Commonly Asked Questions by Entrepreneur Owner-Managers (EOMs) Related to Bringing Senior Managers Into the Conversation Regarding a Potential Capital Gain Transaction

"I'm sure you've heard this 100 times, but all the things I was worried about at the beginning, like employee reaction and limiting the number of people who knew, were all pretty much unwarranted."

-Cary Corkin, The Entwistle Company
(Cary is the partial owner, President, and CEO of The Entwistle Company, which had a successful capital gain transaction at the end of 2020.)

1. Is there anything I should do before I tell my team about my ownership succession intentions?

   Well, why are you considering a capital gain transaction at some point?

   It could be for any number of reasons, or a combination of several. Maybe it's because you'd like to retire and don't have a natural successor identified to lead the enterprise; maybe it's because the business needs new ownership and a capital injection for the next stage of expansion; maybe it's because you've been inspired to transition your life to the next chapter. Putting some thought into *"why?"* before you sit down with your key managers will help you to have conviction around your decision. Your conviction will provide confidence, and that confidence should translate into buy-in from the management team.

2. When should I tell the team about my intentions?

   When you decide to have a capital gain transaction (someday), our belief is that transparency provides clarity as well as the opportunity to align interests. Based on this, we would suggest that EOMs share their intention for a capital gain transaction (someday) as soon as they make that decision, to get the greatest benefit out of the decision and team's involvement.

3. Who should I tell?

   Who are the handful of senior trusted leaders? Often when asked this question, EOMs can quickly rattle off who the key management team members are without much further thought. Those individuals are likely the place to start. That quick thought exercise may be particularly helpful if you consider your organization to be flat or not have a senior leadership "structure." All sustainable organizations have functional leaders, and those are the people you should consider. (Note: in addition to functional leadership, sometimes it is valuable to bring a rising star into the loop, if sharing that individual with potential investors will be valuable to the company's presentation and identity.) This is usually 1-6 people, rarely more.

4. <u>Do I need to tell them</u>?

   Yup. They are going to learn someday, right? Technically, no, you do not have to tell them in advance. But aren't you going to want / benefit from their help? Who recruited these people? Who hired them? Who trained them? Are you willing to risk their feeling disrespected by you? *"I don't trust you enough to include you in this decision."* Without a doubt, downside fears are overblown, and upside benefits are underappreciated and / or not understood.

   There is literally nothing more impressive than a non-owner management team able to address the future growth story of the company in a compelling way, without the EOM having to participate. When a team is well aligned and able to present their shared vision, it speaks volumes about the business.

5. <u>Does it make a difference if they are involved or not?</u>

   YES. All the difference in the world. If an EOM has invested in building a strong management team, then this opportunity should not be missed. Not only will the team's involvement spread out the (large) volume of work required, but a well-run company with a deep management team is also that much more attractive to potential investors and helps them further envision an exciting future partnership with that management team.