



INTERNATIONAL SAW AND KNIFE ASSOCIATION

Cutting Times

Spring 2018

Succession Planning Recap from Winter ISKA Meeting



saw and tool sharpening business owners. They included goals for exiting a business; options for succession planning; Selling to a third-party buyer; selling to management, employees, or other shareholders; gifting or estate exit strategies and touched on the tax and legal issues that may impact an exit.

After reading this article, if you'd like a copy of the powerpoint presentation Mr. Hilton kindly distributed to board members, which has the subheads of these main points, please contact the editor via email: sharpenersreport@comcast.net and we'll get you a copy.

Summarizing the talk came down to this: THERE ARE MANY different goals than can be achieved through different strategies; and options available do depend on the business size and profitability. Regardless of the options,



he said: GET GOOD ADVISORS. There are MANY tax and legal issues that significantly impact your exit strategy. Budget for attorney and investment banker on most of these scenarios!

Remember that with

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Int'l Saw & Knife Association held its Winter Meeting in South Padre Island, TX. where the educational topic was Succession Planning. Plus, we held the ISKA Board Meeting and a member bonding fishing trip sponsored by LENOX! More relationship building chances happened at the Hill Country Tool sponsored dinner, plus a dinner the 2nd night where chefs cooked up the fresh catch for the crowd.

Rob Hilton, director in Katz, Sapper & Miller's Valuation and ESOP Services Groups shared strategies for industrial

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The Prez Sez...

Acquisitions and Competition!

We had a great time at South Padre Island, Texas for our ISKA Winter Meeting 2018. Sun, sand, fishing, good times, and great coffee from a nearby family owned restaurant, Yummies Café! Most important, we had great attendance for our learning session on Succession Planning. Plus, we held a Board Meeting, and worked on the plans for future ISKA meetings including a knife grinding seminar and plant tours. Stay tuned for details as final plans are put into place. We topped off the weekend with a fishing trip, and ate our catch prepared by Blackbeards', a local restaurant. Attending ISKA events is the best educational meeting that I attend. I always learn something from either the seminar or networking with other sharpeners. If you haven't attended an ISKA event you are missing out. Mark your calendar and make plans to attend our next event at IWF Atlanta. I hope to see you there!



Our speaker was Robert Hilton from Katz, Sapper & Miller. Rob talked with us about succession planning and an exit strategy. The big trend today is asset buyouts by investment groups. This is a growing trend throughout the business world. You have seen some of these buyouts in the news, Bass Pro Shops and Cabela's, Amazon, Berkshire Hathaway and JPMorgan, CVS and Aetna, Walt Disney and 21st Century Fox, just to name a few. You have seen some of these buyouts within our own industry with Tenex Capital Management, an operational focused private equity firm, and Audax private equity acquiring Techniks Industries. This tends to lead to the company as you built it going away and becoming part of a group. This trend decreases the number of companies within an industry and increases the competition. In my mind's eye, competition is a good thing, a challenge. When we don't have competition, we tend to get lazy and the quality of work declines. Competition makes my company do better work! It will be interesting to see what this trend does within our industry in the coming days.

“Competition is always a good thing. It forces us to do our best. A monopoly renders people complacent and satisfied with mediocrity.”

—Nancy Randolph Pearcey (*American Evangelical author on the Christian worldview*)

“Having no competition is a bad thing. Competition makes you try to improve yourself all the time.”

—Shu Qi (*Taiwanese Actress*)

Thanks,

Eric Barr
Expert Die, GA

ISKA Member Spotlight

Amada Machine Tools America, Inc., based in Schaumburg, IL, is now an ISKA Associate Member. President Hisaya “Harry” Ieda, oversees the CNC grinders, band saw & cold saw machines, milling machines, chip compactors, band saw & cold saw blade sales and service company. The machine sales force is excited to connect with ISKA members including current and prospective Amada clients such as Super Thin Saws, New Form Tools, and Western Saw Inc.

According to George Kowalewski, Amada Sales Manager, it is very likely that other ISKA members already own the Amada rotary surface grinders for manufacturing circular saw blades, as the Amada grinders were formerly branded as Wasino-Sansei.

A Bit of History

The Japanese parent company Amada, founded in 1946, joined two of its divisions in 2010. Amada Cutting Technologies Inc. from California, and Amada Wasino Corp. USA from Chicago, maker of grinders and lathes. Both established in the mid 1970’s became Amada Machine Tools America, Inc. which is based in

Schaumburg, IL. The sister company, Amada America Inc. sells Fabrication and Laser machines.

Today, Amada Machine Tools America combines the legacies of Amada Cutting Technologies and Wasino CNC grinders, “to provide our customers with increased accuracy and productivity. As technology has evolved, we’ve embraced CNC automation as a core strength, improving output and helping new operators become productive more rapidly,” per the company web site: amadamt.com

Visit Amada Machine Tools America during IMTS 2018 Sept. 10-15 at booth number 236811 in the North Hall.

*Contact Mr. Ieda via the marketing specialist:
Katherine Tallis, Phone 847-285-4800,
Email: k.tallis@amadamt.com*

For grinding machine sales, contact George Kowalewski at 224-545-9256 Email: georgek@amadamt.com;

*For sawing machines and saw blade sales, contact Yasu Asakura at 847-254-5873 or
Email: y.asakura@amadamt.com*

IWF and ISKA Reception Sponsors

AUG. 22-25, 2018

Int’l Woodworkers Fair (IWF), Atlanta

ISKA Reception to be held at STATS Brew Pub Friday night...Sponsors include: Sharp Tool, Everlast Saw, Colonial Saw, Grasche, to date. Hope to see you there! Watch our Facebook page for updates.



C & K Saw Service Member Spotlight

ISKA welcomes new member C & K Saw Service, based in Jensen Beach, Florida, where former owner Horst Mueller transitioned the business to son Eike Mueller.



Eike Mueller (center), at the IWF with Editor Judy Brenner and Skarpaz's Paul Muscat (left).

He was trained in Germany where he spent many years under the tutelage of his father. C & K was founded over 36 years ago by Klaus Kunze. For the last 18 years, it's been owned by the Mueller family. Today, it focuses on sharpening circular saws, router bits, planer knives and shaper cutters among other woodworking tools. The company is a distributor of new blades, carrying brands from Whiteside, Tenryu, Skarpaz, Southeast Tool and FS Tool. Eike says he enjoys the industry, particularly helping out the high end custom cabinet makers. He notes that the cabinet industry has had to adjust to all the prefab imports from China, so he focused on the high end market where they appreciate good cutting tools. As a sole operator, he has several routes, and has fine tuned the routes to be sure he is serving customers where the most business is generated. His plant includes Vollmer machines, a few K.O. Lees for router bit sharpening, and an old but trusted Jolly 850 for straight knives, among other machines. "I'm interested to connect with others in ISKA, and keeping up our services to customers at high levels, he said.

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Consolidation in the Saw Market

The Sharpening industry consolidated once again with the announced merger last month of Burton Saw and Supply with Simonds International. The merged companies create a leading producer and marketer of cutting tools and related equipment for the primary wood fiber industry. The combined entity will continue to operate in the US and Canada with 12 facilities. On top of this news, distributors are receiving notices of about 5 percent price increases on saw sharpening machinery, particularly the Wright brand. Moon's Saw Shop Supply in FL, and Co-

lonial Saw in MA are US-Based distributors. Read more details on our Blog Sharpeners-Report.com

Nap Gladu Acquires Eide Saw & Tool

Eide Saw & Tool Service, Inc., based in Minneapolis, Minnesota, has been acquired by NAP Gladu, a Techniks Industries company. For over 90 years, Eide Saw has built a reputation of providing and re-sharpening / re-tipping carbide-tipped saws, cold saws, and band saws backed with a customer-first service support mentality. NAP Gladu's

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any business contract, the devil is in the details, so attorneys are worth their cost over a handshake deal. This editor has heard of many broken relationships among family members as

family businesses change in structure. Some common options are to:

- Sell to a strategic buyer such as a competitor, supplier or customer
- Sell to a private equity that is rolling up multiple smaller companies
- Form an ESOP structure
- Family sale to family; or
- A “No Sale” option includes the scenario where the business owner transfers the business to children or family, by gifting, estate or a possible sale structure.
- Closing the doors and liquidating. This last option means you’ll likely sell items at a steep discount. “It’s tough to walk away,” most agree.

To determine the options best suited for you, consider when you want to **retire**. One must have in mind: How soon? And, Is the goal to keep the business around? Then think about: For who’s benefit? The answer might be for Management / Employees, or for the benefit of your Customers, or for the benefit of Family.

A FAMILY sale is unlikely to create full immediate liquidity for the seller. It is typically a long retirement process. **Advantage:** the workforce stays as does the business name and your legacy continues.



The succession plan can begin over time, and lets you see how well your children run the business. This type of sale transfer can reduce estate taxes at death. Rob said there are several planning and transfer strategies available. One should research opportunities for the gift tax and valuation of the company. **NEGATIVES: A family sale requires** children to have skills to run the company and it is unlikely to create



liquidity for the seller.

An INSIDER Sale to Management could have the following impact: It is unlikely to create full immediate liquidity

for seller; it often allows retirement immediately after the close of the deal. The workforce stays, and the friendly deal allows workforce to stay typically. The business name and legacy continues;

On the negative of sale to insider: the deal typically requires management to have the skill to run the company as well as both the interest and **financing to buy the company**. Financing can be a significant hurdle!

INSIDER SALE OPTION - ESOP

An Employee Stock Ownership Plan allows seller / business owner to transition as much or as little as they want, It is NOT organized as an equal vote from employees on business decisions. ESOP transactions are leveraged, where the seller may have the financing. For example, the owner is the selling shareholder taking the “note.” The structure can be 100% or 49% or 30%; whatever is desired by the business owner who can retain control, reduce financial risk and take money off the table. It can be done in stages or all at once. For example, DIAMOND SAW gained liquidity at 30% in 2016, then did a second transaction. Rob Hilton said there are formula driven plans; where higher paid employees get more stock. Structures vary. Jim Ziemer said that with Diamond Saw, “We gave points for longevity and rewarded employees that way.” In 2017, PEERLESS SAW instituted a 100% ESOP.

NEGATIVES OF ESOP may be that the business owner is unlikely to gain immediate financial liquidity. The company

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needs to have sufficient cash flow to service the debt used to pay out the owner, and the company needs to have some size (usually over 20+ employees). The seller is likely to be paid out over time (not immediately). Be aware: ESOPs are a retirement plan, regulated by ERISA.

PROS OF ESOP: **Advantage** is the business name continues. It is a friendly deal. On average, research shows that ESOP companies are more profitable and grow faster than similarly sized companies in the same industry. There are many favorable tax advantages. It may also lead to net proceeds being higher than outside sale. Also there is a boost to employee morale - they are part owners! There can be a culture shift where the mentality of employees changes



to benefit their own prosperity. You'll hopefully get the "We are all in this together" attitude. Incentives get aligned and grow in the same direction; not always, but

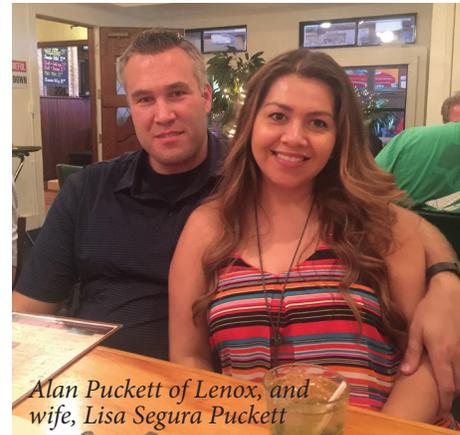
often it can happen.

Keep in mind that an Employee Stock Owner Plan creates a TRUST and the trustee gets a vote for the shares. The TRUST is a tax exempt entity, and is not required to pay income tax on state level, but one must check with their advisor.



Competitive advantage: employees do not pay tax until they retire or depart the company; and then they sell shares back to company and then they pay tax. "It's similar to a 401K, where you pay tax upon withdrawal," Rob Hilton said. Another plus is the contributions made by the company to the TRUST, in cases where a company borrows money, then makes a loan to trust, and then the trust issues shares. "Contributions are tax deductible as an operating expense.

The transaction can be treated as pretax dollars. So with that 2nd loan from the company to the trust, it creates a situation where the interest and principal are tax deductible. So this can lead to a situation that the ESOP sale is a net effect



Alan Puckett of Lenox, and wife, Lisa Segura Puckett

advantage over an OUTSIDE SALE of the company," Rob said. He emphasized that "all this analysis needs to occur to see what is best for the owner. ESOPs could be a more favorable route to go."

OUTSIDE SALE OPTION: Sell to a financial buyer, who has no background in industry, such as a Private Equity firm. These firms typically target high growth industries. These options generally require larger companies north of \$10million deal size, typically larger. The price depends on

the rate of return that the buyer believes is achievable. LIQUIDITY comes to seller through "earn outs." The structure sometimes allows retirement immediately after the deal closes. The Workforce usually stays though management may change. The business name and legacy probably continues; and a structure may require the owner to stay on temporarily.



Jerome Yeh, Hill Country Tool Co.

The NEGATIVES: An OUTSIDE buyer may try to change the culture / leadership and not know the industry well. It requires current management that is capable of running the business. Also, negative is the potential tax consequence. "They are chasing home runs!" Private equity firms go after a rate a return via a low sale price or cut backs with more efficient operations, "so be aware of this as part of the assessment," Rob warned.

We hope this article gives you a few pointers in order to dig deeper when the time comes for succession planning!

Current State of Used Machinery Sales!

By *Tim Rief, SharpQuip and Rief & Associates*

Used machinery sales volume, especially those of sharpening machinery, is a fickle tale. While sales are always up and down, the current state is a little less fluctuating. Sales for the past several years have been fairly consistent, but has always driven by particular needs. A machine can be on site for a year with little interest until that one moment that a shop needs it! One shop's cast off is another shop's treasure.

Carbide saw grinders are always in high demand especially those of higher priced, quality machines regardless of age. A good reason to treat your machinery with care! Sales have fallen recently on bandsaw welders and profile grinders. I suspect a glut of these on the market after the collapse of the furniture business is the reason.

Bottom line: Sales are good; some categories better than others.

Treat your machinery investment with care not only for your current needs but for resale. Nothing hurts more than seeing an expensive, sought after machine is disrepair or cosmetically unappealing.

Tim Rief
www.sharpquip.com

Editor's note: Sharpquip.com is a great resource, in addition to the Sharpeners-Report.com classifieds. Both are ideal to gain more visibility among ISKA members who concentrate in this niche. List in both, and skip the Craig's list so you can be confident your buyers are in the industry and less likely to encounter sketchy scams

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acquisition of Eide Saw builds on one NapGladu's service networks to provide a broader range of solutions including insert, carbide shank, and diamond tooling.

Jane Burmaster purchased Eide Saw from her father in 1993 and continued to invest in modern, computerized equipment to ensure delivery of the highest quality tools and service. During her ownership the business experienced rapid growth and fulfilled the founder's motto to "furnish a quality product, on a timely basis, at a fair price."

Headquartered in Jasper, Indiana, NAP Gladu is a full service provider and manufacturer of specialized carbide and PCD cutting tools for the woodworking, metal, and composite industries. With 16 service locations, NAP Gladu possesses one of North America's largest tool service networks. Techniks Industries is a platform company consisting of industry-leading brands including Techniks Inc., Parlec, NAP Gladu, Riverside Tool, RKO Saw, General Saw, and Intooligence. Website: napgladu.com Tel- 800-634-8665

GrindTec 2018

GrindTec 2018 - 19,100 visitors from 66 countries included several of our ISKA members. Vollmer introduced a new machine and Tungco Powder wants your scrap carbide!





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or news to share?*

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