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The program committee has done an excellent job setting up this year's signature event for the Family Business Center of Hawai'i. It will be held at the Sheraton Waikiki and members have generally found the benefits from attending increase with the number of family members brought to the annual retreat.

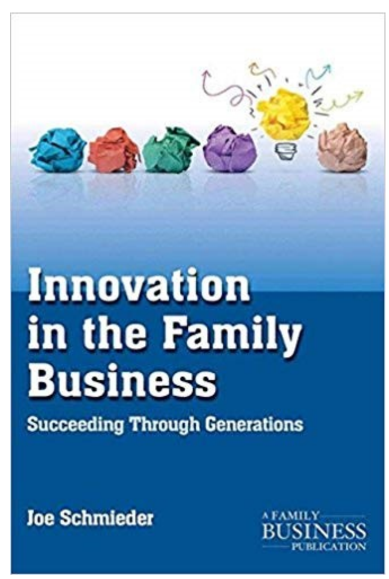
Joe Schmieder has extensive consulting experience with respect to providing guidance on to succession and the resolution of complex family business issues. He has also worked for a family business. The interesting thing about his work experience is that he led a multi-generational family firm for 25 years but he was not a family member. This has given him a unique perspective about family firm behavior from both a family and non-family member perspective.

In his book, *Innovation in the Family Business* Schmieder wrote that one of his goals was "*to inspire enterprising family to focus more energy and resources on innovation throughout the family business and to provide them some ideas for creative directions to pursue on multiple dimensions*." Attending the retreat will provide members the opportunity to interact with Schmieder on a more individual level.

A more detailed program will follow but I wanted to ensure that members tried to reserve the date and attend. The retreat keynote speaker is important for a good experience but the members are really what make the retreat a great experience.

I look forward to you attending and having the opportunity to interact with you over the two days.

Joe Schmieder the principal consultant with the Family Business Consulting Group and author of *Innovation in the Family Business*



ETHAN LEE AND CRAIG CHONG PROVIDE USEFUL ADVISE ON PREPARING FOR THE REALITIES OF PASSING ON ONE'S FIRM

Members attending the FBCH's meeting on Oahu on July 24, 2018 got a double treat with a presentation by Ethan Lee from Pacific Business Valuations and Craig Chong, President and CEO of Fresh Leadership. Ethan discussed some of the quantifiable issues related to "realistically" valuing your business, while Craig explored some of the processes and issues that need to be addressed when deciding how to pass on your family business.

Ethan laid out the parameters using as an example a firm that is 20 years old with $20 million in annual sales. The first thing he recommended to do is forget about the possibility that somebody is going to purchase your firm for strategic purposes. These type of acquisitions do occur but they are very rare events. Thus, you have to assume that your firm will go to a financial buyer, and that buyer is going to base their purchase offer on the returns they see the firm providing them. They will also incorporate a risk factor into their calculations. In finance terms, they are going to calculate the present value of the future earnings of the firm as it exists today. They are not going to pay "you" for improvements, they plan on making that will improve the cash flow.

Risk is one factor that a current owner can influence that will enhance that present value calculation. For instance, to the degree that you can make the size of your firm's revenue flow continue uninterrupted by your departure, this reduces the risk to an external buyers. It also reduces the risk of selling to a family member. Of course, this can't be done overnight and Ethan felt that one might reasonably consider it taking three to five years to prepare to sell one's firm. A succession plan is needed to pass on ownership's good will.

Craig Chong President and CEO of Fresh Leadership, speaking at the July Meeting of the Family Business Center of Hawai`i

Ethan Lee, from Pacific Business Valuations, speaking at the July meeting of the Family Business Center of Hawai`i

Craig Chung discussed the steps needed to prepare oneself emotionally to pass on their business. Most owners want their business to continue functioning and to both serve their customers and their employees. It is important for owners to think about the age at which they would like to retire and to impart this information to an advisory council that should meet at least once a year.

Business owners also need to calculate how much money they will need to survive outside of their business. Over time, our business life and personal life gets interwoven and the expenses associated with one have an impact on the other. However, with the sales of one's firm they will be separate and many owners have never really calculated these costs.

Craig also advises giving some thought to the issues of whether one's children are capable of operating the business or alternatively if they have any desire to do so.

He suggests having a strategic plan that is operationalized so that one's advisory board can assess the degree to which it is carried out.

Finally, Craig laid out a process of reconciliation that helps to put family members in the right frame of mind to deal with a major issue such as the sale or transfer of a family firm.

MAUI CHAPTER HEARS ABOUT ESOP FROM A LOCAL EXPERT

Frieda S. Takaki, speaking at the Family Business Center of Hawai'i's Maui Chapter on the pros and cons of an ESOP

Frieda Takaki, former President and CEO of Chart Rehabilitation of Hawai'i Inc. spoke to the Maui Chapter of the FBCH on August 2nd. Frieda had previously spoken at an Oahu Chapter meeting in November of 2008. She was president of the Hawai'i Chapter of the ESOP association for ten years and also Chair of the national ESOP Association in 2010. She is an impassioned believer in ESOP if you are doing it for the right reason.

She pointed out that there are some tax advantages associated with being an ESOP but that the real advantage comes from the fact that employees as owners are more likely to engage in value creation activity. This can range from turning off lights to identifying activities that can be done in a more efficient manner.

She also pointed out that there can be some marketing advantages associated with being an ESOP, and she recommends promoting the fact that you are an employee owned firm. This is something that CHART has done since it became an ESOP in 2001. In support of her view, she pointed out that during the great recession that began in 2008 ESOP firms had an employee layoff rate of 1.3% while the rate for other types of firms were 9.5%. In at least one case this was because all employees agreed to reduce their hours so that none had to be laid off.

Frieda believes that when you give employees a piece of the action "this also gives them a stake in the free enterprise system and that this provides the incentive to improve productivity and increases the value creation activities to something that concerns all employees, not just a new managers."

Frieda also pointed out that there are some cons associated with ESOP. In some cases firms considering an ESOP contract "experts" and the large fees discourage them. She pointed out in some cases fees that should have been around $50,000 ranged from $200,000 to as high as $750,000. She said we have expertise locally and that every bank in Hawai'i has professionals who are well versed in ESOP. In addition, she made an offer that is hard to resist. She said she would be glad to provide advice and assistance for free, well you would have to provide her airfare on islands other than Oahu.

Frieda finished her presentation by stating that the ESOP at CHART was "the best thing I did in my entire life." That is clearly an endorsement you don't hear very often.

A first step for any firm interested in an ESOP is to visit the site of the National Center for Employee Ownership (www.NcEO.org). The site has a large amount of material about ESOP and much of it is free.

Frieda Takaki illustrate the division between management and employees in many organizations.

LILIANE SCHUELLER BETTENCOURT, THE HEIR TO THE L'ORÉAL FIRM AND HER ROLE IN THE "BETTERCOURT AFFAIR"

Liliane Bettencourt is not a household name in the United States but when she died, and actually before she died, she was the richest woman in the world. She had a net worth of $44.9 billion when she did at age 94 in 2017. She was the only child of the founder of L'Oréal and she only had one child so the control of the family firm and personal wealth was not an issue. Liliane's mother died when she was young and she was totally devoted to her father Eugène Schueller who founded and built L'Oréal into a multi-billion dollar firm. She was also totally devoted to the firm.

Lilianne was not engaged in the active management of the firm but after her father died in 1957 she remained extremely active in her ownership role. She attended meetings and read all company reports. She was also committed to ensuring that the firm remained a family firm and had already made arrangements for her daughter and two grandsons to inherit all her stock and most of her wealth. There was just one problem, she was not particularly fond of her daughter and seldom saw her even though she lived across the street. In fact, she disliked her daughter.

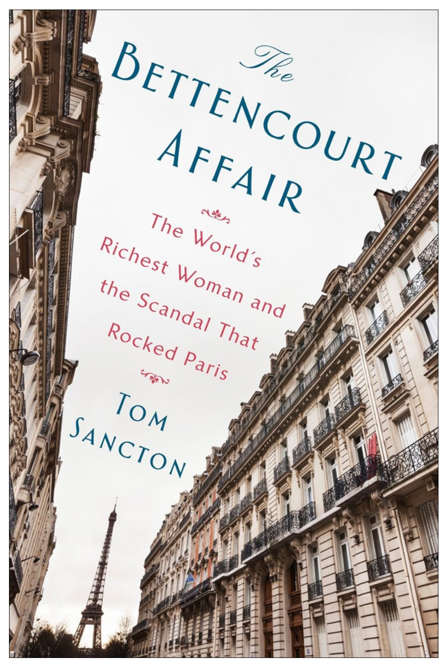
The person she did enjoy seeing was François-Marie Banier, a photographer-writer-artist. He was 25 years younger than Liliane and their relationship was purely a platonic one. In fact, Mr. Banier often brought his boyfriend along when he met with Ms. Bettencourt. Their relationship continued over 20 years and while Banier was a bit of a "gold digger" all admitted that he and Bettencourt had similar interests and enjoyed each other's company.

Ms. Bettencourt gave Mr. Banier hundreds of millions of dollars in gifts and also gave millions of dollars of gifts to his boyfriend. If you are a billionaire it is perfectly legal to give away hundreds of millions of dollars in gifts. Ms. Bettencourt went even farther by paying the tax of the gifts she gave, which also amounted to hundreds of millions of dollars in tax.

Ms. Bettencourt's daughter Françoise Bettencourt Meyer could not stand Banier and this created a strain on their relationship. She wanted to use the courts to get several life insurance policies, worth approximately $500 million back, which had been given to Banier as gifts. This just further increased the strain between mother and daughter. At one point she told one of her grandsons not to visit her because he reminded her of her daughter.

Eventually, the court decided that Ms. Bettencourt's gifts after a certain age were given when she had a diminished mental capacity and they ordered them returned. At this point, Ms. Bettencourt was suffering from Alzheimer and was no longer capable of being involved in any court proceedings.

Liliane Schueller Bettencourt, who when she died on Sept. 21`, 2017 had a net worth of $44.9 billion.



It is a tragic story of family discord complicated by the political activities of Bettencourt's father and husband during World War II, as well as the illegal political contributions the family made to various French politicians.

In the end it is a real life example of how family life and relationships can destroy all semblance of family relationships.

FAMILY BUSINESS CENTER OF HAWAI`I PHOTO GALLERY

Equipping, educating and celebrating families in business.

(Mission of the Family Business Center of Hawai`i)

Upcoming Events:

Sept. 21-22
Annual Retreat
Retreat Leader: Joe Schmieder, The Family Business Consulting Group
Sheraton Hotel

Nov. 8
Kelihi Golf Club, Maui
Sandy and Marvin Fong

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