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Banking & Finance

How to navigate changes of control, wealth preservation

In this week's Thought Leadership Point of View, executives from Huntington National Bank answer questions about raising money, selling a business, and preserving wealth.

Q: How should a company select an investment bank and banker that are strategic fits for the company?

Andy Cardimen: An investment bank and banker need to be fully engaged in the success of that transaction. While investment banks typically structure their engagements as success-based fees, there is more to it for the banker. Finding a banker that is invested in the industry in which their client operates is crucial. The banker should have relevant transaction experience that brings insightful positioning thesis and buyer knowledge.

The bulge bracket investment banks of New York aren't appropriate for everyone. Unless you're looking to do an initial public offering, you should select a bank that knows your transaction is as meaningful to them as it is to you, as senior level attention can change the market's view of the sell-side process.

Finding an investment bank that brings a well-rounded offering of services around the Mergers & Acquisitions universe is also important. Having capabilities outside of just sell-side M&A means you are receiving well-rounded advice. For example, knowledge around the levered debt markets can be critical

for valuing a business. That is hard to do without someone who has active debt placement experience on your team.

Q: When is Private Equity the right choice?

Andy Cardimen: Private Equity buyers offer two things that a strategic buyer often cannot: flexibility on structure and speed in closing a transaction. Why are those important? Time is never an M&A transaction's friend. That's true on both sides of the negotiating table. Getting agreement on the purchase and sale of a business often depends on many external factors that can change over time, including debt markets (interest rates and capacity levels), regulatory changes, and the whipsaw effects of global supply chains.

There are more PE firms today than there have ever been. Their "dry powder," or available cash, also sits at historically high levels. The criteria for picking the right firm should include more than just how much they are willing to pay. Other considerations include their experience in the company's industry, what relationships they can bring to the table, how they will help grow the business in the future, how employees will be treated post-transaction, what it will be like to work with the individuals

on the PE team, and how long they plan to hold onto the asset before selling again.

PE offers a variety of solutions for owners looking to not only take some chips off the table but also continue running the business. PE can bring a significant amount of capital and growth expertise that allows owners to scale much faster than if they were to do it on their own.

PE offers opportunities to re-invest a portion of your proceeds into the new transaction, typically with the same terms as the sponsor, which allows owners to get a second bite of the apple and participate in the upside of the business. They also can offer lucrative equity incentive packages to the management team, allowing them to own a piece of the business.

Q: What is the latest update on the ever-evolving world of cybersecurity risk and mitigation through specialty insurance?

Scott Ransburg: Cyber risk is a challenge for businesses of all types and sizes. With evolving technology, new threats, and more sophisticated payment fraud schemes, it's harder to identify and stop malicious activity. Two common attacks are ransomware and payment fraud.

With ransomware, lack of security controls across a



ANDY CARDIMEN
Senior Vice President & Commercial Group Manager, Indiana Mid-Market Banking
Huntington National Bank



SCOTT RANSBURG
Indiana Market President
Huntington National Bank

network allows hackers to penetrate networks and attack. When a ransom attack interrupts a business, companies are expected to be up and running within hours, but the reality is a multi-week interruption with a high likelihood of losing customers.

With payment fraud, hackers penetrate a network and study who authorizes payments, who sends money and where they send it. Hackers then takeover an email account or create a fake one that looks like a trusted contact and authorize regular payment(s) sent to a bogus account they control. Often multiple payments occur before the compromise is discovered.

Whether insurance is purchased or not, cyber incidents will continue. If you forego insurance, consider taking the money you would otherwise spend on premiums and investing it in network security improvements to help protect your company.

Q: How can an Employee Stock Ownership Plan result in a lasting family legacy?

Andy Cardimen: An ESOP allows an owner to gradually transfer the ownership away from an individual to a trust for the benefit of the employees. This action, as opposed to other succession alternatives,

best maintains the business as an on-going entity in a manner most like that which it was previously. Alternative succession options almost always include a dramatic change to the business over which the current owner has no control. The inherent tax advantages of selling to an ESOP best allow the current owner to create wealth for his/her estate and future generations.

Q: How can a business owner use trusts to secure generational wealth?

Scott Ransburg: Trusts can be a very effective tool in developing generational wealth. Many clients use trust structures to keep family businesses together as one economic unit, rather than parceling out pieces and parts to different beneficiaries. In addition, trusts can provide the means for estate- and gift-tax benefits as well as an asset protection wrapper. Trusts should be something every business owner discusses with their tax and legal advisors. ●



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At its heart, a business is about people. A group of people coming together to create something bigger than themselves. To create a solution or a product or an experience in the service of other people. At Huntington, it's our belief that running a business is about more than making money, it's about making people's lives better. So let's roll up our sleeves and get to work, together.

To get started, call Andy Cardimen at (317) 231-7905.



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