



# THE HIGH CENTER

Partnering for Success



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# TODAY'S OUTLINE

Proceed Forward: Why 95 is the new 60	Dave
The Exit. Why now may be a good time to sell	Dara
Preparing for and executing on a sale	John
Pre & post-sale considerations	Dara
Now what do I do? Top Ten	All
Q&A	

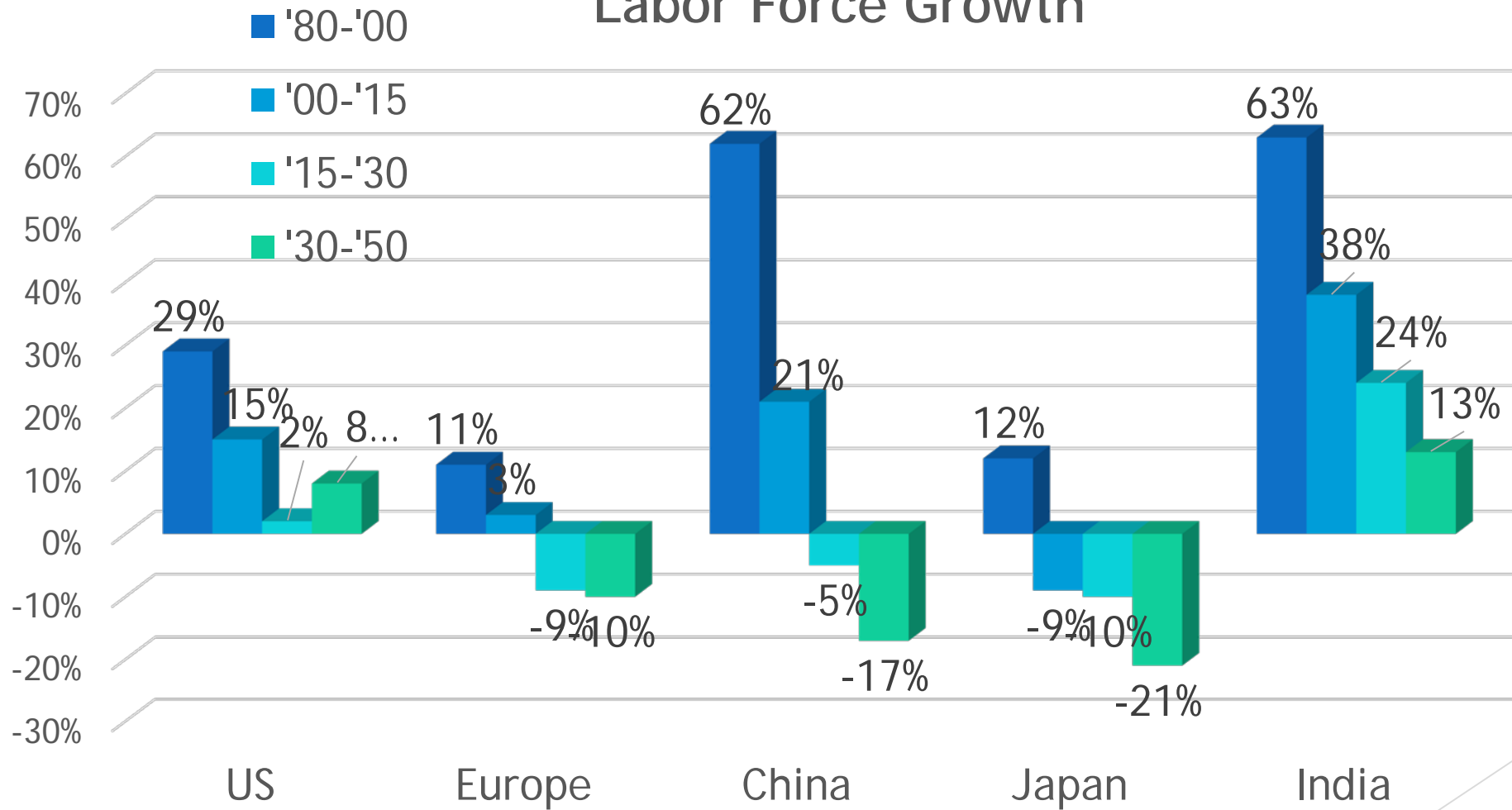
# PROCEED WITH CAUTION – WHY 95 IS THE NEW 60

The world will never be the same as it was in 2019 - so get ready for radical change. Why?

- Labor issues are here to stay
- Technology enhancements are here to stay and advancing quickly
- Supply chain disruption is a near to mid term challenge
- Commercial Real Estate?
- Covid challenges will be with us for ???

# A LABOR SHORT WAS LOOMING LONG BEFORE COVID

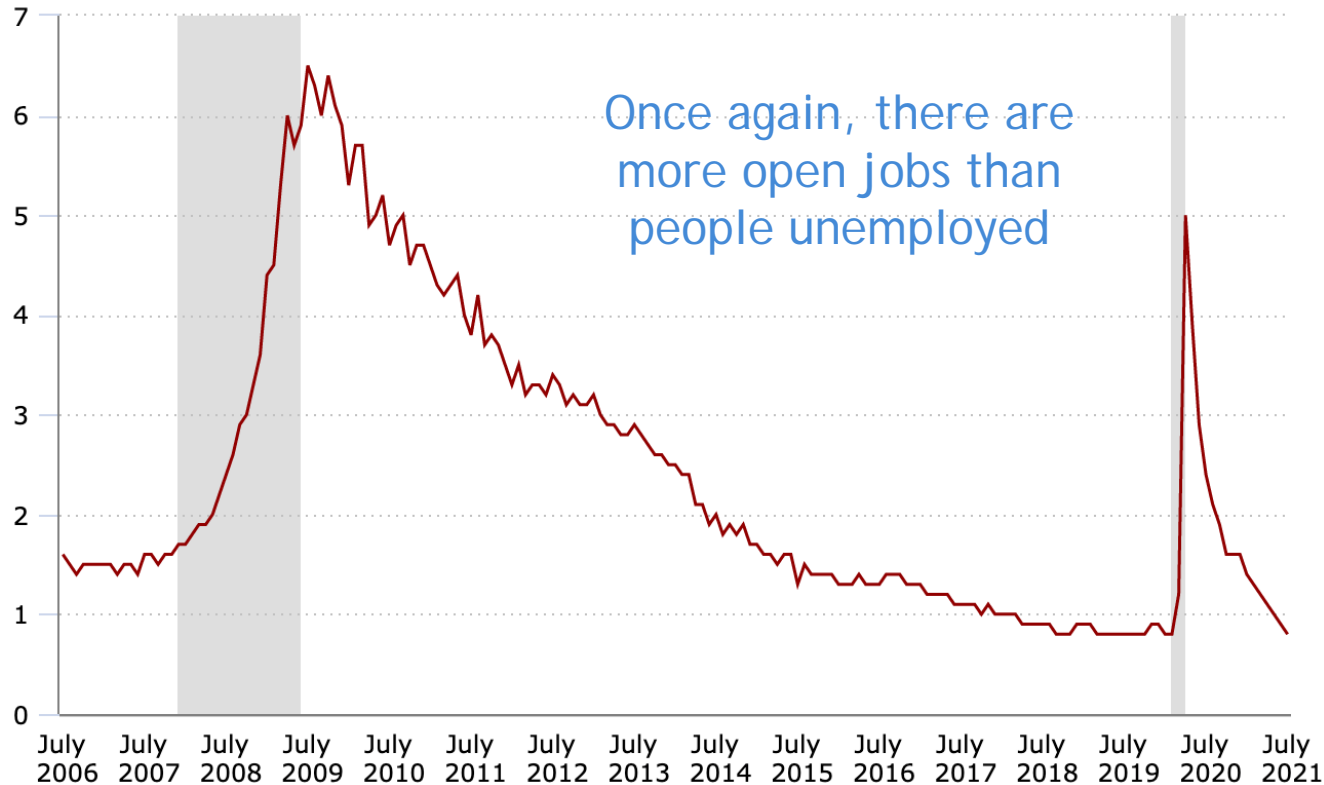
## Labor Force Growth



# ALTHOUGH COVID PROVIDED A BRIEF REPRIEVE, THE LABOR SHORTAGE IS BACK

## Number of unemployed persons per job opening, seasonally adjusted

Click and drag within the chart to zoom in on time periods



Hover over chart to view data.

Note: Shaded area represents recession, as determined by the National Bureau of Economic Research.

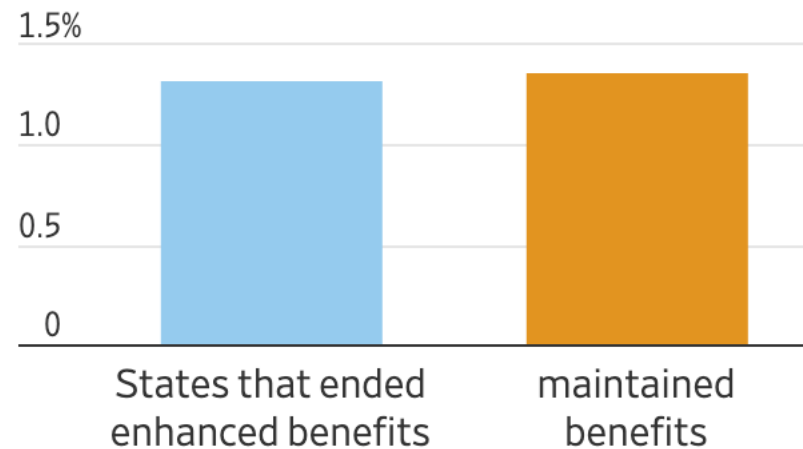
Source: U.S. Bureau of Labor Statistics.

# AND IT'S NOT JUST ENHANCED UNEMPLOYMENT BENEFITS

## Growth Comparison

Half of U.S. states ended enhanced benefits early and the other half, including the District of Columbia, maintained them.

## Change in nonfarm payrolls April to July



Notes: Seasonally adjusted; most of the 25 states that ended enhanced benefits early also ended participation in pandemic programs for the long-term unemployed, gig workers and the self-employed.

Source: WSJ analysis of Labor Department data

# IT'S QUALITATIVE JUST AS MUCH AS QUANTITATIVE

**Amid the 'Great Resignation,' just 7% of Americans say they have their dream job, survey finds**

## **In One Year, Pandemic Forced Millions of Workers to Retire Early**

From flight attendants to grocery store managers, older adults made the tough decision to end careers

by Jon Marcus, AARP, March 10, 2021 | Comments: 6

# It's not a 'labor shortage.' It's a great reassessment of work in America.

## How Freelancing Is Changing Work

"When you talk to workers, they don't want to sign up for a 9-to-5 job," said Hayden Brown, who runs Upwork, a site that matches freelancers with employers.

## Making It in the Gig Economy

Remote work becomes permanent





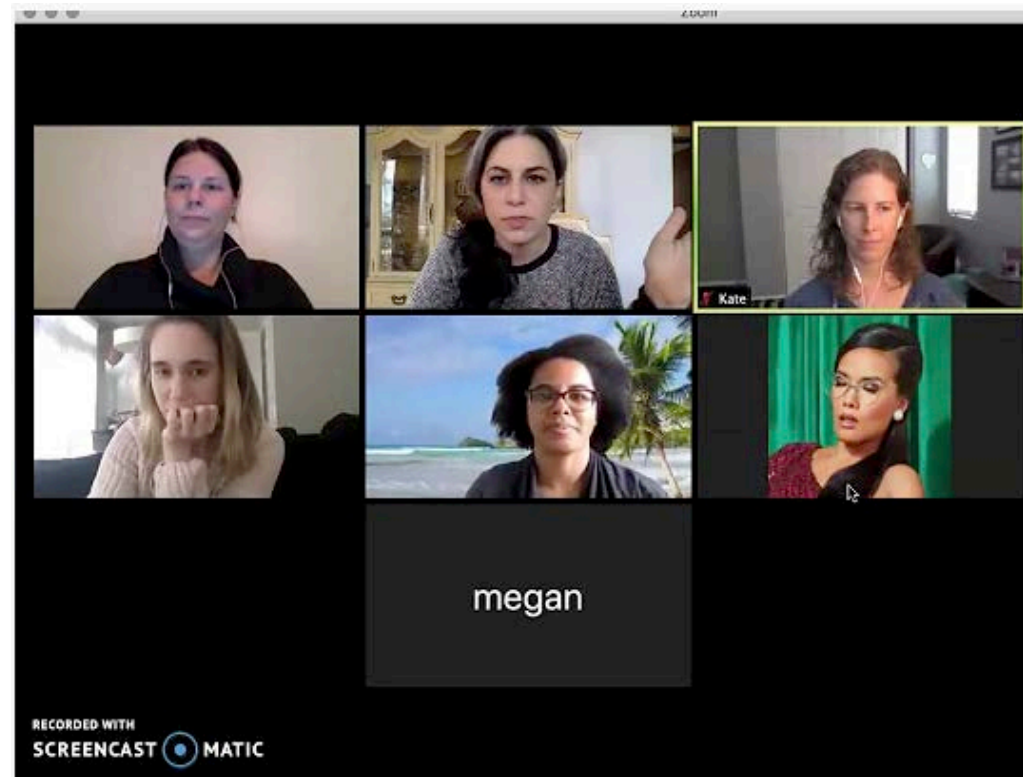
# TECHNOLOGY IMPACT



## Tesla Bot

Develop the next generation of automation, including a general purpose, bi-pedal, humanoid robot capable of performing tasks that are unsafe, repetitive or boring. We're seeking mechanical, electrical, controls and software engineers to help us leverage our AI expertise beyond our vehicle fleet.

*Moore's Law marches on. Tech capabilities continue to rise as costs continue to fall. Covid forced slow adopters to overcome inertia / reluctance so that many technologies are now universally accepted. We've compressed 10+ years of change into 18 months.*





# COMBINED IMPACT OF LABOR AND TECHNOLOGY SHIFTS

- As labor becomes scarce, labor costs rise
- As labor costs rise, the break-even points of automation fall
- As technology improves, the cost of automation drops, further driving down the break-even point
- As technology improves, the productivity of automation rises, further driving down the break-even point
- As producers pass along labor costs to customers, prices rise, further driving down the break-even point
- As fixed vs. variable cost curves shift, laggards die

# A CASE STUDY – LABOR VS. AUTOMATION

## Hanson Chicken Slicers, Inc.



	Labor Pool	People per shift	Overtime hours per week	Hourly Labor Rate	Equipment cost per week	Production Hours per week	Revenue per pound	Gross Profit per Week	Annual Overhead, SG&A, Etc.	Annual Profit	Weekly Volume
Status Quo	24	12	0	\$13.00	\$1,000	80	\$0.50	\$22,776	750,000	\$388,800	80,000
Pay overtime to maintain production	18	12	240	\$13.00	\$1,000	80	\$0.50	\$20,748	750,000	\$287,400	80,000
Reduce Production	12	12	240	\$13.00	\$1,000	60	\$0.50	\$15,272	750,000	\$13,600	60,000
Increase Average Wage	18	12	240	\$16.00	\$1,000	80	\$0.50	\$17,112	750,000	\$105,600	80,000
Raise prices 10%	18	12	240	\$16.00	\$1,000	80	\$0.55	\$21,112	750,000	\$305,600	80,000

Whew.. Disaster averted.... 😊

Or not...

# A CASE STUDY – LABOR VS. AUTOMATION

## Bachman Chicken Slicers, Inc.



	Labor Pool	People per shift	Overtime hours per week	Hourly Labor Rate	Equipment cost per week	Production Hours per week	Revenue per pound	Gross Profit per Week	Annual Overhead, SG&A, Etc.	Annual Profit	Weekly Volume
New Status Quo	18	12	240	\$16.00	\$1,000	80	\$0.55	\$21,112	750,000	\$305,600	80,000

Automation:		
Upfront Capital Cost	3,000,000	<del>3,500,000</del>
Production per hour (lbs)	1,000	<del>800</del>
Monthly Capital cost (5 yr life, depreciation and interest at ~6%)	11,885	<del>\$13,865</del>
Hourly cost to operate (maintenance, utilities, supplies, etc.)		\$ 200

	Labor Pool	People per shift	Overtime hours per week	Hourly Labor Rate	Equipment cost per week	Production Hours per week	Revenue per pound	Gross Profit per Week	Annual Overhead, SG&A, Etc.	Annual Profit	Weekly Volume
Status Quo	12	2	0	\$20.00	\$27,885	80	\$0.55	\$ 11,955	750,000	(\$152,231)	80,000
Increase production to break-even	12	2	0	\$20.00	\$30,085	91	\$0.55	\$15,233	750,000	\$11,669	91,000
Increase production	12	2	0	\$20.00	\$35,885	120	\$0.55	\$ 23,875	750,000	\$443,769	120,000
Max production	12	2	0	\$20.00	\$43,885	160	\$0.55	\$ 35,795	750,000	\$1,039,769	160,000
Minimum Price	12	2	0	\$20.00	\$43,885	160	\$0.47	\$ 22,995	750,000	\$399,769	160,000
Break-even price	12	2	0	\$20.00	\$43,885	160	\$0.42	\$ 14,995	750,000	\$231	160,000

At \$.42 per pound Hanson is losing \$214,400 per year

# PROCEED WITH CAUTION

## Choose Your Direction



2022 and on will not be a Sunday drive...  
If you drive 55 you may get run over.

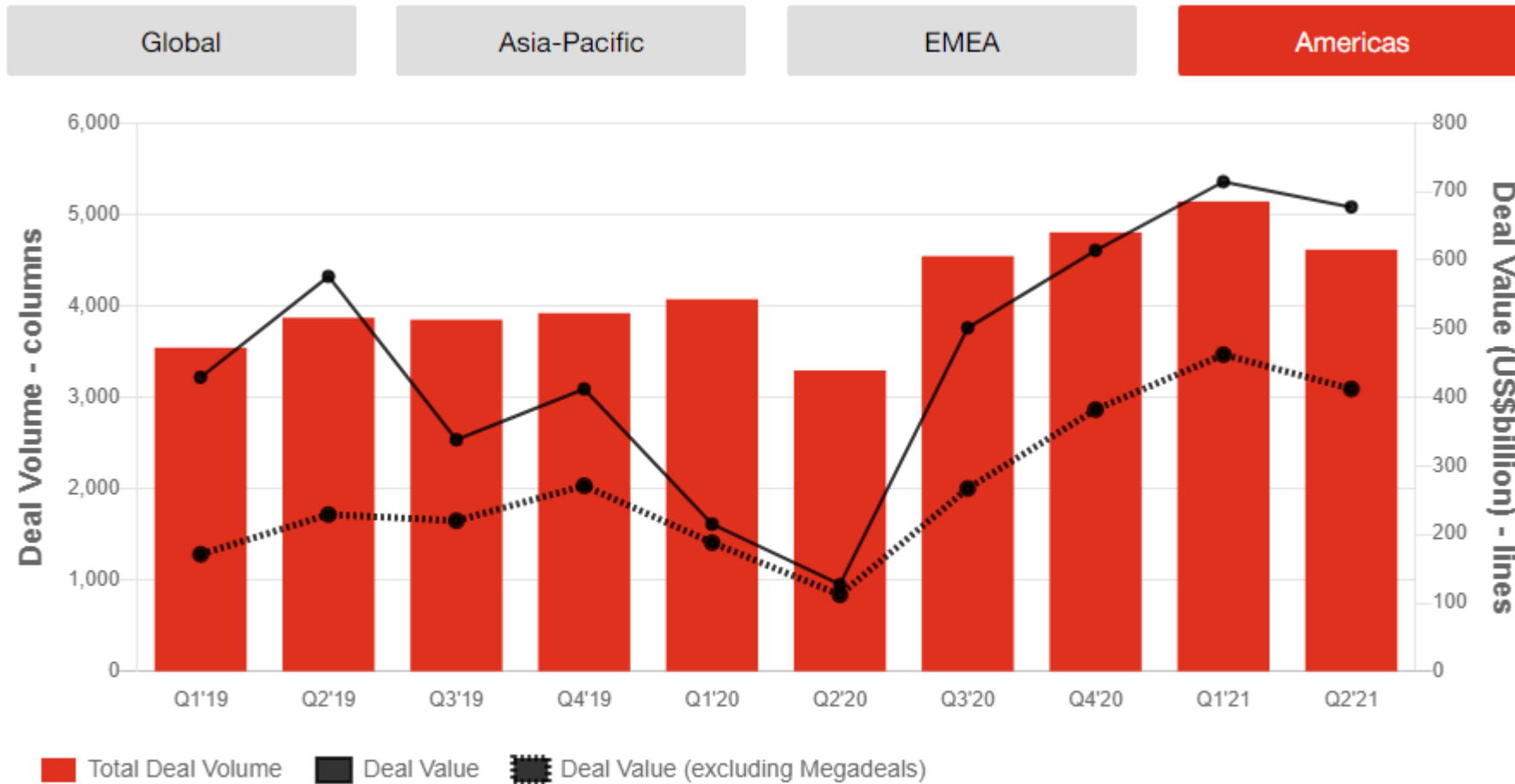
But the opportunities are massive for the  
forward-thinking, brave, and nimble.

Why this may be a good time to sell

Dara Bachman

# IS NOW A GOOD TIME TO SELL? DEAL VOLUME REMAINS HIGH.

## Global Deal Volumes and Values



Source: Refinitiv, Dealogic and PwC analysis



# IS NOW A GOOD TIME TO SELL? MULTIPLES REMAIN HIGH.

CHART 1

TOTAL ENTERPRISE VALUE (TEV)/EBITDA

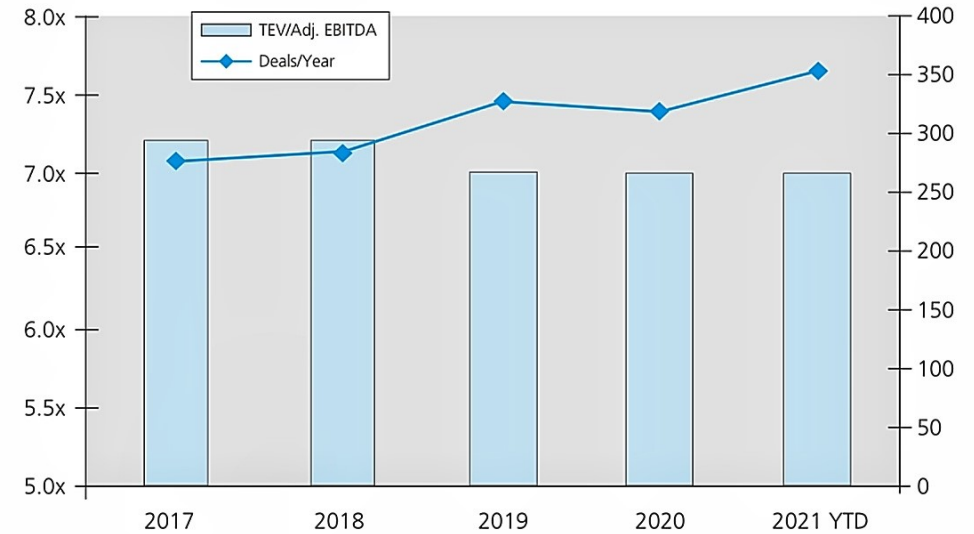
TEV	2003–2016	2017	2018	2019	2020	YTD 2021	Total	N =
10-25	5.6	6.3	5.9	6.1	5.9	5.9	5.7	1552
25-50	6.2	6.6	6.8	6.9	6.8	6.9	6.4	1190
50-100	6.9	8.2	8.8	7.5	8.0	8.1	7.3	814
100-250	7.7	9.0	8.7	9.3	8.6	8.5	8.2	432
<b>Total</b>	<b>6.2</b>	<b>7.2</b>	<b>7.2</b>	<b>7.0</b>	<b>7.0</b>	<b>7.0</b>	<b>6.5</b>	
<b>N =</b>	<b>2604</b>	<b>271</b>	<b>293</b>	<b>323</b>	<b>321</b>	<b>176</b>		<b>3988</b>

Please note that N for 2003-16 encompasses fourteen years of activity.

GF SOURCE: GF DATA®

CHART 2

AVERAGE MULTIPLES AND DEAL VOLUME



Please note 2021 Data is annualized.

GF SOURCE: GF DATA®

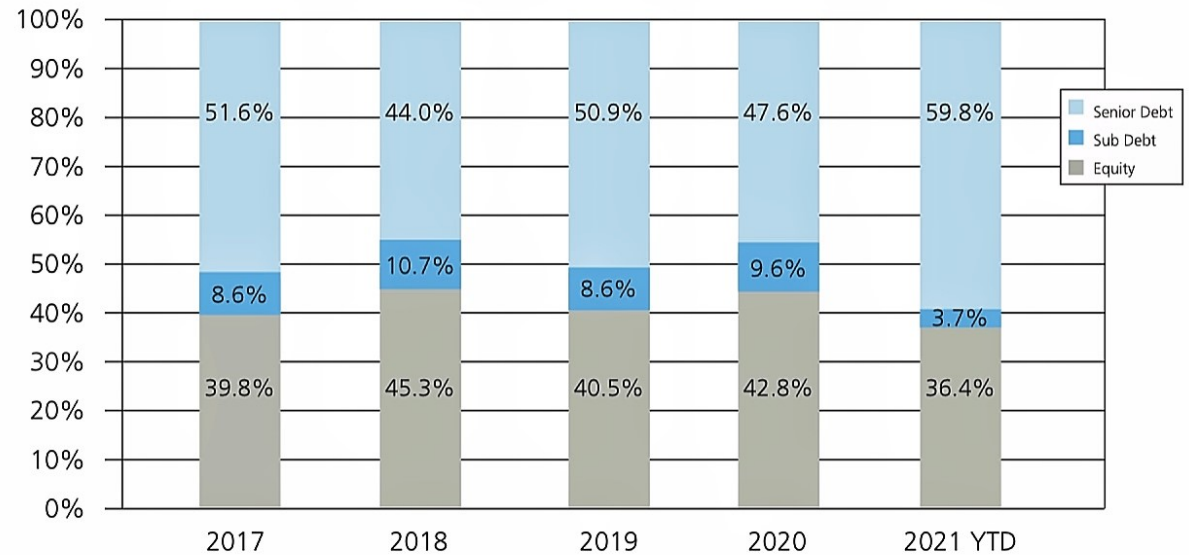
# IS NOW A GOOD TIME TO SELL? MARKET IS FLOODED WITH CASH & MONEY IS CHEAP.

- Worldwide corporate balance sheets report cash of \$6.84 trillion (up 45% from the 5 years preceding the pandemic)

- In the U.S., S&P 500 Companies report cash of \$1.9 trillion (compared to \$1.5 trillion pre pandemic)

**CHART 16**

**EQUITY AND DEBT — \$10–25 MILLION TEV**



GF SOURCE: GF DATA®

# IS NOW A GOOD TIME TO SELL? FAVORABLE U.S. TAX ENVIRONMENT.

1. 20% Capital Gains Tax Rate
2. 37% Highest Ordinary Income Tax Rates (Federal only)
3. Step-up in basis to fair market value of appreciated assets at death
4. No income taxation of lifetime gifts of appreciated assets
5. \$11.7M lifetime gifting exemption

# IS NOW A GOOD TIME TO SELL? FAVORABLE U.S. TAX ENVIRONMENT... WHEN COMPARED TO PROPOSED TAX LAWS.

## 1. Capital Gains Tax

- Increase to highest Ordinary Income Tax Rates (income above \$1mm)
- Retroactivity?

## 2. Ordinary Income Tax

- Individual Tax Rate Increase
- Taxation of pass-through income in excess of \$400k

## 3. Estate & Gift Taxes

- Elimination of step-up in basis
- Taxation of gifts of appreciated assets during life
- Reduction to lifetime exemption

## Preparing for and Executing on a Sale

John Reed

# The Dreaded Cocktail Party

- ▶ Multiples
- ▶ Timing
- ▶ Earn Outs



# Preparing for a Sale

- Soft Side
  - The Why
  - Other Important Considerations
  - Post Sale
- Hard Side
  - Why Pre-Work?
  - What to Focus On
    - Contracts
    - Governance
    - Employment
    - Leases
    - Financial Statements
    - Family/personal Issues

# Process and Expectations for a Sale

- ▶ Type of Sale and why
- ▶ Possible Buyers
  - ▶ Private Equity
  - ▶ Strategic Buyer
  - ▶ Family Succession
  - ▶ Management Buy Out
  - ▶ ESOP
- ▶ Timing
  - ▶ Due Diligence
  - ▶ Schedules
  - ▶ Sign, then Close?
  - ▶ Sign and Close?
- ▶ Multiples
- ▶ Payment of Price
  - ▶ Owner Financing/Subordination
  - ▶ Holdbacks/Escrows
  - ▶ Earn Outs
  - ▶ Working Capital Adjustments
  - ▶ Purchase Price Allocation
  - ▶ What's Left
- ▶ Post Closing/Trailing Risks
  - ▶ Joint and Several
  - ▶ Survival of Representations and Warranties
  - ▶ Working Capital Adjustment

## Pre and Post Sale Considerations

Dara Bachman

# PRE & POST- TRANSACTION: TAX PLANNING & INVESTMENT CONSIDERATIONS

## Income tax planning

- HIRE A GOOD DEAL ACCOUNTANT
- Stock vs asset sale
  - 338(h)(10) election
- Consider any last-minute income tax savings
- Charitable Giving

## Estate tax planning

- Outright Gifts
- Irrevocable Trusts

## Liquidity preparation

- Psychology of moving from illiquid to liquid
- Focus on running the business (& pick a wealth team you trust)
- Design an investment plan that makes sense
- Remain disciplined
- Do not make any significant life decisions within the first 6-12 months
- Stick with what you know

# Now What Do I Do? – Top 10 List

10. Real Estate Review
9. Financial Review
8. Invest
7. Supply Chain Review
6. Have good advisors
5. Prepare for action
4. Opportunities
3. Strategic Plan Update
2. Talent
1. Personal Reflection

# Q & A - Discussion