

Transition & Succession Planning—Construction Industry



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Agenda

-  Introduction / Our Experience
-  Ownership Continuity Plan
-  Succession Planning Development
-  Employee Stock Ownership Plan (ESOP)



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Bringing Our Experience to the Construction Industry

Issues and Practice Capabilities

RSM's audit, tax and business consulting professionals have been helping construction companies address and improve their performance through the most challenging business cycles. We bring insight and ideas to our clients on major issues such as:

- Business and transition process
- Organizational performance and change management
- Compensation and incentives
- Attract, develop and retain key talent
- Optimize revenue in new and existing channels and markets
- Merges and acquisitions

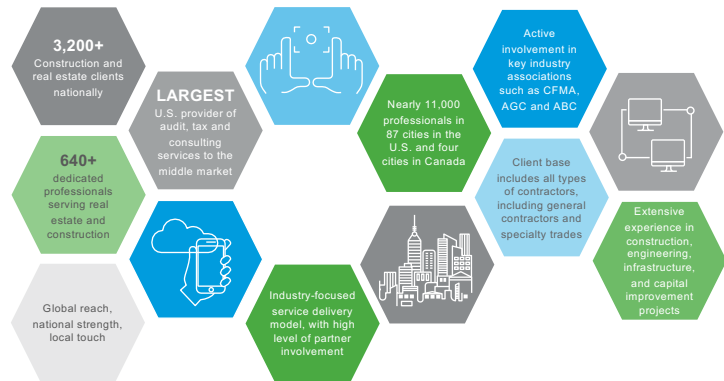
Our construction and engineering clients include architectural and engineering firms, commercial contractors, heavy highway and civil contractors, residential builders and specialty contractors.

Industry Eminence

Through our industry eminence program, you will have access to:

- Senior analysts who are equipped to understand, forecast and communicate economic, business and technology trends shaping the construction industry to keep you apprised of unique insights for the middle market.
- Subject matter experts with intensive immersion into data analytics, artificial intelligence, machine learning and RPA and other technological trends.

RSM by the Numbers



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Leadership and Relevant Services



Brandon Maves

Partner, National Construction Sector Lead

AUDIT

TAX

CONSULTING

Experience providing business assurance & advisory services to all segments of the construction industry:

- General, sub- and specialty contractors
- Real estate owners
- Investors
- Developers
- Commercial brokerage firms
- Property management firm

Specialization across all sectors:

- Municipal
- Single and multifamily residential
- Industrial
- Commercial
- Hospitality
- Retail
- Alternative energy

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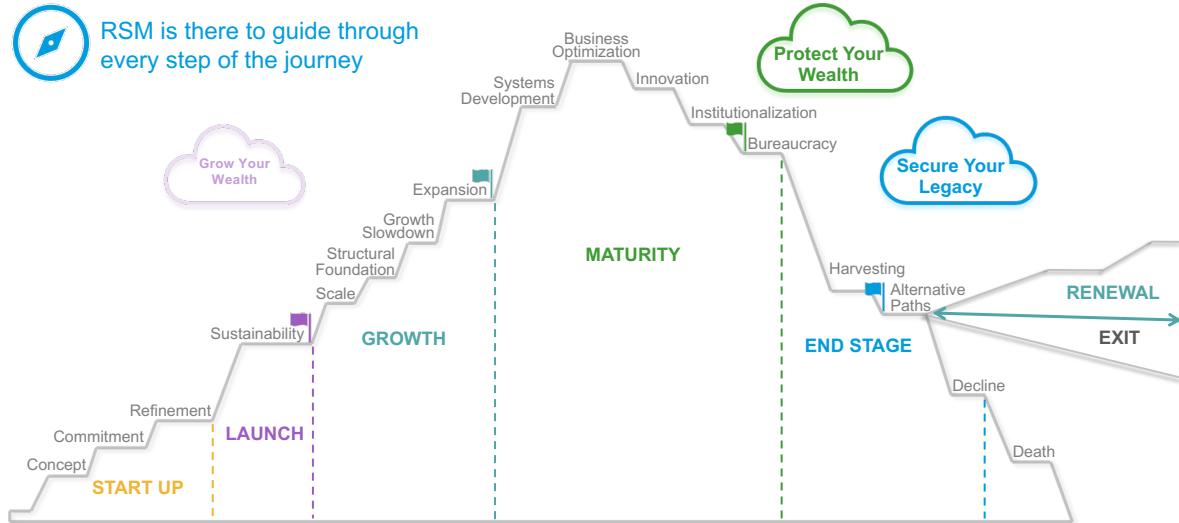


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Life Cycle Journey



RSM is there to guide through every step of the journey



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Business & Transition Planning Overview

Business & Transition Planning (BTP):

A process through which a company plans for the future transition of ownership and management.

Central Question:

What is the owners end goal for the business?



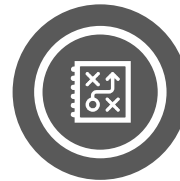
Goal

- Orderly and private transfer of business interests



How

- Integrate trust and estate planning with business planning
- Effective marketing of business



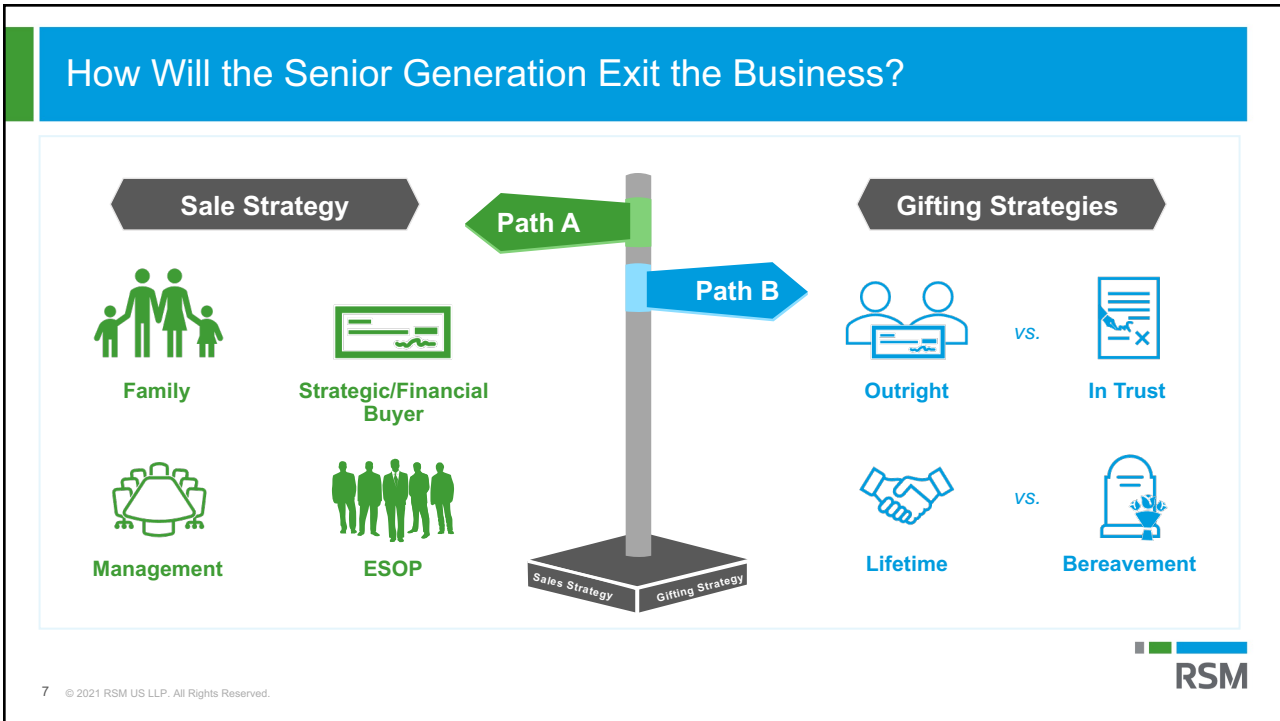
Journey

- Important to remember this is a process and not a singular event

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OWNERSHIP CONTINUITY PLAN

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Ownership Continuity

Transactional Succession vs. Gifting Succession

- Liquidity Concerns
- Skin in the game
- Valuation considerations
- Balance Active vs. Passive descendants
- Tax considerations
- Asset Protection



Why Enter into a Buy-Sell Agreement?

1. Create a market for the owner's business interest
2. Provide for mutually agreed on price and terms
3. Facilitate smooth transition of management and control of the business
4. Assure owner that future of surviving family members is not dependent on the business
5. Provide liquidity to pay estate taxes and settlement costs

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Buy-Sell Continuity

Protect against ownership interests going to outsiders

Triggering Events:

1. Death
2. Disability
3. Retirement/Termination of Employment
4. Cause



Optional (call and put rights) vs. Mandatory



Purchase Price Determination

- Formula
- Valuation
- Stipulated

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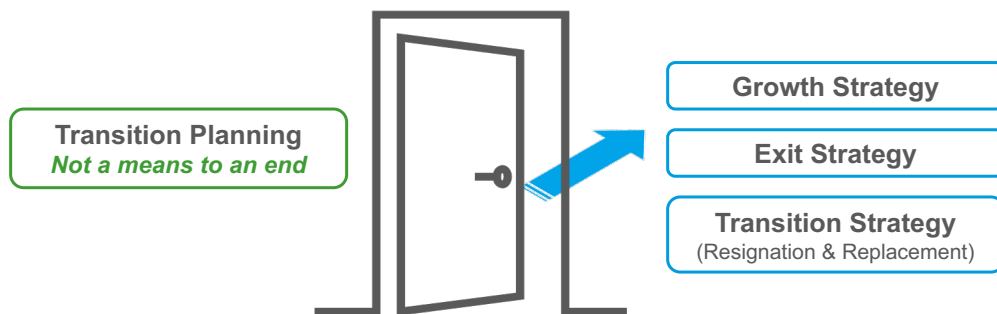
SUCCESSION PLANNING DEVELOPMENT

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Transition Planning to Strategy

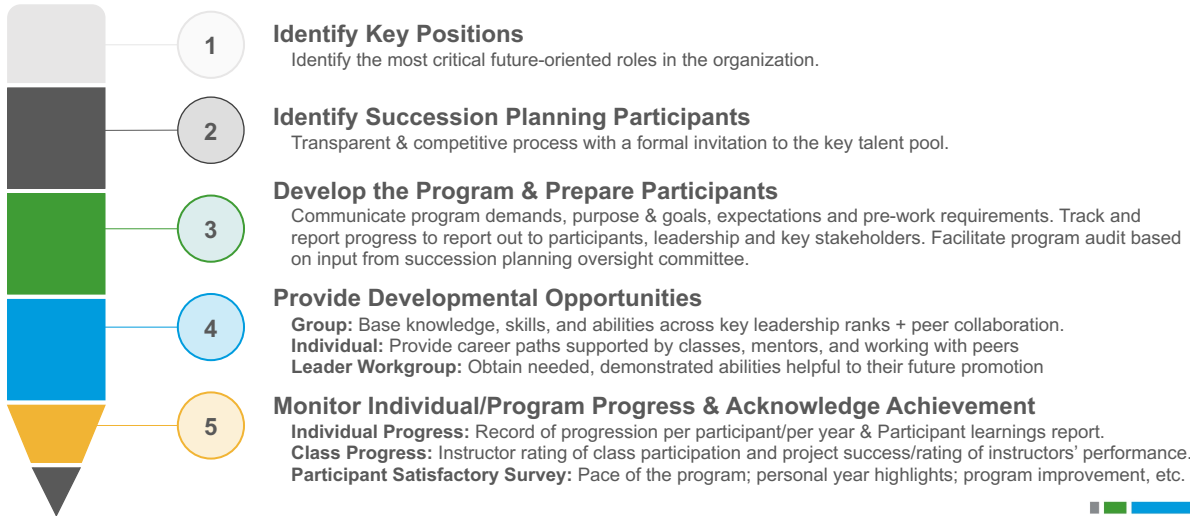


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Succession Planning Development Steps



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Succession Plan vs. Succession Planning Program

A Plan to Act

The purpose of a succession planning program is to ensure continuity in key technical positions and critical leadership roles.



Reactive Planning



Reactive Approach



Employee Futures



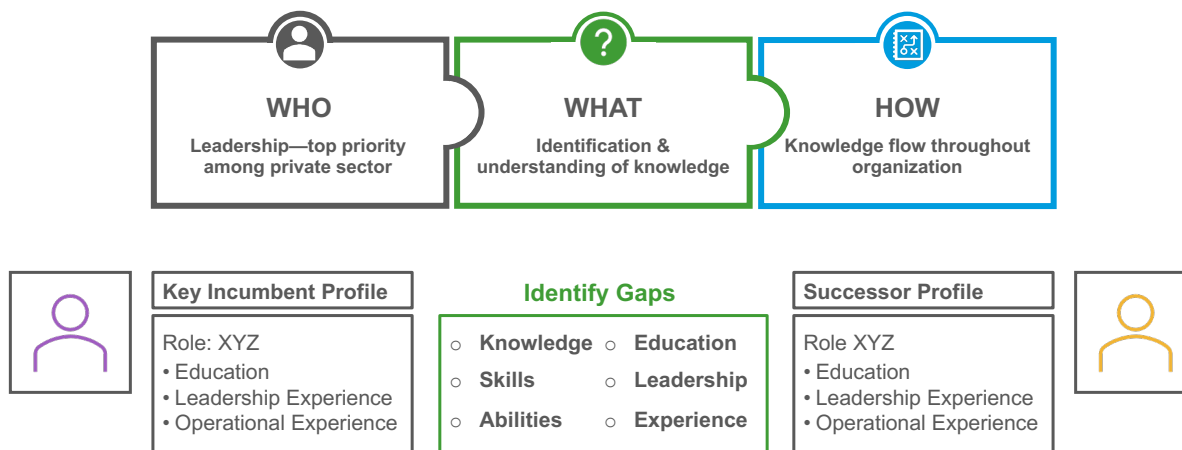
Outside Management

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Identify Gaps Between Incumbents & Successors



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RSM Business Transition Advisory

Transition Readiness	Discover	Recommend	Decide	Implement
Preliminary assessment discussion & tools • Readiness survey • Owner question • Business operations • Important facts/situations - Historical	Owner readiness assessment • What do owner(s) want for themselves, their family and the company • Identify and assess emotional barriers Process • One-on-one interviews with each owner • Organizational alignment questionnaire Company readiness assessment • Estimate the current intrinsic value • Understand available opportunities to impact value through quality improvement and risk assessment Process • Value opportunity profile	Formed by the input gathered during discovery, we provide what we believe is the best option to meet the owner(s) objectives	Owner(s) meeting Transition planning report • Owner readiness plan - Key recommendations • Company readiness plan - Key recommendations Road map • Presents the key recommendations, required decisions, and actions over the planning time frame	Road map Implementation • Failure to implement is the biggest challenge for most owners and companies • Recommendation's discussion can raise new issues to address • New opportunities require actions Process • Quarterly road map implementation assistance to ensure progress

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EMPLOYEE STOCK OWNERSHIP PLAN (ESOP)

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How an ESOP can preserve a business, and a legacy

An **employee stock ownership plan (ESOP)** is a qualified employee retirement plan to reward employees with an ownership stake in the business by **sharing in the successes of the company**— while also providing for a **tax-advantaged transition plan** for owners and the sponsoring ESOP companies.

Once the company adopts the ESOP trust, that trust can purchase shares of stock from the owner using borrowed funds from the company, bank, or the selling shareholder.

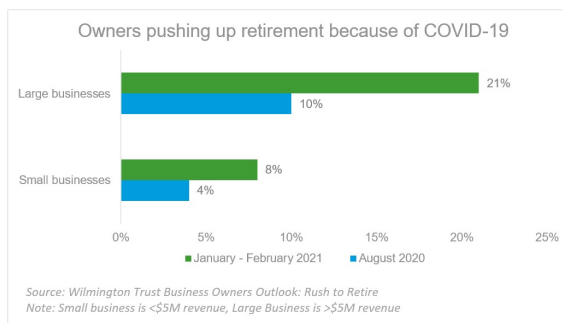


Construction Workers' median age increased 1.3 years from 2010-2020, compared to the economy at 0.5 years increase.

Ownership Transfer & Management Succession Survey:

Majority of respondents plan to **exit** their business in the **next 5 years**—of those, **50% do not have an ownership transfer plan***

Source: Future Markets Insights



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Employees as Owners

Advantages

For the Selling Shareholder: Continuity of the existing company and tax savings.

For the Owner: A structured exit over a longer time frame because the owner is not required to sell 100% of the business in the transaction. By not having to divest fully, an owner can continue to be involved with the business while determining the proper succession plan.

For Multiple Stakeholders:

- **Seller:** If the sale of the company involves at least 30% of the company stock—and the company is a C corporation at the time the ESOP acquires the stock—the seller may defer paying capital gains taxes
- **Company:** A business can borrow money to fund an ESOP, and the value of the interest and principal leads to tax deductions over time as shares are contributed to the ESOP. This tax savings in turn can lead to improved cash flow.



Disadvantages

1. Potential complexity to bonding capacity and financing with third-party lenders.
2. The company needs to monitor the repurchase obligations of an ESOP to ensure availability of significant cash or liquid assets to meet the repurchase requirements.
3. ESOPs require significant management time and resources to comply with rules and regulations for financial statements, tax reporting and the Department of Labor.



QUESTIONS AND ANSWERS