

J.P.Morgan

PRIVATE BANK

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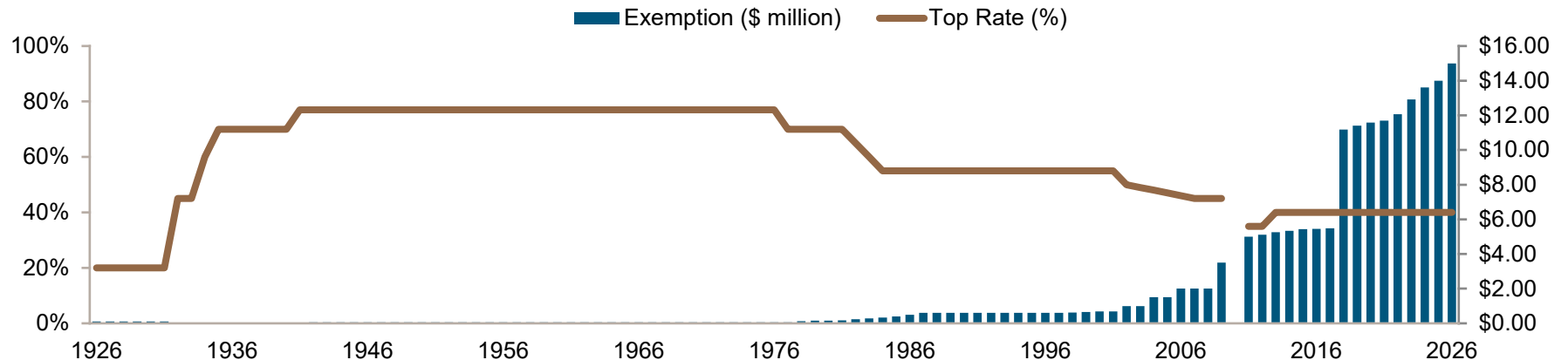
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Taxation landscape

SELECTED U.S. TAX RATES

EARNED INCOME TAX	39.35%	UNEARNED INCOME TAX	40.80%
CAPITAL GAINS TAX	23.80%	QUALIFIED DIVIDEND TAX	23.80%
ESTATE & GIFT TAX	40.00%	ESTATE & GIFT TAX EXEMPTION	\$15,000,000

UNITED STATES ESTATE TAX HISTORY (1926 to 2026)



Sources: (Top) CBO, JCT. Includes Medicare taxes, where appropriate. (Bottom) Internal Revenue Service; The Estate Tax: Ninety Years and Counting, Darien B. Jacobson, Brian G. Raub, Barry W. Johnson. In 2010, the Economic Growth and Tax Relief Reconciliation Act (EGTRRA) of 2001 repealed estate and gift taxes, resulting in an effective unlimited estate and gift exemption amounts.

Certain triggers can lead to tough decisions on the future of the business

TRIGGERS

-
- | | | | |
|----------------------|-------------------------|----------------------|-----------------------|
| • Retirement / death | • Law change (e.g. tax) | • Family discord | • Favorable valuation |
| • Liquidity needs | • Industry pressures | • Management failure | • Unsolicited offers |
-



KEEPING THE BUSINESS

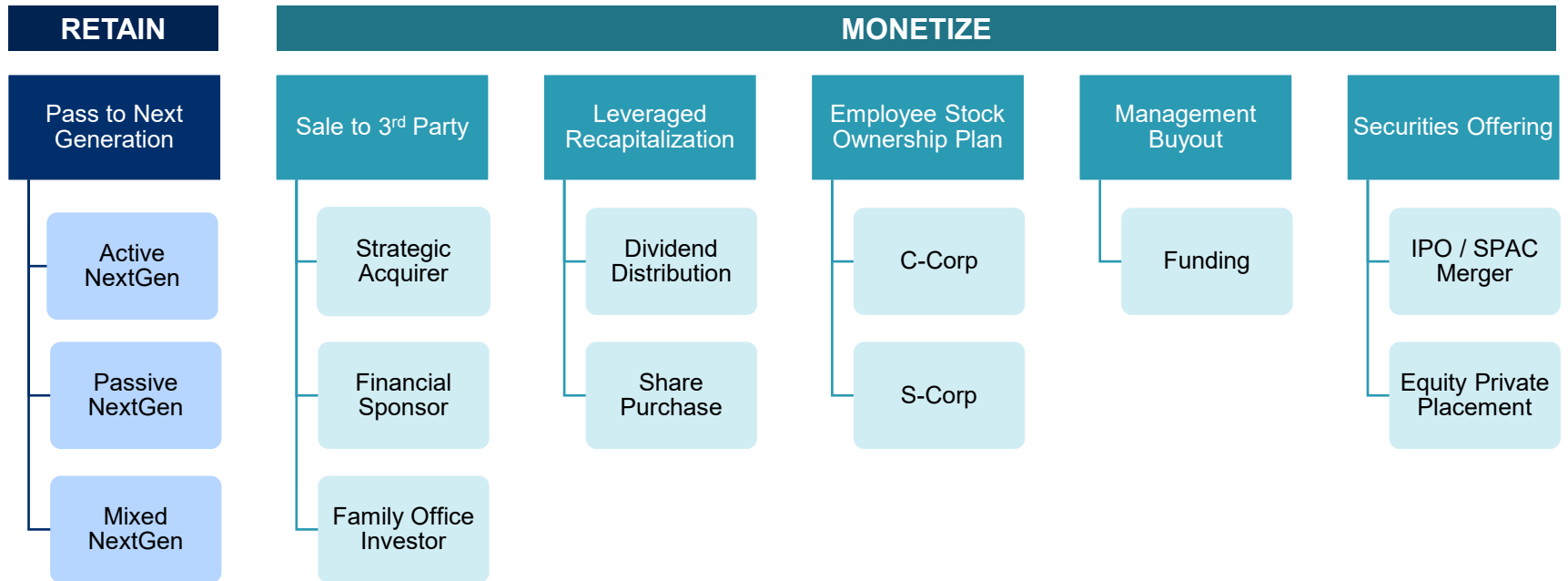
- How will I generate liquidity for my spending needs?
- Will my heirs have enough liquidity to pay estate taxes?
- How will I buy out non-participating family members?
- What kind of management succession plans should be in place?
- To whom should I pass my ownership?
- How will my family stay in control?
- What mechanisms are in place for intra-family transfers?
- How will professional management be incented?
- What policies are in place for dividend distributions?
- How do I ensure equitable treatment between family members in business and out?
- How will family members in management be compensated fairly?



SELLING THE BUSINESS

- When is the best time for a sale?
- Should I sell the whole business or a part?
- Should I take stock or cash?
- Who are potential buyers?
 - Business partner?
 - Employees?
 - IPO?
 - Strategic buyer?
 - Financial buyer?
- How should employees be retained/compensated?
- How do I evaluate the economics of the transaction vs. retaining the business?
- What should I do with the proceeds?
- Will this facilitate charitable goals?
- Should I do any pre-transaction planning?

Typical business transitions



Monetize – ownership transition options

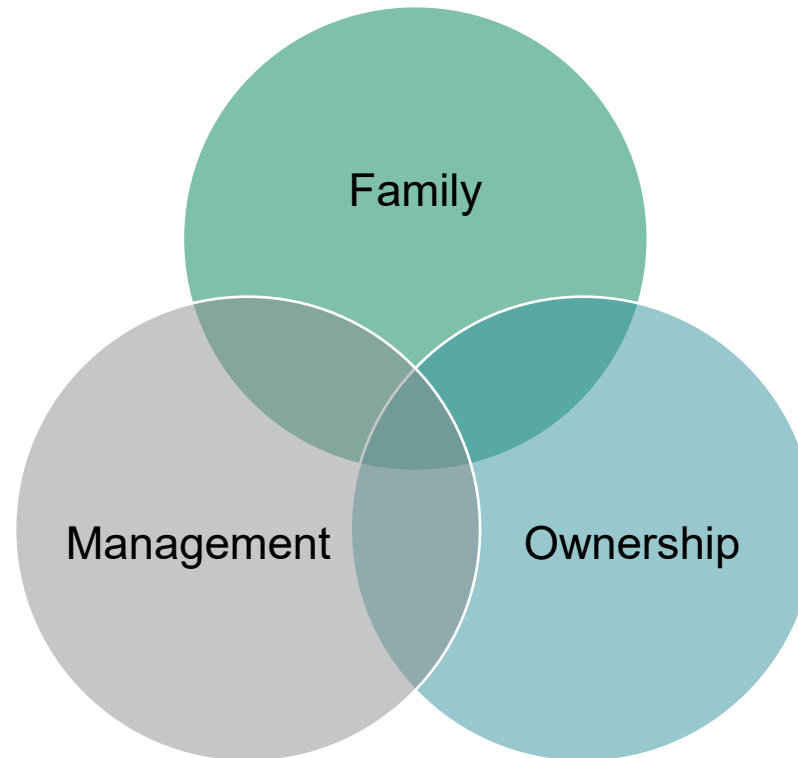
	SALE TO 3 RD PARTY	LEVERAGED RECAP	LEVERAGED ESOP	IPO SPAC MERGER
Transaction	<ul style="list-style-type: none"> • Sale of controlling interest (51-100%) of Company to strategic or financial acquirer 	<ul style="list-style-type: none"> • Stock redemption or cash dividend, may include minority ownership change (0-49%) 	<ul style="list-style-type: none"> • Sale of up to 100% of the Company to its employees 	<ul style="list-style-type: none"> • IPO: Issue securities to the public • SPAC Merger: Merge with publicly traded blank check company
Advantages	<ol style="list-style-type: none"> 1. Control premium 2. Maximizes up-front liquidity 3. Access to strategic buyers and synergies 	<ol style="list-style-type: none"> 1. Liquidity event for shareholders 2. No change in management control 3. Enables existing shareholders to have “second bite at the apple” 4. Bring in a partner who can add value to business 	<ol style="list-style-type: none"> 1. Liquidity event for shareholders 2. Equity incentive for employees 3. No change in management control 4. Friendly buyer 5. Proceeds qualify for cap gains deferral 6. Tax benefits – increased cash flow 	<ol style="list-style-type: none"> 1. Partial liquidity for shareholders 2. Increased access to growth capital 3. Cash for acquisitions 4. Attract/retain key management with publicly traded stock 5. SPAC Merger: Speed to market / more nuanced story
Disadvantages	<ol style="list-style-type: none"> 1. Loss of management control 2. Sale process can be disruptive 3. Potential negative impact on employees 4. Company may be highly leveraged 	<ol style="list-style-type: none"> 1. Increased leverage, debt service 2. Short-term risk for ongoing shareholders 3. May not address ownership transition 4. May recognize ordinary income versus capital gains 5. Fiduciary duty to minority shareholder 	<ol style="list-style-type: none"> 1. Increased leverage, debt service 2. Short-term risk for ongoing shareholders 3. Incremental IRS and DOL regulation and associated cost 4. Repurchase liability 	<ol style="list-style-type: none"> 1. Significant reporting / costly SEC compliance 2. Short-term earnings expectations 3. Private business owner expenses eliminated 4. Lock-up period on seller stock 5. SPAC Merger: Relative cost / dilution to target shareholders

Family business system



- In businesses that are controlled by family members, there are overlapping areas of involvement.
- A family member can be in any of seven different sectors within the family and business organization, creating complex relationships that are often difficult to manage.

THREE CIRCLE MODEL



Source: R. Tagiuri and J.A. Davis, Family Business Review 5 (1), 1992.

Governance

Successful families develop processes to address the fundamental issues with maintaining the family business over generations

- What are the family's overall goals?
- What are the philosophies, values and rules that family will operate under?
- Is there a family council? If so, what role does it play and who can serve on council?
- Who can work in the business?
- How do family members enter the business? How are they promoted?
- Can family members be terminated? If so, how?
- How are family members in the business compensated?
- Who determines compensation?
- What is the long-range goal for the business?
- How are dividends determined? What is the overall philosophy regarding dividends?
- Who can own shares of the company? Voting shares? Non-voting shares?
- What is the mechanism (price, terms, timing) for buying back shares?
- Who can serve on the board of directors?
- How does the board interact with the family?

MANY BUSINESS OWNERS PUT OFF DEALING WITH SUCCESSION ISSUES UNTIL IT'S TOO LATE OR UNTIL THEY ARE "WELL ESTABLISHED" IN THEIR BUSINESSES. THIS CONTRIBUTES TO BUSINESSES BEING UNABLE TO SUSTAIN THEMSELVES OVER TIME.

Family operating business

5 key elements essential to creating a business succession plan that will help your family thrive



CONTROL

- Closely held family businesses are more likely to succeed when all the shares, especially voting shares, are held by the family members who work in the business full-time and draw salaries.



ESCAPE CLAUSES

- There must be a safety mechanism that allows family members to leave the business without destroying it. Systems should be in place that allow individuals to exit in an orderly fashion. A buy-sell agreement should be in place.



ADVANCEMENT

- It is essential to establish a governance mechanism to address the issue of meritocracy. Questions that need to be answered include:
 - What qualifications are required to work in the business?
 - How should individuals enter the business and be promoted?
 - How is compensation determined?
- An employee stock ownership plan (ESOP) may also help align employees' interests with the business's objectives while generating liquidity for the owner.



DISTRIBUTION POLICY

- A well-articulated and transparent distribution policy is critical to promoting harmony between family members who are active in the business and those who are not.



ENTREPRENEURIAL VITALITY

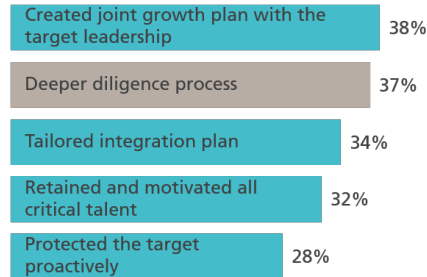
- With multigenerational businesses, complacency is a bigger danger than many may realize. To remain vital, all businesses must reinvest in themselves.

Retention – growing through acquisitions

KEY REASONS BEHIND CAPABILITY DEAL SUCCESS AND FAILURE

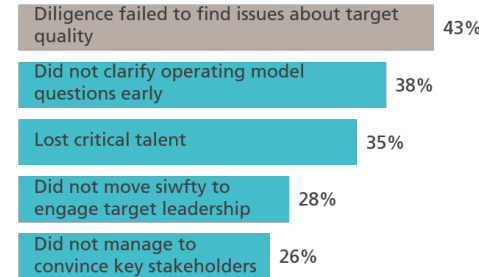
Reasons behind capability deal success

Percentage of respondents



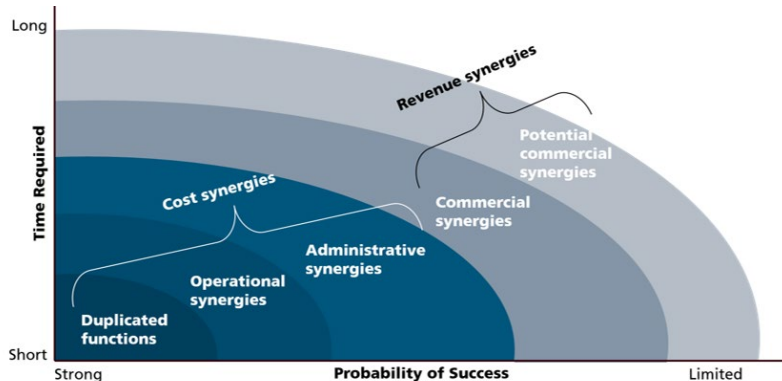
Reasons behind capability deal failure

Percentage of respondents



■ Integration approach related ■ Diligence related

TIMELINE OF OPERATING SYNERGIES



Sources: Bain M&A and Divestitures Executive Survey, July 2019 (top); Ceddaha, Franck. Mergers, Acquisitions, Divestitures. Economica. 2013. (bottom)



KEY QUESTIONS

1. What is **your transition plan** for the business?
2. What is the **timeline for transitioning** your business?
3. How would an acquisition **affect your personal, family and business goals**?
4. Have you **evaluated or completed any acquisitions** in the past?
5. How do you intend to **finance an acquisition**?
6. What is your **investment thesis**?
 - Are you looking to expand geographically, increase your customer base, sell more products to existing customers, acquire a supplier of a key component, etc.?
 - What is the return you are targeting on your investment?
7. Who are the members of your **internal, external and post-merger integration deal teams**?

Appendix

J.P. Morgan Private Advisory

J.P. Morgan Private Advisory is a cross-disciplinary group of over 100 global specialists who collaborate to deliver innovative and forward-thinking strategies, working closely with Private Bank Advisors to help clients make well-informed decisions and achieve their goals.



A CENTER OF EXCELLENCE

The team includes former practicing attorneys specializing in Trusts & Estates, M&A, and taxes, plus policy makers, business leaders, credentialed planners, and professionals across all disciplines.



DEEP-ROOTED EXPERIENCE

Leveraging 200 years of managing complex wealth, we provide personalized, unbiased advice to guide you toward your financial goals, all in one location.



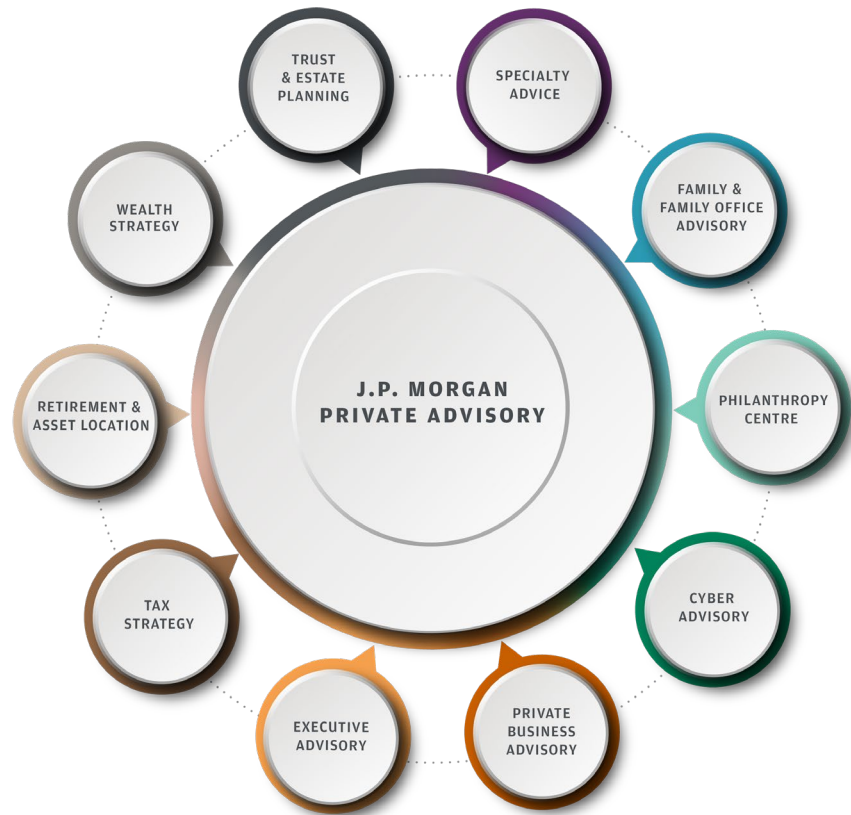
SHAPED AROUND YOU

Your Private Bank team takes the time to understand your goals and, powered by our insights, consistently offers highly informed perspectives tailored to your specific needs.

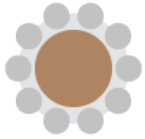


GLOBAL PERSPECTIVE

Guided by our local, regional, and international knowledge, our strategies are tailored to leverage key advantages when geography matters most.



Private Business Advisory



We provide business owners with guidance on legacy and succession planning, as well as transaction advice to increase shareholder and family wealth.



Provides strategic, practical advice to private business owners and their families regarding business transitions, corporate governance, pre-transaction planning, and maintaining a legacy business over multiple generations



Understands the goals and objectives of the business owner and determines how these goals can be achieved in a tax-efficient manner



Works with other professional advisors to give guidance across a multitude of industries, geographies and stages of the corporate lifecycle



Partners with other lines of business within JPMorgan Chase & Co. to bring the firm's capabilities to private business owners

WHATEVER QUESTIONS YOU HAVE, WE'LL SEEK TO PROVIDE ANSWERS AND SOLUTIONS.

What are the transition options for my business, and why should I consider pre-transaction planning?

What steps should I be taking now if I want to sell my business in a few years?

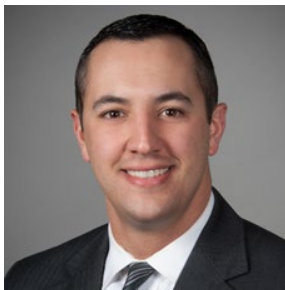
How do I evaluate the economics of a monetization event vs. retaining my business?

What are the different types of buyers, and what are the considerations in selling to each?

Who are the key members of a deal team during a transaction?

How do I respond to an unsolicited offer for my business?

How do I ensure my family stays in control of my business?



Zachary Hammond

EXECUTIVE DIRECTOR

SENIOR PRIVATE BUSINESS ADVISOR

Zach Hammond is an Executive Director and member of J.P. Morgan Private Advisory, a cross disciplinary group of over 100 global specialists who collaborate to deliver innovative and forward-thinking strategies, working closely with Private Bank Advisors to help clients make well-informed decisions and achieve their goals.

Zach is part of the Private Business Advisory team, where he works developing content and strategies for business owners on issues such as mergers and acquisitions, corporate governance, pre-transaction planning and maintaining a legacy business over multiple generations.

Zach originally joined J.P. Morgan's Closely Held Asset Management Group in 2016 as an Asset Manager responsible for conducting fundamental analysis on managed assets and their industries, completing annual valuations for closely held assets, and conducting buy/sell analysis. Prior to joining J.P. Morgan Private Advisory, Zach was a Director for a middle-market investment bank executing sell-side transactions for business owners.

Zach holds a Bachelor of Science in Business Administration specializing in Finance and Economics from The Ohio State University. He currently holds FINRA Series 79 and 63 licenses.

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