



Concentrations
(Customer, Industry,
Product)

**Supply Chain
Consolidation**

**Workforce
Development**

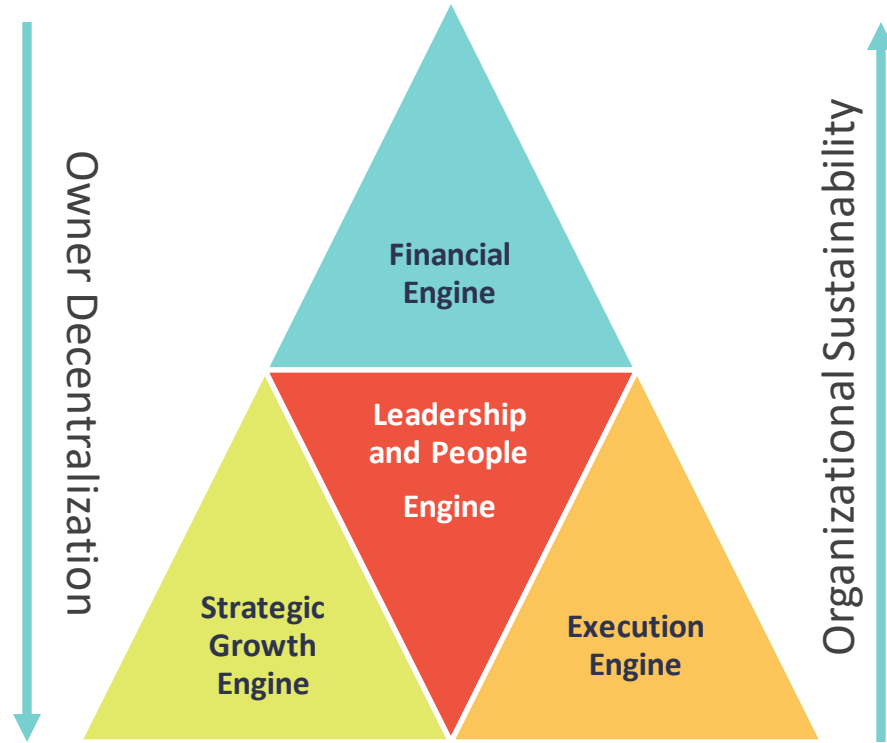
**Inflexible/ Unscalable
Operations**

**Cyclical
Industries**

**Succession Planning/
Leadership Strength**

**Availability
of Capital**

The Value Triangle



Growing each of the four “engines” in balance while also reducing owner dependence leads to enterprise value, organizational sustainability, and options for succession.



Growing value and sustainability in manufacturing



Take an honest assessment of where you stand today

What drives value/risk in the eyes of a buyer?
How will different types of buyers view your business?



Understand where you are going and why

Results are historical; valuation is prospective



Consistency is key

Buyer's need to service debt during peaks and valleys



Challenge growth / pricing strategies

Understand the difference between pricing and managing profitability

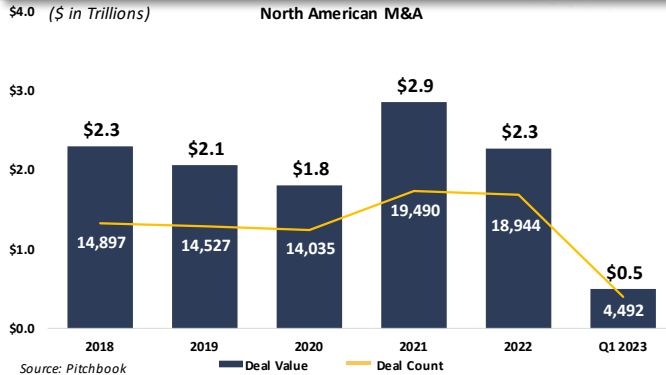


M&A Market Observations

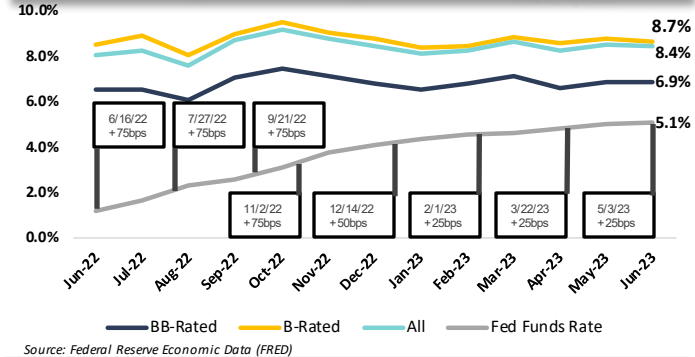
M&A Activity Facing Headwinds, But Has Proven Resilient

- North American M&A continued to retreat from unprecedented 2021 levels in the first quarter of 2023, falling back in line with pre-COVID figures in terms of value and volume
- High interest rates lowered equity valuations and increased cost of debt
- Lower middle-market (\$10–\$250 million in total enterprise value) valuations have just started to retreat from the record highs of 7.7x EBITDA on average, to 6.6x as of Q1 2023 (GF Data)
- Markets have rallied in 2023 as there is optimism in the Fed slowing rate hikes
 - Fed anticipates making two more rate hikes by year end
- Founder-owned, B2B companies are “highly prized and prospected” (Pitchbook)

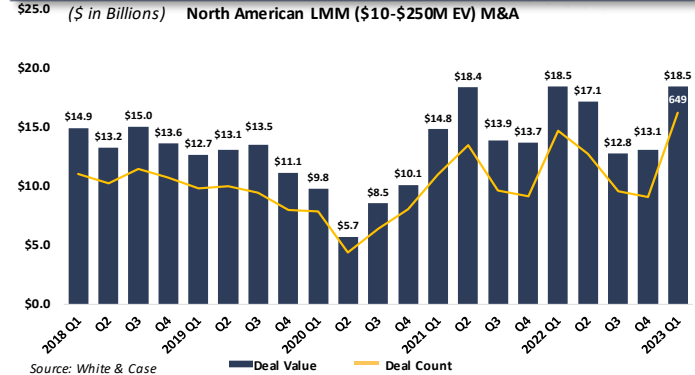
Q1 2023 M&A Activity on Par With Pre-Pandemic Levels



High Yield – Average New Issue Yield



2023 Brings Historic Deal Volume to Lower Middle Market M&A

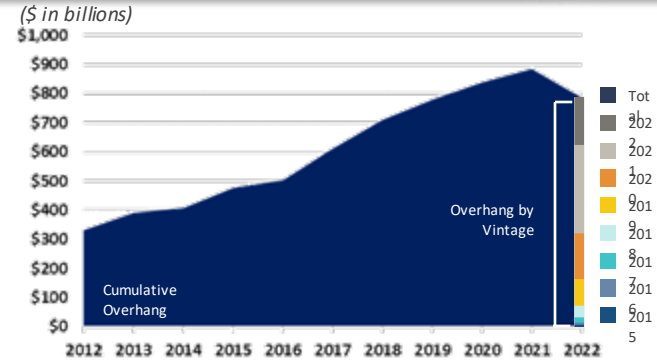


Private Equity Dry Powder

Current Market Conditions and Macroeconomic Outlook

- Dry powder is the amount of capital that has been committed to a private equity fund by investors but has yet to be allocated to a specific investment
 - Dry powder for private equity has dropped roughly 13% from record levels in 2020 of nearly \$890 billion to just over \$775 billion as of December 2022
 - Private equity has spent down their funds much more quickly
 - If one assumes that investment periods are ~5 years, and most fund managers hope to invest all of their committed capital, this means, vintages 2018 and older are now highly motivated to find uses for their uncalled capital
- Increased interest rates, a turbulent economy, and an increased proportion of money committed toward larger funds are expected to cause crowding around higher quality opportunities
 - Investors would generally rather seek moderate returns than suffer big losses
 - Overequitizing is begging to occur again

Private Equity Dry Powder



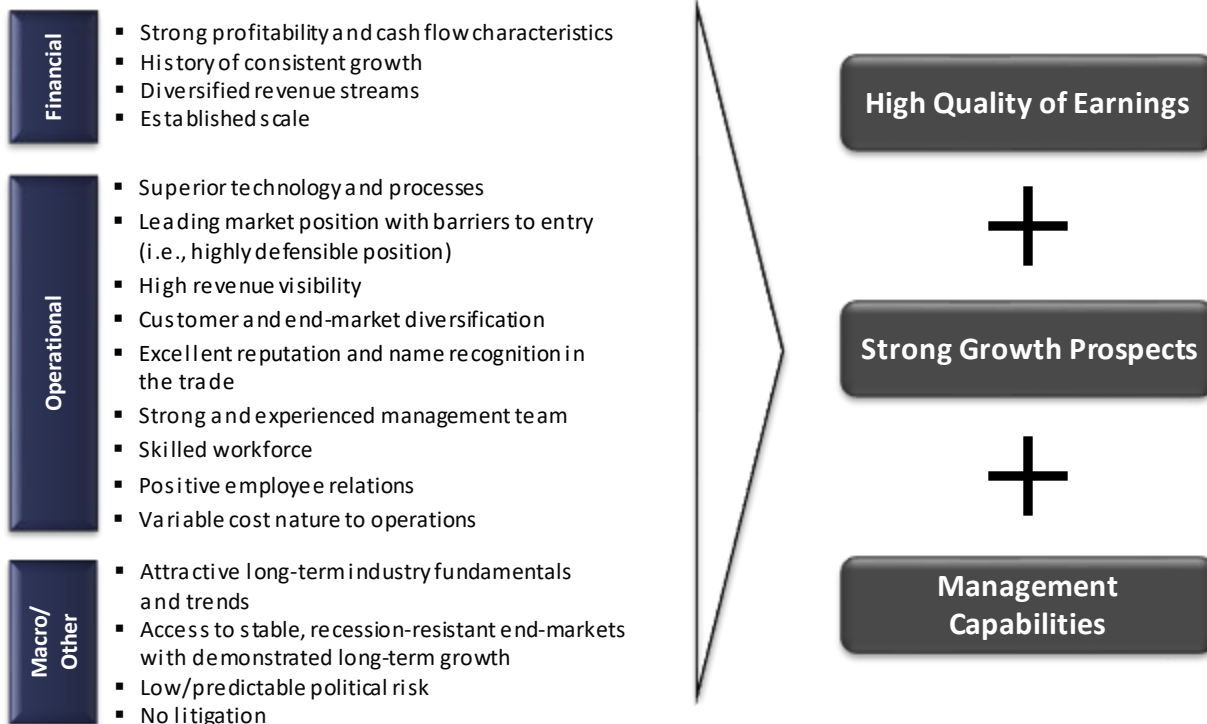
Private Equity Fund Raising Activity



Source: Pitchbook



Illustrative Strategic Attributes Sought By All Buyers



Types of Transitions

Internal

- Management Buyout
- Family Transition
- ESOP
- Combination

External

- Strategic Buyout
- Private Equity
- Dissolution



We help business owners *transition* their businesses to new ownership *seamlessly*, in a way that achieves their goals, preserves the legacy and value of their hard work, and sets the business up for sustainability and *ongoing success*.



Our Broader Owner Transition Services Team

We bring all of CLA.
Our owner transition advisors act as consultants and as the “quarterback” of the transition, connecting our clients with the services they need.



Thank you!

*Let us help you achieve peace of mind, reach a place of choice for your future, and **make your transition the celebration you've been working for.***

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