Morgan Stanley

PRIVATE WEALTH MANAGEMENT

Pre-IPO/M&A Overview

Wealth and Estate Planning Strategists
Family Office Resources

2023

Wealth Strategies

A Collaborative Approach

- Ultra-high net worth clients likely have or will have sophisticated estate plans.
- The Wealth and Estate Planning Strategists collaborate with our clients, the Client Advisory Team and our clients' external legal and/or tax advisers to integrate investment and estate plans.

As "Virtual" Team Members, we are involved with:

- Preliminary due diligence – review balance sheet and existing estate plan
- Objectively educating clients about income tax and estate planning
- Analyzing planning techniques in relation to client goals
- Assisting in the implementation of the estate plan to whatever extent the client is comfortable
- Integrating investment and estate plans – combining "asset location" with "asset allocation"

Please See Important Disclosures at the end of the presentation

Pre-Initial Public Offering (“Pre-IPO”)/Mergers & Acquisitions (“M&A”) Overview

Personal Wealth Management Timeline

PRE – IPO/M&A | **POST – IPO/M&A**

Custody Services
- Security Safe Keeping
- Record Keeping
- Insurance
- Splitting/Gifting
- Online Access Via ClientLink

Tax & Estate Planning
- Outright Gifts
  - Tax Free
  - Taxable
- Leveraged Gifts
  - GRAT
  - CLAT
  - Sale to Grantor Trust
- Control
- Stock Option Exercise
  - NQSO
  - ISO
- QSBS

Restricted Stock
- Regulatory
  - Rule 144
  - Section 16
- Corporate
  - Blackout Period
- Contractual
  - Lock Up
- Cleaning/ Processing
- Administrative Support

Risk Management
- Type of Risk
  - Market
  - Industry
  - Company Specific
- Sales
  - Open Market
  - Block
  - Private Placement
  - Secondary
- Hedging
- Exchange Fund

Monetization & Diversification
- Monetization
- Diversification
  - Asset Class
  - Investment Style
  - Implementation Vehicles

Tax & Estate Planning
- Estate Planning
  - Outright Gifts
  - Leveraged Gifts
- Philanthropy
  - Manner of Gift
    - Outright
    - Split Interest
  - Recipient of Gift
    - Public Charity
    - Private
    - Foundation
    - Hybrid
- Control

Monitoring, Technology and Reporting
- Monitoring
  - Asset Allocation Rebalancing
- Technology & Reporting
  - Online Access
  - Aggregated Reporting
  - Performance Measurement Tools
  - Risk Measurement Tools

Please See Important Disclosures at the end of the presentation

Pre-IPO/M&A Overview

Custody Services and Benefits

- Transacting in restricted shares can be a complicated legal and regulatory process.
- Private Wealth Management offers a team of experienced specialists in this area to guide you through this complex and time consuming procedure.

PRE-IPO/M&A

Security Safe Keeping
- Private/Public stock certificates housed in Morgan Stanley's vault
- Avoid risk of loss and fees/deposits required to replace certificates

Record Keeping
- Property registered and reported in shareholder's name
- Positions included on monthly statements

Insured
- SIPC Insurance protection
- Coverage through Morgan Stanley

Splitting/Gifting
- Process and record all splits
- Handle gifting and other transfers

Online Access (Client Link)
- Track positions
- Access MSDW resources

POST-IPO/M&A

Prepare Restricted Share Transactions
- Interface with issuer's counsel to review proposed transactions and help ensure compliance with regulatory or contractual restrictions

Cleaning/Processing
- Work behind scenes with Transfer Agent and legal counsel
- Clean restricted shares as per SEC regulations to settle restricted trades

Administrative Support
- Preparation and processing of required documentation:
  - Form 144
  - Broker's Rep letters
  - Seller's Rep letters, etc.

Hedging/Borrow
- Securities must be custodied at Morgan Stanley in order to borrow, pledge, hedge or monetize

Please See Important Disclosures at the end of the presentation.
SIPC does not protect against the decline in value of your securities.

Pre-IPO/M&A Tax/Estate Planning Overview

Custody Services and Benefits

Important tax savings strategies can be implemented prior to the IPO/M&A.

While certain contingencies arising after (or in connection with) the transaction may produce some tax advantages, such savings may not put the business owner in the same position as if the owner acted prior to the transaction.

INCOME TAX PLANNING: EXECUTIVE STOCK OPTIONS

Non-Qualified Stock Options

- Upon exercise, the difference between the fair market value of the stock and the exercise price (the spread) is taxed as compensation.
- After exercise, all future appreciation in the stock is taxed as capital gain.
  - Exercise of an NQSO prior to IPO/M&A can save an executive the difference between the maximum ordinary income tax rate and the preferential long term capital gains tax rate on all future appreciation if stock is held longer than one year at time of sale.

Incentive Stock Options

- Upon exercise, spread is not taxed but treated as an adjustment item for alternative minimum tax (AMT) purposes, possibly triggering AMT.
- After exercise, if stock is held for one year from the exercise date and two years from option grant date, all appreciation over the strike price will be considered capital gain when stock is sold.
  - Exercise of an ISO prior to IPO/M&A (assuming price increases) can minimize or even eliminate AMT exposure and starts executive's holding period.

ESTATE PLANNING: NECESSITIES

Necessary Documents

- A number of tools allow the individual rather than the state to control his or her person and property when he or she is unable to do so because of death or incapacity, e.g., will, revocable living trust, power of attorney, health care proxy and living will.

ESTATE PLANNING: GIFTING

Annual Exclusion

- Each person can make gifts of a present interest in property worth $17,000 per year, per donee, tax free (married couples can gift $34,000 per year, per donee).

Applicable Credit/Exempt Amounts

- Under current law, the exemption amount ($12.92mm) can be passed free of estate and gift tax in 2023. This number is indexed for inflation.

ESTATE PLANNING: LEVERAGED GIFTING

Grantor Retained Annuity Trust (GRAT)

- Asset placed in trust with donor retaining an annuity and making a gift of the remainder to family members.
- Remainder is valued using an IRS benchmark rate.
- The property remaining after the payment of the annuity will pass to the remaindermen of the trust with all appreciation over the benchmark rate, in effect, passing free of additional gift tax.

Sale to Defective Grantor Trust

- Assets can be sold to a trust for the benefit of one's family. The trust can purchase the property by giving the donor a note bearing a federally-approved interest rate.
- After the note is fully paid, the property will pass to the remaindermen of the trust with all appreciation over the interest rate on the note, in effect, passing free of additional gift tax.

Charitable Lead Annuity Trust (CLAT)

- Asset placed in trust with donor making tax-free gift of an income interest to a charity and a taxable gift of the remainder to family.
- Upon termination of trust, the property will pass to the remaindermen of the trust (generally family members) with all appreciation over the benchmark rate, in effect, passing free of additional gift tax.

CONTROL

- An individual interested in keeping control of the gifted property away from the donee can gift in trust.
- Individuals interested in keeping control of the assets themselves can transfer assets to an FLP or LLC and make gifts of non-controlling interests outright or in trust.

ASSET PROTECTION

- Individuals can give property away, change the title of property or change the character of property to possibly protect assets from creditors. Individuals may also be able to protect assets in trusts established in states with asset protection laws, although these laws have not yet been tested.

Restricted Stock Overview

- The following is a high-level summary of certain considerations applicable to shares held by directors, officers, and other company insiders. Clients should consult with their company and own legal counsel regarding these and related considerations.
- One of the main purposes of the Securities Act of 1933 (the "Securities Act") is to require SEC registration of securities offered to the public.
- Restricted stock is any stock which is not freely salable in the U.S. public markets. In IPO/M&A situations, regulatory, corporate and contractual restrictions often prevent stock from being freely salable in the U.S. public markets.

REGULATORY - RULE 144 & SECTION 16 CONSIDERATIONS [1]

Key Points

- Rule 144 under the Securities Act provides a non-exclusive safe harbor for selling security holders that seek to resell their restricted or control stock
- Various conditions must be met to sell Restricted Stock or Control Stock pursuant to Rule 144
- When selling their stock, Affiliates must be mindful of short-swing profit rules and reporting obligations (Section 16)

Rule 144 - Overview

- **Two Primary Categories:**
  - **Restricted Stock:**
    - Unregistered stock which was acquired from the company or an Affiliate of the company in a private transaction.
  - **Control Stock:**
    - Stock which is owned by an affiliate of the issuer
- **Some Rule 144 Conditions for Affiliate Resale:**
  - Holding Period
  - Volume Limitations
  - Notice of Sale
  - Manner of Sale
  - Current Public Information

Section 16 Considerations

- **16(a) Reporting Requirements**
  - Every officer or director of an issuer which has a class of equity security registered with the SEC under the Securities Act and every beneficial owner of more than 10% of such equity interests in the issuer (collectively, "Affiliates") must file reports with the SEC disclosing any equity interest in the issuer (including options and derivative securities) as well as any changes in such ownership interest
- **16(b) Liability**
  - Any profit by an Affiliate from any purchase and sale (or any sale and purchase) of any equity security of the issuer (including options and other derivative securities) within any six-month period is recoverable by the issuer
- **16(c) Short Sales**
  - Section 16(c) prohibits an Affiliate from selling short any equity security of the issuer, but this does not prohibit selling calls or buying puts with respect to securities held by the Affiliate

CORPORATE - BLACKOUT PERIODS

Key Points

- Companies impose blackout periods upon their employees to ensure they are not transacting while they may be aware of material, non-public information.
- SEC Rule 10b5-1(c) establishes an "affirmative defense" from insider trading liability for selling programs set up in compliance with the Rule. Many companies now exempt employees from otherwise applicable blackout period restrictions for trading plans that have been established in accordance with Rule 10b5-1(c).

Preset Blackout Period

- A blackout period is imposed for a preset time period prior and subsequent to a company's earnings announcement

Flexible Blackout Period

- Company announces from time to time when employees are prohibited from transactions in the company's stock, for example, in the event of M&A activity or other major news releases

CONTRACTUAL - LOCKUP AGREEMENTS

Key Points

- A Lockup Agreement is a contractual commitment which is typically made to the underwriters of an offering by the company, its executive officers and directors and principal stockholders
- This contractual commitment is typically secured in connection with an offering in order to foster price stability after the offering, and encourage long-term employee ownership

Restrictions

- Generally, lockups provide that restricted parties will not offer, sell or pledge the company's stock (or enter into derivatives on the company's stock such as options) for an agreed upon period of time without prior consent of the lead underwriters

Length

- Varies by offering (e.g. 60, 90, or 180 days)
- IPO lockups typically last longer than lockups relating to secondary offerings (generally 180 days for an IPO versus 90 days for a secondary offering)

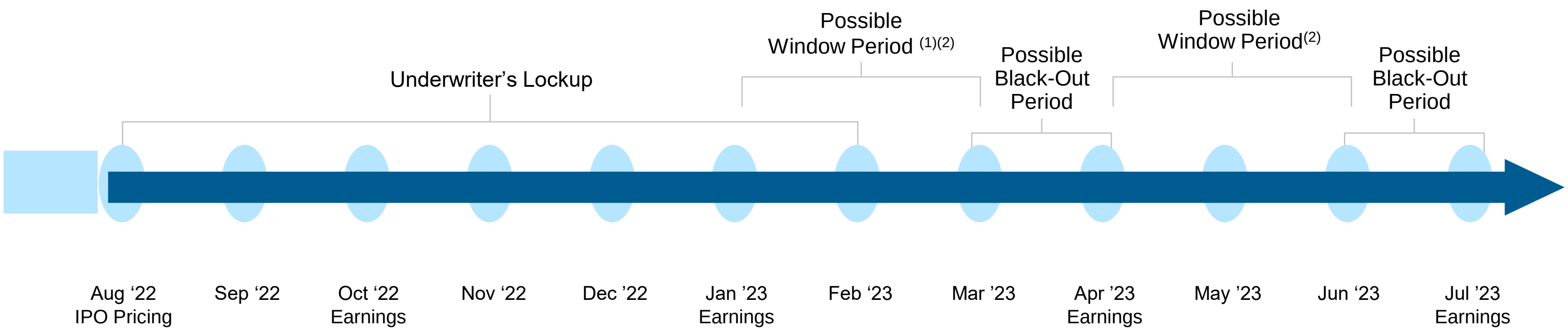
1. An individual who is deemed to be a director or officer under Section 16 is not necessarily an Affiliate under Rule 144, and vice versa. Please consult your counsel to confirm your status under these rules.

Restricted Stock Overview – Liquidity Timeline

KEY RISK MANAGEMENT ISSUES

- Implement Quarterly Selling Program
- Adopt Preset Diversification Program/10b5-1 plan
- Disclose "Rationale" of Sales to Marketplace
- Potential Secondary Registration
- Underwriter's Lockup Analysis
- Affiliate Status / Rule 144
- Corporate Selling Windows
- Market Perception

HYPOTHETICAL SCENARIO



Also see: (a) "Preset Diversification Programs (PDPs)" Strategy Note
(b) Restricted Stock Primer

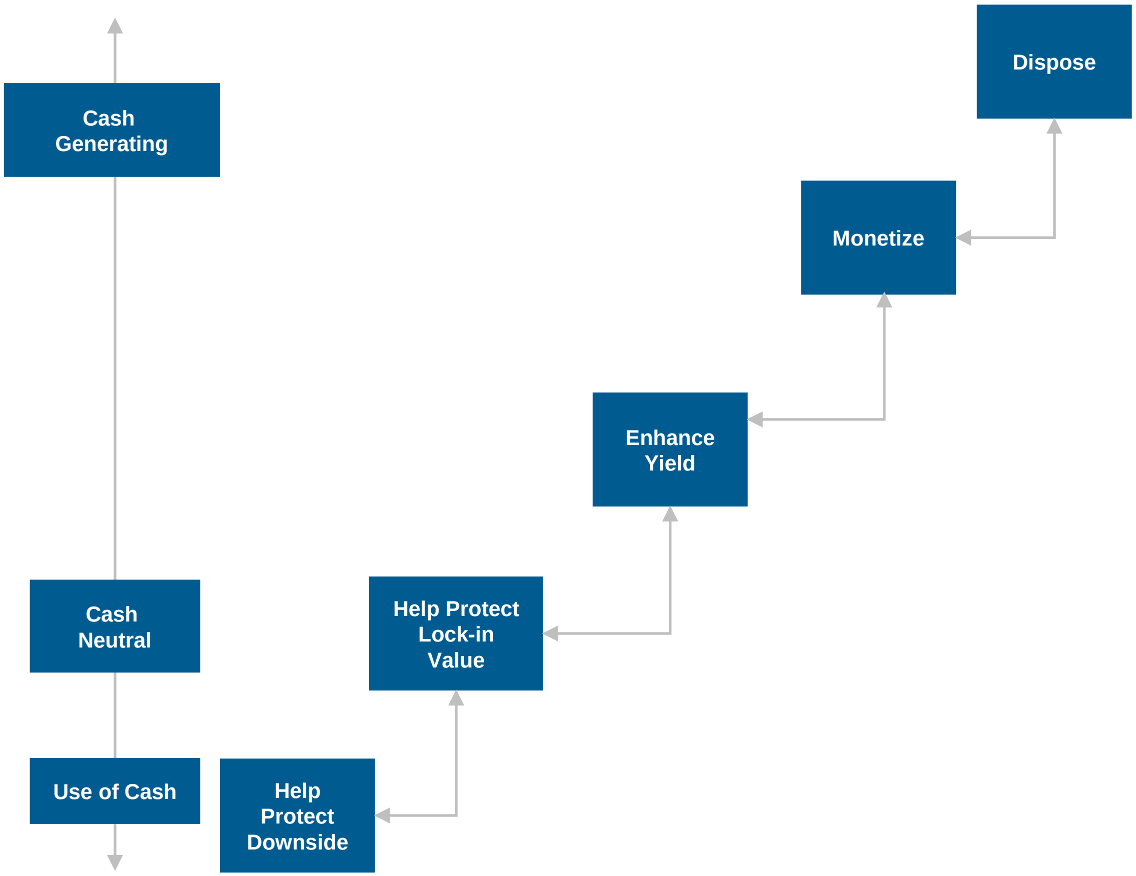
1. Where the Underwriter's lockup overlaps with a window period, the investor must generally wait until the lockup period expires prior to selling or pledging the stock.
2. Where applicable, subject to Rule 144. See Pre-and Post-IPO Restricted Stock Primer.

Risk Management Overview

Upon expiration of the underwriter's lockup, various hedging and disposition alternatives may be available to corporate executives.

Strategies must be very sensitive to regulatory and tax requirements, market perception, and liquidity constraints.

The availability of customized hedging transactions may be limited by the counterparty's ability to borrow.



- Open market sales
- Block trade
- Marketed secondary offerings
- Private placement

1. On August 5, 1997 President Clinton signed into law the Taxpayer Relief Act of 1997. Included in its provisions was a change in the taxable status of "constructive sale" transactions. Specifically, the transactions affected are: short against the box, off-setting notional principal contracts, forward contracts to sell a fixed amount of property for a fixed price, or futures contracts, any transaction with substantially the same effect as the aforementioned. Any person executing these transactions after June 8, 1997 outside of the Short-Term Hedging Exception, will be deemed to have a taxable sale on the date the initial hedging transaction is executed.

Risk Management Overview

While the ability to arbitrage an increase in value in connection with the transaction may be lost, the opportunity still exists to plan with respect to any future appreciation perhaps with greater knowledge of the family's financial position.

INCOME TAX PLANNING

Non-Qualified Stock Options

- Analysis of intrinsic value and time value of deep in the money options

Incentive Stock Options

- AMT exposure on deep in the money options
- AMT credit attributed to earlier exercises

ESTATE PLANNING

- Annual Exclusion
- Applicable Credit Amount
- Leveraged Gifting
- Control
- Asset Protection

PHILANTHROPY

Charitable Remainder Trust (CRT)

- Asset placed in trust with the donor retaining an income interest and making a gift of remainder to charity.
- Income interest taxable to the donor, but CRT itself is tax-exempt, allowing assets remaining in trust to grow tax-deferred.

Public Charity

- Entity supported and controlled by public or government which advances charitable purpose.
- Higher income tax deductibility limitations.
- Not subject to private foundation rules.

Private Non-Operating Foundation

- Privately funded entity which advances charitable purpose through grant-making.
- Can be controlled by donor/family.
- Lower income tax deductibility limitations.
- Subject to private foundation rules.

Operating Foundation

- Private foundation which actively advances its charitable purpose.
- Can be controlled by donor/family.
- Higher income tax deductibility limitations.
- Subject to private foundation rules.

Supporting Organization

- Private foundation linked to a public charity.
- Control shared between public charity and donor/family.
- Higher income tax deductibility limitations.
- Not subject to private foundation rules.

Also see: Pre-Liquidity Tax Planning Presentation. Comprehensive descriptions of the strategies mentioned herein as well as additional planning materials are available upon request.

Spectrum of Investment Alternatives

IMPLEMENTATION STRATEGY

NON-DISCRETIONARY BROKERAGE

- Opportunistic strategy
- Equity underwriting calendar

SEPARATE ACCOUNT MANAGEMENT

- Customized separate account management by PWM Investment Representative
- Investment Group: Tax-Efficient Separate Account Management
  – U.S. and International equities
  – Tax-Exempt Bonds

MS INVESTMENT MANAGEMENT

- Investment strategies covering almost all markets, asset classes, and investment styles

ALTERNATIVE INVESTMENTS

- Private equity
- Venture capital
- Real estate
- Commodities fund

WEALTH MANAGEMENT SERVICES

- Comprehensive asset allocation and investment policy statement
- Objective internal and external manager selection and monitoring
- Consolidated custody and performance reporting

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PRIVATE WEALTH MANAGEMENT

Important Disclosure

IMPORTANT DISCLOSURE

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It is important to note that Alternatives may be either traditional alternative investment vehicles or non-traditional alternative strategy products. Traditional alternative investment vehicles may include hedge funds, fund of hedge funds (both registered and unregistered), private equity, real estate or managed futures funds. Non-traditional alternative strategy products may include open-end mutual funds and ETFs. These non-traditional products also seek alternative-like exposure but have significant differences from traditional alternative investments. The risks of traditional alternative investments may include: can be highly illiquid, speculative and not appropriate for all investors, loss of all or a substantial portion of the investment due to leveraging, short-selling, or other speculative practices, volatility of returns, restrictions on transferring interests in a fund, potential lack of diversification and resulting higher risk due to concentration of trading authority when a single advisor is utilized, absence of information regarding valuations and pricing, complex tax structures and delays in tax reporting, less regulation and higher fees than open-end mutual funds, and risks associated with the operations, personnel and processes of the manager. Non-traditional alternative strategy products may employ various investment strategies and techniques for both hedging and more speculative purposes such as short-selling, leverage, derivatives and options, which can increase volatility and the risk of investment loss.

Participating in a new issue/syndicate is subject to availability and appropriateness. IPOs are highly speculative and may not be appropriate for all investors because they lack a stock-trading history and usually involve smaller and newer companies that tend to have limited operating histories, less-experienced management teams, and fewer products or customers. Also, the offering price of an IPO reflects a negotiated estimate as to the value of the company, which may bear little relationship to the trading price of the securities, and it is not uncommon for the closing price of the shares shortly after the IPO to be well above or below the offering price.

Morgan Stanley Smith Barney LLC does not accept appointments, nor will it act as a trustee but it will provide access to trust services through an appropriate third-party corporate trustee.