

Fractional Ownership Transition Strategies

For the owner of a closely held business contemplating ownership transition, a fractional ownership transition can often be an ideal strategy. There are a variety of benefits to a fractional ownership transition that can be especially attractive given the economic and marketplace conditions in which the business is operating. A fractional transition can also provide the business owner with the desired amount of liquidity, within the desired timeframe.

As a business owner, before you overlook the possibility of a fractional ownership transition in lieu of a 100 percent external sale, consider the many different ways a fractional ownership transition can be structured and how it can work well for you.

There are vast opportunities for the creative design of a fractional ownership transition ideal for each unique situation. One of the most favorable attributes is that it is more controllable by management and company's board of directors.

This can be particularly appealing to business owners looking for an expedited ownership

transition option, as a fractional ownership transition can often be accomplished in as few as 120 to 150 days.

Common Fractional Transition Options

1. Employee Stock Ownership Plan (ESOP) – A trust set up by a corporation to purchase company stock and then allocate that stock to its employees over time, similar in many ways to a profit sharing program. Shares are typically allocated to individual employees based on their compensation levels and subject to vesting requirements.
2. Management Buyout (MBO) – Keeps ownership within the “business family.” Offers a high level of control and preserves the corporate culture, enabling you to reward your most valued and trusted employees.
3. Third Party Partial External Sale – Sale of a portion of ownership to a third party buyer.
4. Transition Of Ownership To A Family Member – Transfers a portion of ownership to one or more family members either by gifting or recapitalization.
5. A Combination – A creative design that

blends multiple ownership transition solutions to create the ideal hybrid for your unique situation.

Flexibility is Key

Another key benefit to setting up a fractional ownership transition is that it creates a mechanism for your next liquidity event. The flexibility of a fractional transaction makes it a good strategy to keep options open if the ownership group decides they want to sell or complete another fractional transition when the economic cycle recovers. It is important to note that completing a fractional transition today does not preclude you from a sale or MBO tomorrow.

Most obviously, a fractional event such as an ESOP is an ideal way to vest your employees in your company. The opportunity to share in company growth and performance gives employees a true sense of ownership, with the potential to significantly invigorate their contribution to the success of the business.

The opportunity for growth comes in another way with fractional events. The liquidity realized with a fractional event can create an opportunity to reinvest proceeds in a more diverse portfolio of investments at market levels that some would argue are attractive. And the potential gains associated with such an opportunity to invest and diversify while still running the business make this option a risk many owners are willing to take.

Is a Fractional Ownership Transition Strategy Right for You?

Work with a trusted advisor to determine the best ownership transition strategy for you and your business. Once you have a complete understanding of every alternative, you can make an informed decision that has the highest likelihood of achieving your desired liquidity and ownership transition goals.

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