



Reasons to Start Your Exit Plan Now

Over the next 15 years, the U.S. economy will experience an unprecedented increase in the number of businesses for sale as baby boomer entrepreneurs begin to retire. The result will be a glut of available businesses and downward price pressure for most privately owned companies.

The baby boomer generation has been one of the most entrepreneurial generations in the history of our country. During the last 30 years over 5 million businesses with annual revenues ranging from \$1 million to \$75 million were founded. The owners of most of these businesses are now 50 years old or older and beginning to think about retirement. Recent studies by PriceWaterhouseCoopers, MassMutual and Marquette University showed that one out of two businesses will change hands between 2006 and 2016.

The American Family Business Survey sponsored by MassMutual showed that approximately 30% of these owners plan to sell their business to a third-party buyer. Another 30% plans to sell to a family member, while another 18% plan to sell in some manner to current employees. The remainder plan to close and liquidate the business.

For those business owners who intend to sell to a third-party, it will become increasingly important that they position their business to sell successfully in an increasingly competitive market. With one out of every two business owners looking to sell over the next 15 years, there will be a glut of businesses on the market. Now, more than ever, it will be important that a business owner focus on doing everything he or she can to increase the attractiveness, value, and salability of the businesses.

Tragically, the PriceWaterhouseCoopers study showed that approximately 75% of private business owners have no strategic exit plans in place. An additional 25% have done little or no estate planning. This is a recipe for disaster.

An exit plan is a comprehensive, integrated plan that asks and answers all of the personal, business, legal, financial, tax and estate issues that are involved in exiting from a privately owned business. This plan shows business owners how to begin positioning themselves and their businesses so that the owners accomplish all of their personal, financial and business goals when they exit.

Given the number of companies coming to market, business owners will need to focus on improving profitability, building a management team, and growing revenue in order to make their companies more attractive and maximize the proceeds they receive at the time of exit.

Exit planning delivers tangible results for savvy business owners. It is not uncommon for companies that have invested the time and effort to prepare themselves for sale to sell for a

significant premium over companies that come to market unprepared. In addition, with good planning business owners are often able to reduce or in some cases eliminate the capital gains taxes due at the time of sale. This dramatically increases the after-tax net proceeds that owners keep. But the most often overlooked component of exit planning, and perhaps the most important, is the peace of mind that comes when a business owner knows that he or she is being proactive and taking charge of the future, rather than waiting passively to let the future take care of itself -- after all, deciding how and when to exit a privately owned business is perhaps the single most important financial and personal decision in a business owner's lifetime.

GOOD REASONS TO BEGIN EXIT PLANNING NOW

- The oldest of the baby boomers was born in 1945 and is now 60 years old. The youngest of the baby boomers was born in 1961 and is now 44.
- By 2009 the number of business owners wanting to sell their businesses each year will have increased fivefold over 2004. This trend will continue for the next 10-15 years.
- Selling your business during the first half of the "baby boomer bubble" (2005-2010) will provide the best chance of maximizing its value because the younger baby boomers who are retiring from corporate jobs will be active buyers. In the later half of the baby boomer bubble these new entrepreneurs will also be looking to exit.
- The economy is currently expanding and we are entering a strong economic cycle which creates a good environment in which to sell.
- It takes approximately 2 years of focused activity to get your business ready to sell at a reasonable price.
- We are currently experiencing the lowest capital gains tax rates in the last 60 years.

To get started on the exit planning process as well as the exit process, get informed. Seek information from the best independent and objective sources possible. One good place to start is to talk with trusted advisors like your attorney, accountant, financial advisor, or insurance professional or an investment banker who focuses on privately held businesses.