STATE OF OWNER READINESS REPORT

NEW YORK CITY
OCTOBER 2021

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A NOTE FROM MARK KRAVIETZ

New York Chapter President, Exit Planning Institute

The Greater New York Chapter of the Exit Planning Institute was formed in 2014. The group has brought together some of the top advisors in the region who work with lower middle market business owners to build value in their companies while aligning their personal and financial goals. This collaborative group of advisors brings exit planning and value acceleration awareness to the market through the development of practices, premier educational programming, and events such as the Business Owners Forum. I would like to thank my leadership team at the chapter, my colleagues who are loyal to our Greater New York Chapter, the Exit Planning Institute, and our research partners McCarter & English, LLP and PKF O'Connor Davies Accountants and Advisors. Without these collaborative efforts and expertise, this chapter certainly would not be what it is today.

We are excited to bring the State of Owner Readiness Research to New York City. The results of this survey are unique and insightful as they differ greatly from national and regional State of Owner Readiness reports. In many of the regions, survey respondents were primarily in the baby boomer generation, business owners 57 to 75 years old today. Whereas our New York City research primarily attracted responses from business owners below the age of 50. These business owners, representing a different generation than previous surveys, responded differently to the questions than what we have seen in the past. This also presented favorable results for both the business owner and the professional advisors who surround them.

As the President and Founder of the Greater New York Chapter of the Exit Planning Institute since 2014, I have seen business owners, exit planning conversations and exit planning professionals evolve. This survey's results align with this evolution. First, one could challenge that our work in the lower middle market over the past seven years has made an impact. This year we host our 8th annual Business Owners Forum, an event where business owners and their advisors learn more about value acceleration and the exit planning process. We have more advisors certified in exit planning with the Exit Planning Institute than ever before. Additionally, education and research, such as this State of Owner Readiness Research, are more prevalent now.

Furthermore, in this specific research we see predominately lower middle market owners in family businesses under the age of 50 years old. These owners fall into Generation X or "Gen Xers". Those in Generation X have key characteristics that professional advisors need to consider. The characteristics also align them with the core values of exit planning and the Value Acceleration Methodology.

People in this age group believe in saving money, they value their time, believe in working smarter not harder, and want a work life balance. As a result of these generational characteristics, we see owners in this research group seemingly more prepared than business owners of the past and more open to formal exit planning education and advisory support from their professional advisors.

This is favorable for professional advisors in our region and for those in the Greater New York Chapter of EPI. Research like this and events like the Business Owners Forum are education and engagement activities that must be done to further exit planning awareness. Ultimately, this information provides business owners a pathway to create more significant companies. Significant companies, according to the Exit Planning Institute, are valuable, transferable, and align to the business owner's business, personal, and financial goals. In order to create these companies, business owners need three major mindset shifts. They need to deliberately plan holistically. This includes their business, personal, and financial goals. Second, they must know that exit planning is business planning. The things they are doing in their business today effect the value of their company at point of transition or sale. Lastly, they must focus on creating more value and not on creating more income.

In conclusion, this State of Owner Readiness Research shows that we are well on our way to changing that mindset. Let this research be a tool all business owners and professional advisors can use to better benchmark their companies as well as measure how personally prepared, ready, and attractive their companies are.

Mark Kravietz, CFP®, CIMA®, CEPA®
New York Chapter President, Exit Planning Institute
Managing Partner + Founder, ALINE WEALTH

INTRODUCTION

The Exit Planning Institute (EPI) and its New York City chapter conducted a survey of business owners in the New York City region to determine their state of readiness to transition their businesses and unlock the wealth accumulated within them. We compared the New York City results to national and regional surveys EPI has conducted in the previous decade. We noted specific trends of both successful and unsuccessful business owners and offered suggestions to business owners and business advisors to improve the probability of a successful transition.

Unlocking wealth should be of paramount importance to all business owners as **most owners have 80–90 percent of their financial wealth locked in their businesses**. Given the significance of this asset in an owner's wealth portfolio, the ability to monetize this wealth significantly impacts an owner's financial security and lifestyle once they exit their business.

Beyond the owner and their family, the significance of a successful business asset transition is substantial. Failure to provide for the continuity of the business impacts not only an owner's personal wealth, and that of their family, but also the future of all other stakeholders who depend on the business's successful transition. "The business owner is the giver of life," wrote Dr. Leon Danco, a legendary expert on family businesses, in his book *Beyond Survival, a Guide for Business Owners and Their Families*. The continuity of an owner's business affects their employees, vendors, customers, charities, and the surrounding communities, for whom the owner provides jobs and social well-being.

What happens if the business does not successfully transition? The alternative is a business shut down. People lose their jobs. Families suffer. Communities suffer. Additionally, in many cases, the owner's life work is liquidated for pennies on the dollar.

Previous surveys conducted by the Exit Planning Institute, PriceWaterhouseCoopers (PwC), the Alliance of Mergers and Acquisitions Advisors, Business Broker Press, and the Family Firm Institute suggest that **historical transition success rates are in the range of only 20–30 percent nationally.**

Even though boomers hold onto their businesses longer than other generations, they must face the reality that preparing for a business transition is an urgent imperative. Transitioning a business is a high-stakes endeavor, and for many, a once-in-a-lifetime process that requires significant focus, action, time, and money to do properly. Unlike baby boomers, Generation X business owners may have the opportunity to build and exit multiple companies over their entrepreneurial career path. Around 50 percent of business owners surveyed for this report are in Generation X. 44 percent of respondents indicated they wanted to transition their current company in 3-5 years and 36 percent said they would start or buy another company in the next phase of their life.

Transition planning and value acceleration address several problems that prevent owners from achieving better transition succession rates and sustaining business growth. The typical issues we see include the following:

- First, when owners do decide to exit, they realize they have not allowed themselves enough time to position their businesses for transition, minimize taxes, and maximize net proceeds. Thus, they achieve significantly lower net proceeds than expected.
- Second, they are unprepared when an unplanned event affects them and forces them into an exit that is not on their terms or timeline. Alternatively, they are fortunate to receive an unsolicited offer from a buyer. However, their lack of readiness prevents them from harvesting the value of their business in either situation.
- Third, they are unable to complete a sale of the business to a third party because the business is unable to pass the test of due diligence to complete the sale—even a partial sale—to a third party. Private equity and strategic buyers are very seasoned and selective.
- Fourth, owners may also be unaware that they have eliminated their inside options, such as a transition to a family member or to employees, because their business cannot operate without them and is potentially undercapitalized, has insufficient cash flow or too much risk to succeed with an inside option.

The right approach to a business transition has crucial benefits. For many owners, their business represents the majority of their wealth. If the average middle market business, a business with sales between $5-100 million and holding an average market value of $8.5 million, successfully transitions, assets at transition could go from $2.1 million to $10.6 million in pre-tax wealth. Even at an aggressive rate of 6 percent a year, the difference in pre-tax income is $510,000 ($637,000 v. $127,000) per year.

For smaller markets, the consequences are even more compelling. In the micro market, businesses that do less than $5 million in sales per year, the average business value is just over $300,000. Most businesses are owner operated whereby the owner derives almost all of their income from the business. Roughly 5.7 million (94%) of the six million privately held businesses fall into this category. Assuming that for many, 80 percent of their wealth is locked in the business, successfully monetizing their business asset could be the difference between $400,000 at transition as opposed to $100,000.

To successfully transition, a business owner must address three things: maximizing transferable business value, preparing financially for a lifestyle without the income from the business, and planning personally for what they will do in their next act after exiting this business.

The State of Owner Readiness™ Research

The Exit Planning Institute has been conducting research and surveying business owners with the help of its many strategic partners since 2013. This report, EPI's first study released since 2019, has been preceded by two national surveys in 2013 and 2014 and nine regional surveys released between 2017-2019. These include the metro areas of Twin Cities, Phoenix, Nashville, San Diego, Atlanta, Long Island, North Texas, Southern Wisconsin, and Nebraska.

The survey results of the New York City study, the first since the COVID-19 pandemic, produced remarkable improvement of business owner planning for business and personal transition. These results are due in part to the demographic differences between this survey and previous surveys, which will be highlighted in Section One. Likewise, the creation and availability of exit planning resources for business owners and business advisors has improved substantially. The number of business advisors credentialed in the field of exit planning experienced a significant increase over the last several years as many major institutions have adopted exit planning education strategies.

The reader should note that **the survey answers reflect the owner's *perceptions*.** Although the owner's answers may be factual, they are not based on proven fact. The only way this can be accomplished is to complete a thorough personal, financial, and business assessment conducted by an independent credentialed advisor such as a Certified Exit Planning Advisor® (CEPA).

Nevertheless, the data points are useful for assessing a given owner's state of mind and state of education, as it relates to their readiness to transition from a business, personal, and financial standpoint.

Owners would be wise to consider obtaining a personal, financial, and business assessment to support their current perceptions and their business valuation to avoid surprises when the time comes to complete a business transition. This is also necessary for proper estate, tax, charitable intent, and personal financial planning.

This data is intended to be a business tool to initiate discussions between business owners and business advisors and identify areas where education and assistance are urgently needed. At a minimum, advisors should review the results with business owners to begin the process of validating their situations. Advisors may also educate business owners on critical success factors and examine options to determine the probability of a successful transition based on their state of readiness today.

Report Sections

This report is divided into three sections. Section One contains general observations about the data collected from the New York City survey and how the data compares to the previous national and regional surveys completed by EPI and its partners. Section Two provides our analysis of the data and observations regarding the data's implications for the business owner. Section Three presents the recommended actions business owners and business advisors should take to improve the probability of a successful transition and capture this hard-earned wealth.

There were 225 responses to the New York City State of Owner Readiness Survey. The survey included 42 questions, organized as follows:

- Demographic information (age, gender, annual revenue, legal structure, industry, most trusted advisor, etc.)
- Current transition plans and thoughts
- Owner, shareholder, family, and company readiness to transition

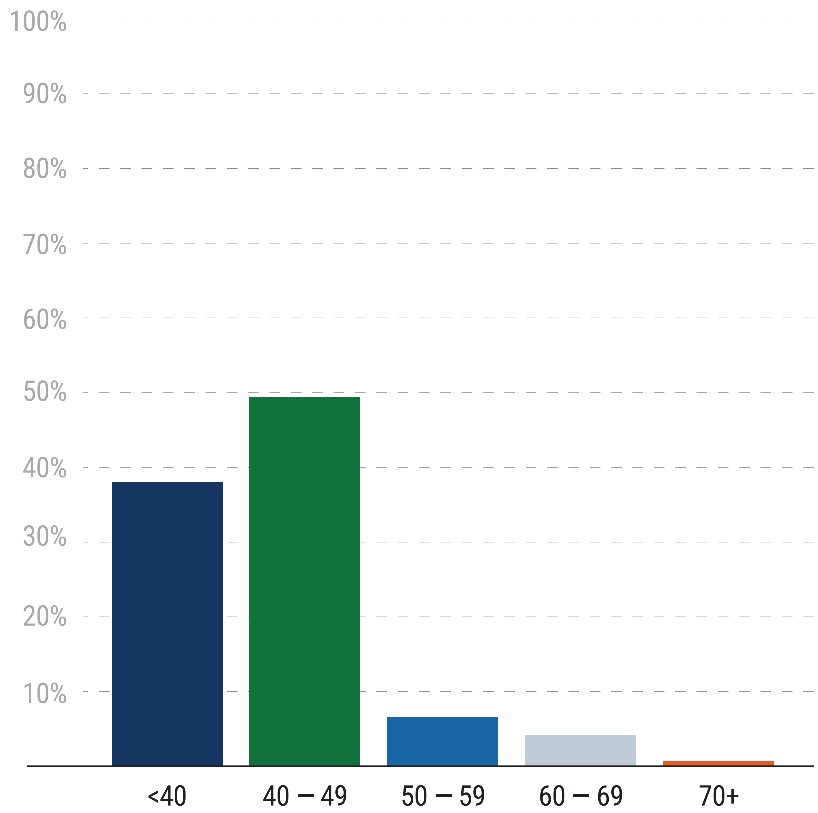
SECTION ONE

RESPONDENT DEMOGRAPHIC DATA

SECTION 1
RESPONDENT DEMOGRAPHIC DATA

WHAT IS YOUR CURRENT AGE?

The average age of the 2021 New York City group of business owners is significantly younger than in past studies. This is different from previous surveys where typically 60 percent of the respondents were baby boomers. This may be a reflection that the age wave transition from Boomers to younger owners is now well underway.



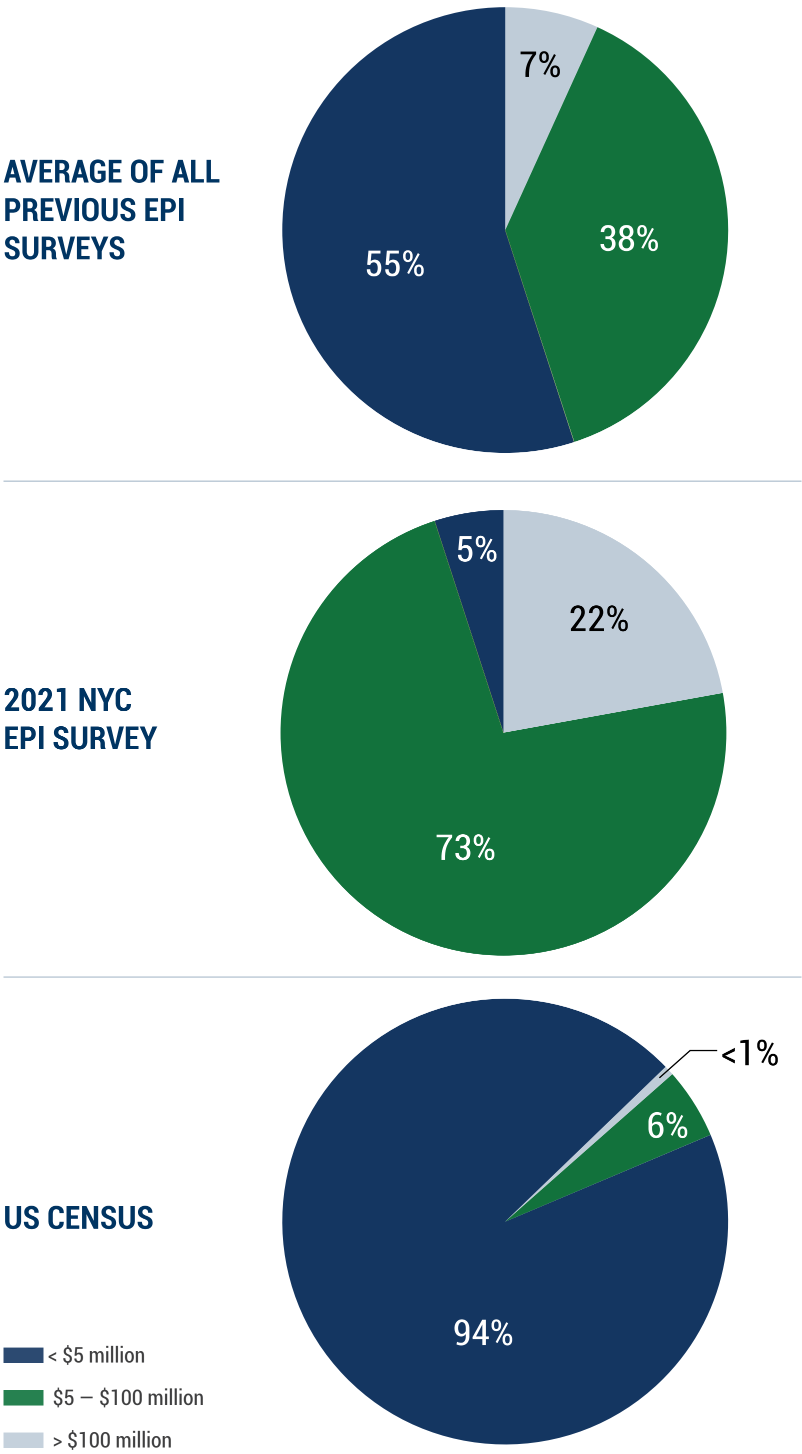
88% of the survey respondents were below the age of 50.

SECTION 1
RESPONDENT DEMOGRAPHIC DATA

WHAT IS YOUR COMPANY'S ANNUAL REVENUE?

The average sales of companies in the 2021 New York City group is significantly higher than US Census data and previous EPI surveys.

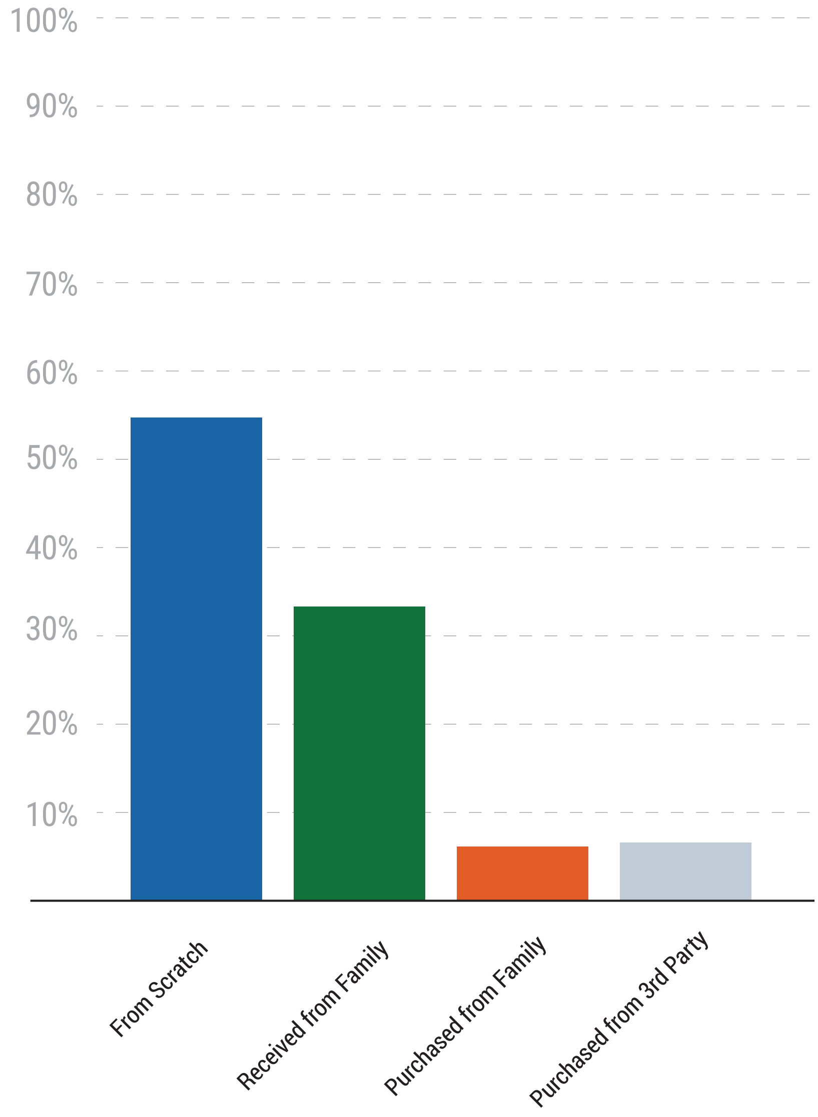
Percentage of Businesses by Size of Revenue



SECTION 1
RESPONDENT DEMOGRAPHIC DATA

HOW WAS THE BUSINESS STARTED?

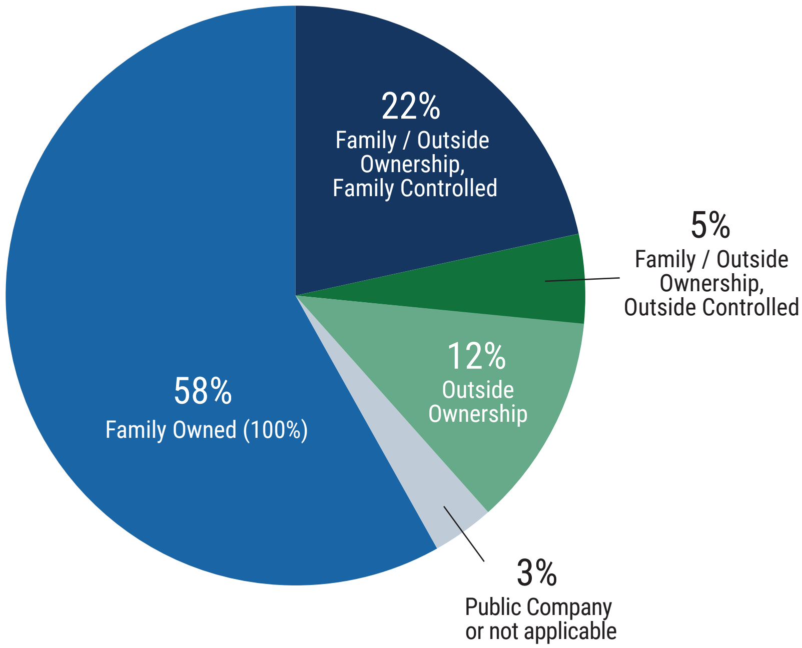
55 percent of the 2021 New York City group started their businesses “from scratch”. We would refer to these owners as “Founders.” 33 percent of those surveyed received their business from family and 6 percent purchased the business from their family. We feel this is consistent given the younger age of this survey. The results showed less Founders and more second or third generation owners. The average number that started a business from scratch in previous surveys was 72 percent, thus reflecting many more Founders. Only seven percent of the businesses from previous surveys were received from family.



SECTION 1
RESPONDENT DEMOGRAPHIC DATA

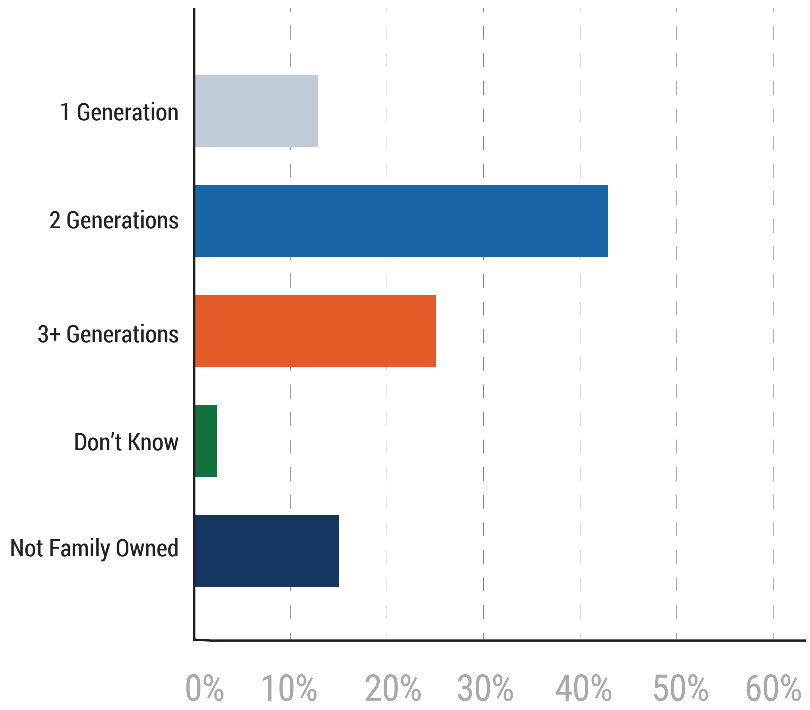
IF YOUR COMPANY IS PRIVATELY HELD, WHAT IS THE OWNERSHIP STRUCTURE?

Like previous research, a majority of the businesses in the survey were at least family controlled. However, the 2021 New York City group has a much higher percentage of second and third generation owners. In previous surveys, 76 percent of the business owners taking the survey were first generation business owners, or "Founders".



IF FAMILY OWNED, HOW LONG HAS YOUR COMPANY BEEN OWNED BY THE FAMILY?

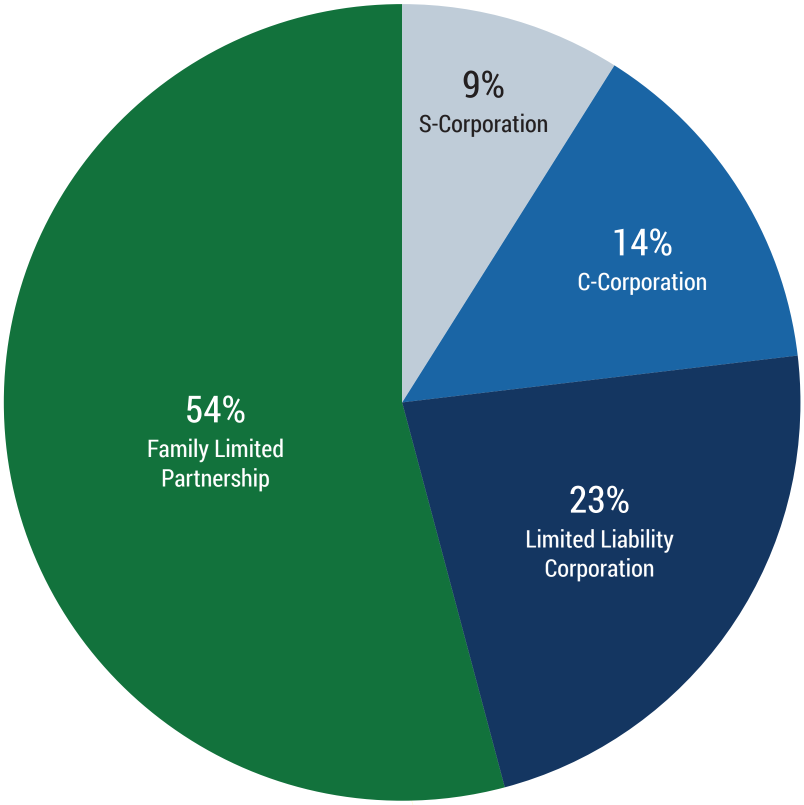
In the 2021 New York City group, only 13 percent of the business owners were first generation owners. And 69 percent of the owners surveyed were second generation or more, versus an average of only 24 percent in all previous surveys. Again, this may reflect the massive age wave transition of ownership from baby boomers.



SECTION 1
RESPONDENT DEMOGRAPHIC DATA

HOW IS YOUR BUSINESS ORGANIZED?

54 percent of the 2021 New York City business owners were organized as Family Limited Partnerships. This is unprecedented. The highest we have seen in previous surveys was 18 percent and the average of all past surveys is eight percent. This could reflect increased estate and tax strategies at work, a key tool of exit planning. 23 percent of companies were organized as LLC's, nine percent S-Corps, and 14 percent as C-Corps.

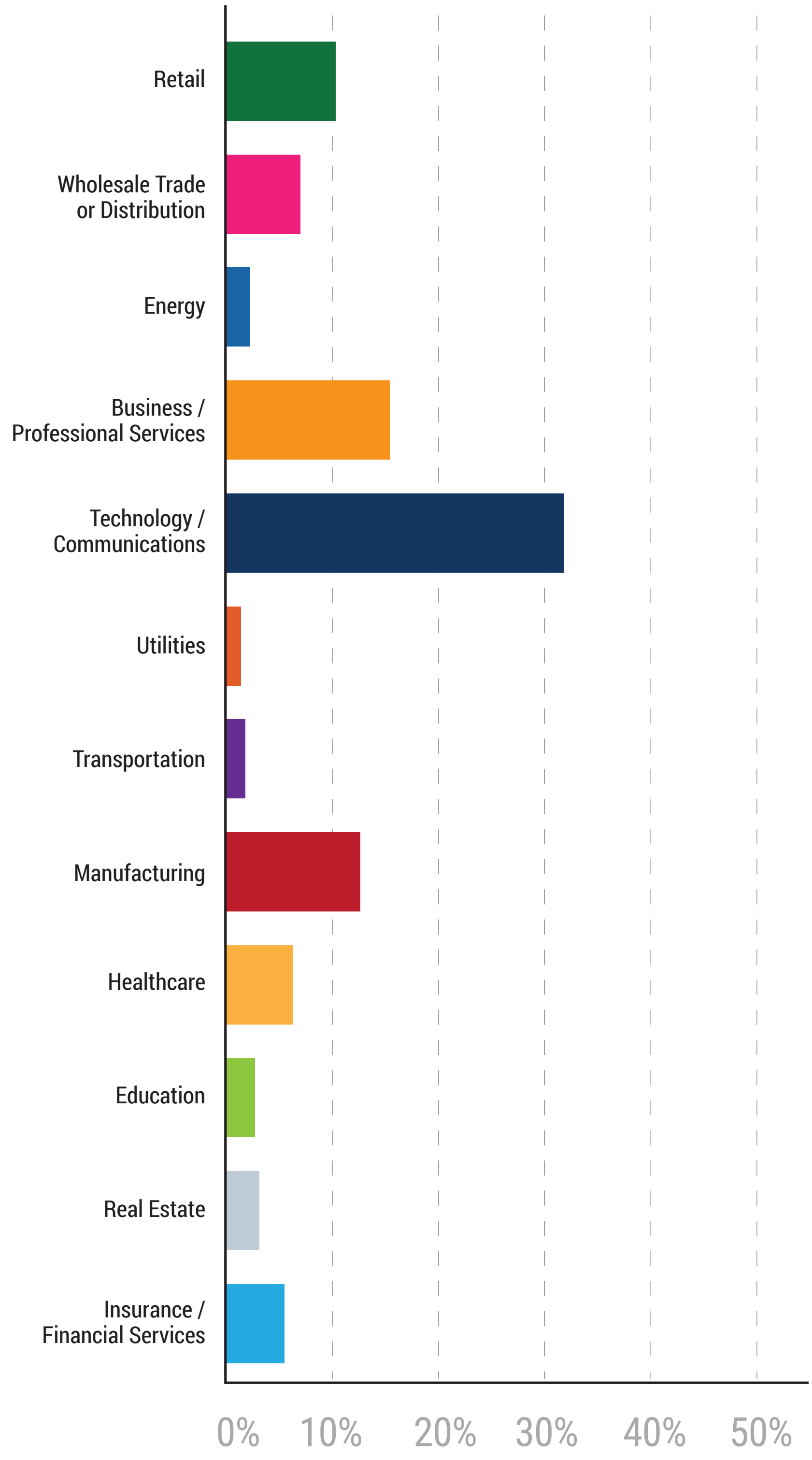


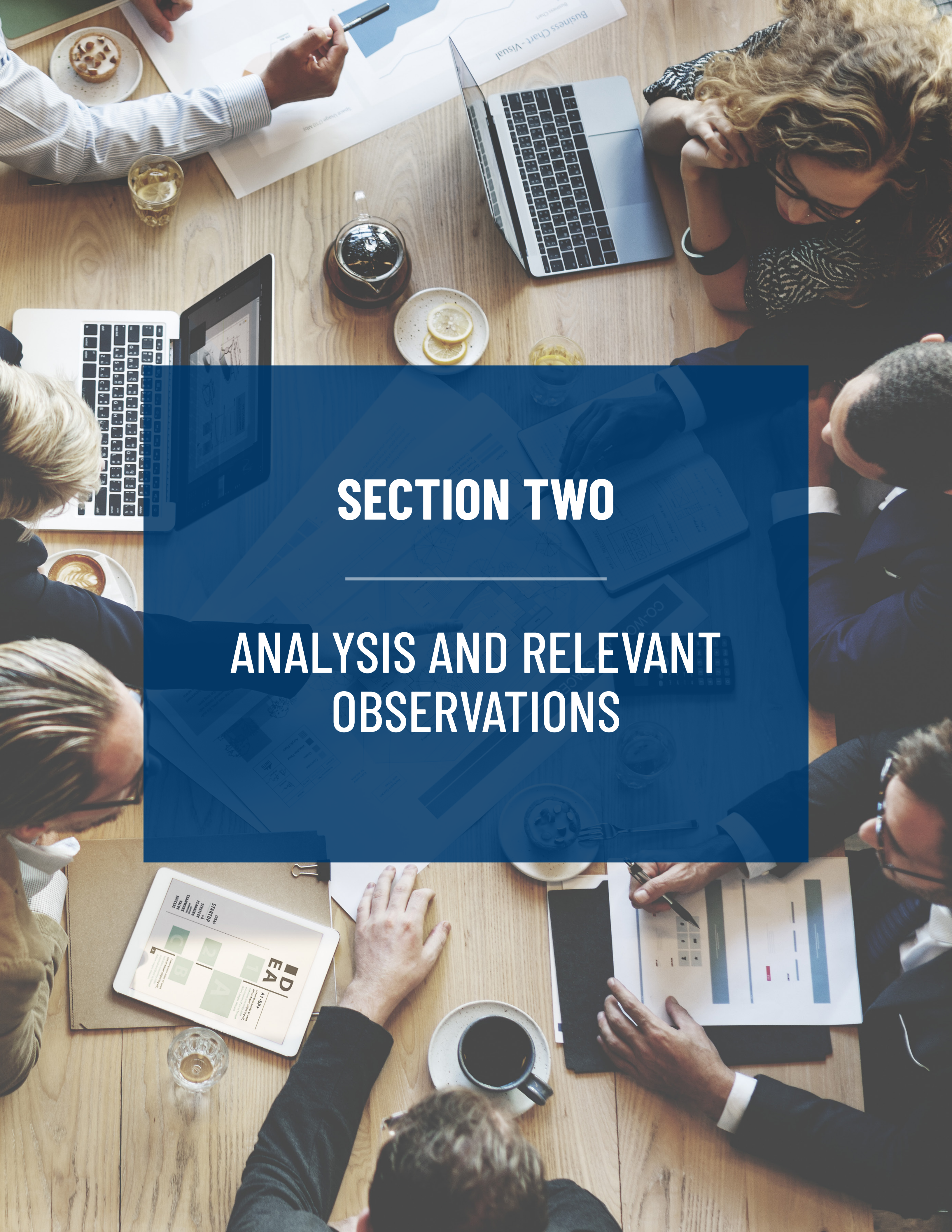
54% of the 2021 New York City group were organized as Family Limited Partnerships. **This is unprecedented.**

SECTION 1
RESPONDENT DEMOGRAPHIC DATA

WHAT INDUSTRY ARE YOU IN?

The sample included a reasonable cross-section of 13 industries with Technology/Communication, Business and Professional Services, and Healthcare representing 59 percent of the sample.





SECTION TWO

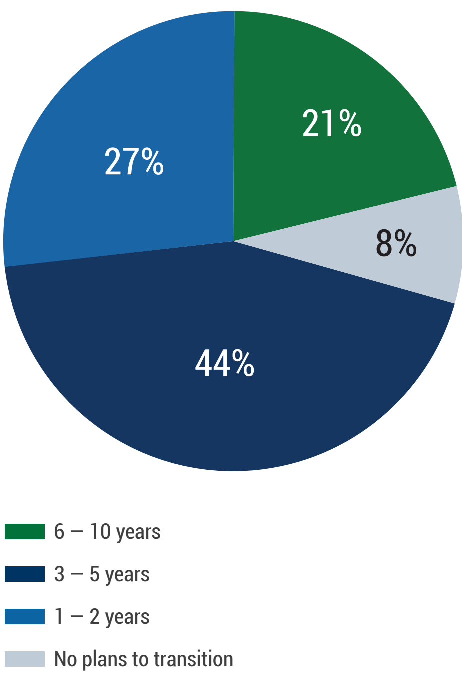
ANALYSIS AND RELEVANT OBSERVATIONS

SECTION 2
ANALYSIS AND RELEVANT OBSERVATIONS

As you read through the rest of this report, please bear in mind the following statement:

Of the business owners who completed the survey in the New York City region, 99.5 percent indicated they agreed with this statement: "Having a transition strategy is important for my future as well as the future of the business."

WHEN ARE YOU PLANNING TO TRANSITION THE COMPANY?



Much different than in past surveys, **business owners in this survey exemplified this belief.** This is vital given 71 percent of the owners who completed the survey stated their plan was to exit their business within the next five years and 92 percent within the next 10 years. Perhaps even more significant, 27 percent indicated they would like to exit their business in the next two years.

Keep in mind that 88 percent of these owners were under 50 years old and 68 percent are second generation and beyond family business owners. This means many of the owners in this survey plan to exit their second or third generation family business in their 50s.

Baby boomer business owners, who only represent approximately five percent of the responses in this survey, have had the opposite approach. Baby boomers had the tendency to "hold on" to their business for as long as they could.

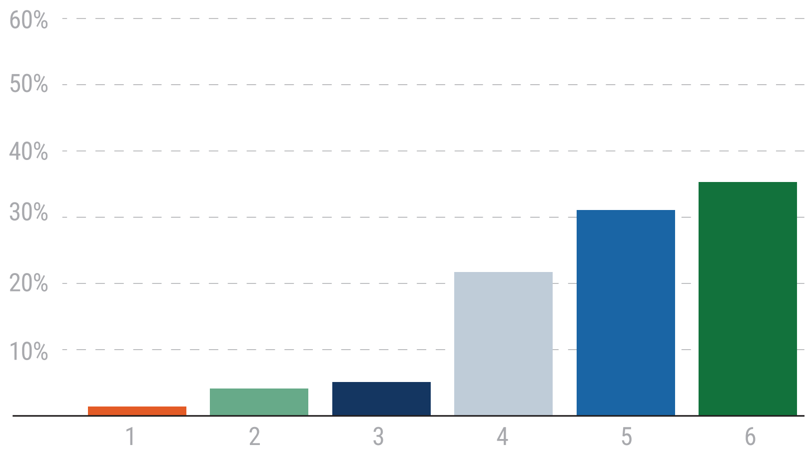
In our opinion, the data from this survey could be a true reflection of the generational differences between baby boomers, Generation X, and Millennials. Baby boomers are the inventors of the 60-hour workweek, and many define their core value of success through their business.

SECTION 2
ANALYSIS AND RELEVANT OBSERVATIONS

HOW READY TO TRANSITION ARE BUSINESS OWNERS FROM THE NEW YORK CITY REGION?

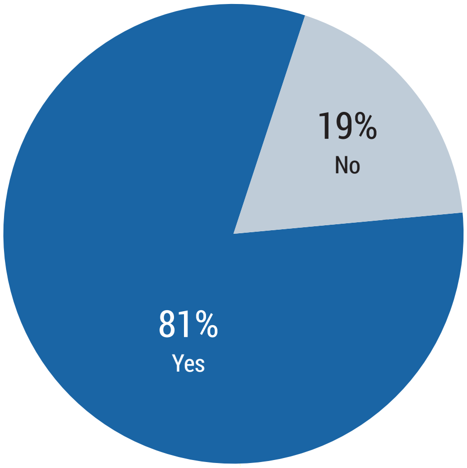
Owner Readiness is remarkably better with this group of business owners. 89% of the business owners indicated the felt they were above average in being personally ready to transition. On a scale of 1-6, with 6 being fully prepared, 67% of the business owners rated themselves a 5 or a 6.

On the following scale, please rate how "ready" you consider yourself to transition your business.



Scale: 1 = not at all ready; 6 = very ready

HAVE YOU COMPLETED ANY FORMAL EDUCATION RELATED TO TRANSITIONING A BUSINESS?



85 percent of respondents indicated their attention to transition had been a top priority. This study reflects the owners backed this up with concrete action in the areas of planning, processes, teams, and education:

- 73 percent had a written **business** transition plan and only six percent had "no plan."
- 2 percent had a written **personal** transition plan for what they would do after transitioning their business, and only two percent had no plan.
- 78 percent had an established a **formal transition team.**
- 81 percent had completed **formal education** related to transitioning a business.

The above statistics are remarkably better than in previous surveys where, on average, only 28 percent had a written company transition plan and 43 percent had done no planning at all. Additionally, in past surveys, only nine percent had a written personal plan, 13 percent had formal transition team, and only 29 percent had completed any formal exit planning education.

SECTION 2
ANALYSIS AND RELEVANT OBSERVATIONS

FOR THOSE OWNERS WHO SAID THEY DID HAVE A WRITTEN BUSINESS TRANSITION PLAN, WE ASKED "WHAT DO YOUR PLANS INCLUDE?"

66% Written Goals and Objectives

53% Personal Financial Plan

49% Contingency Plan

43% Business Valuation

47% Strategic Analysis and Value Enhancement Plan

41% Exit Options Analysis

30% Tax Plan

27% Estate Plan

19% Detailed Action Plans

What is Included in Their Written Transition Plan?

The data in this survey is very encouraging because business owners who fail to plan for their transition face many regrets:

- Business owners realize they should have integrated a value acceleration process to prepare themselves and their businesses much earlier.
- They realize after the fact that they left money on the table because they did not maximize the value of the business at the time of exit.

SECTION 2
ANALYSIS AND RELEVANT OBSERVATIONS

WHAT BEST DESCRIBES HOW YOU ARE PLANNING TO TRANSITION?

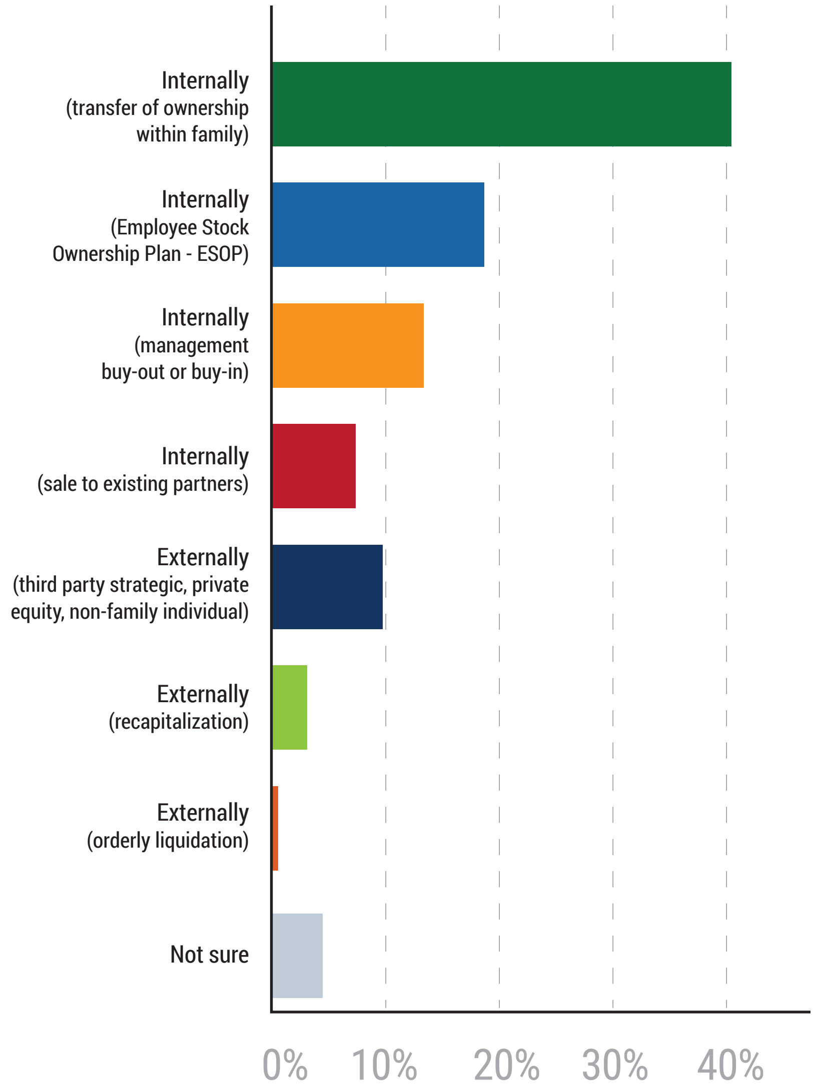
Most owners surveyed, 41 percent, stated they preferred a family transition. 19 percent said they were looking towards an ESOP, 14 percent were leaning towards a management buyout, and seven percent indicated their option of choice was to be bought out by partners.

Only 10 percent were seeking to sell to a strategic buyer or private equity. Three percent of owners were considering a recapitalization and only one percent said they were moving toward an orderly liquidation.

This data differs from previous EPI surveys in that roughly 35 percent of business owners were considering an internal exit option versus the 81 percent from the New York survey. Additionally, 32 percent were considering an external option versus 14 percent in the New York City data. Finally, 33 percent were not sure about their exit options versus five percent of the New York City respondents.

Exit Options: Understanding and Preference

Contrary to previous surveys, 85 percent of the owners in the New York City sample indicated they felt they were familiar with all exit options. For the owners who had an exit option in mind, 81 percent indicated a preference towards an internal option vs 14 percent who preferred an external option. Only five percent were unsure whether they would prefer an internal or external option.



SECTION 2
ANALYSIS AND RELEVANT OBSERVATIONS

Personal, Financial, and Estate Planning

Owners scored well in personal planning, personal financial planning, and estate planning which all play vital roles in a successful business and life transition.

Business Valuation and Value Enhancement

For those who had a written transition plan, 59 percent said it included a business valuation and 64 percent indicated it included a strategic analysis and value enhancement plan.

Well-advised Owners rely on the facts that a formal business valuation produces describing the value of their business versus relying on hearsay and comparing their business to others. We encourage business owners to have an independent professional advisor reassess their business value annually, at a minimum. The fact that so many business owners in this survey have obtained a formal business valuation is favorable. The lack of formal business valuations in many cases is a major reason why so few businesses that go to market sell. In previous surveys, on average, only 10 percent of business owners have completed a formal business valuation within the last two years. According to the Alliance of Mergers and Acquisitions Advisors, 95 percent of mergers and acquisitions professionals indicated that the owner's overestimation of value was the number-one factor in failed deals.

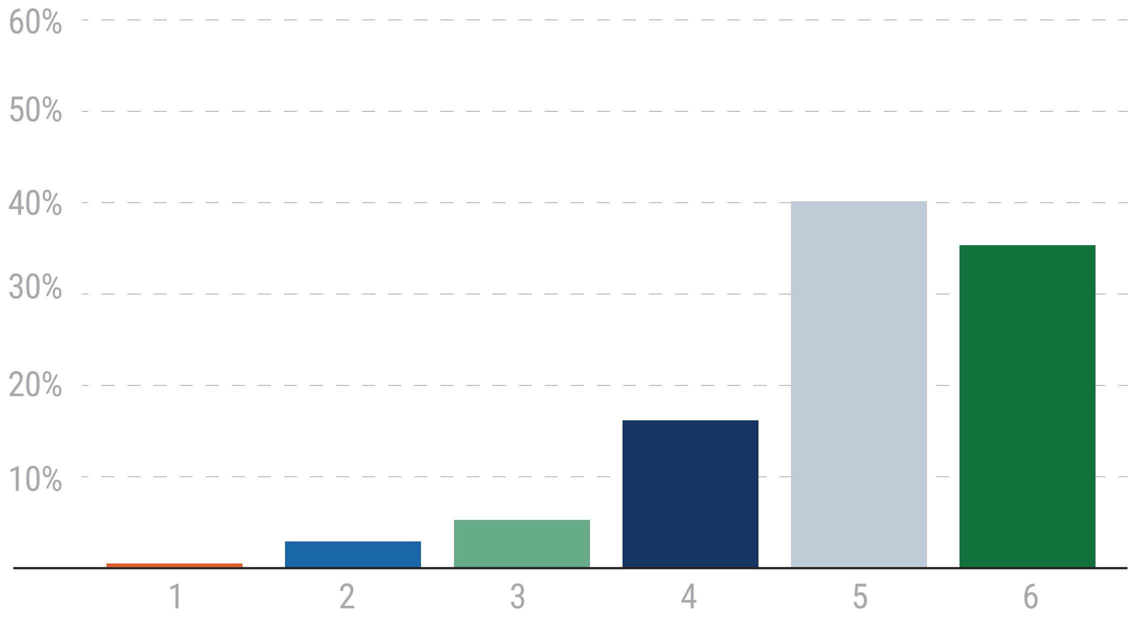
Owners tend to focus on sales and income without giving appropriate attention to business value. **An owner paradigm shift is vital. Maximizing business value, not business income, should be the primary goal.** Income alone does not necessarily mean the business has value. Attractiveness AND readiness are both needed for the business asset to be ready to transfer. Focusing on value first is the only way the owner can achieve both transferable business value and increased business income. By focusing on value, other aspects of the business have positive outcomes.

SECTION 2
ANALYSIS AND RELEVANT OBSERVATIONS

State of Personal Planning

Personal planning for the next phase of an owner's life and personal financial planning for independence from the owner's business are essential to a successful transition and fulfilling post-exit life. For a business owner, exiting a business is more of a personal journey and owners recognize this. 90 percent of the owners in the survey shared that the emotional impact of stepping away from their business was above average and 73 percent indicated it was well above average. Additionally, 33 percent said it would be extremely emotional to exit their business.

On a scale of 1 to 6, please rate what you believe the emotional impact of stepping away from your business will be.



Scale: 1 = no emotional impact; 6 = extreme emotional impact

Yet, 89 percent of owners who took the survey scored themselves above average in terms of being ready to exit and 67 percent as being well above average in terms of being ready for exit.

It is likely, the owners high state of confidence in their state of readiness is a result of good personal planning. **52 percent of business owners in this study indicated that they had a written plan for what they would do post-exit;** 36 percent indicated they had an informal plan. Ten percent indicated they did not have a plan but rather an idea. Only two percent indicated they had not considered what they would do after exiting their business.

SECTION 2
ANALYSIS AND RELEVANT OBSERVATIONS

WHAT IS YOUR ANTICIPATED LEVEL OF INVOLVEMENT WITH THE COMPANY AFTER TRANSITION?

51% Will continue to have some hands on involvement and be in the office on most days. Will want to be involved in key decisions.

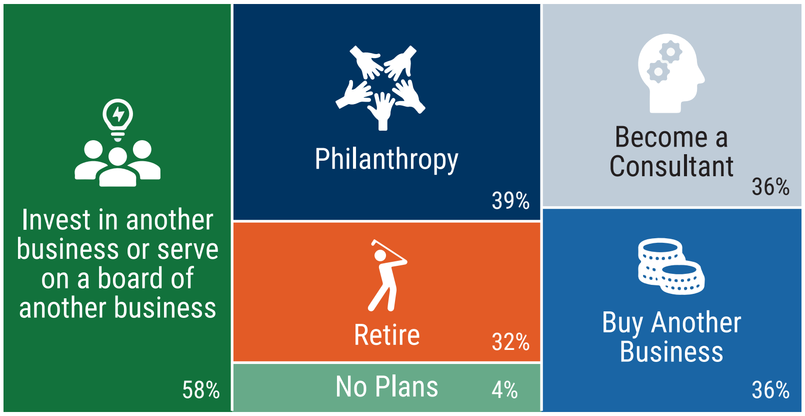
31% Will continue in a formal advisory role, such as chairman of the board, but not be active in the day to day operations.

15% Will be available on an as needed basis.

2% Will only be available in crisis.

1% Do not plan to be involved.

What are they planning to do once they exit their businesses?



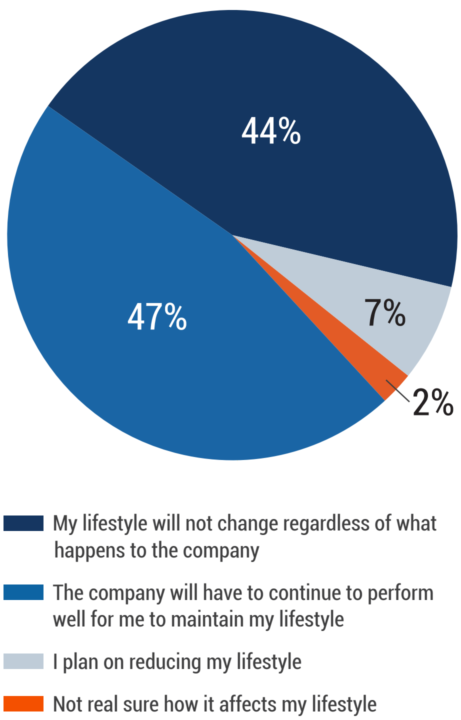
- 58 percent will invest in another business or sit on a board
- 39 percent will focus on philanthropic and civic activities
- 36 percent will buy another business
- 36 percent will consult
- Almost a third, 32 percent, said they will retire

Only four percent indicated they had no specific plan for what they would do next. Perhaps this reflects the age range of the survey which was primarily the Generation X business owner. In review of the generation's key characteristics, adequate planning could be an output. Some of those key characteristics focus on work life balance, saving money, the value of their time, and wanting to work smarter not harder. These considered, it is not surprising that these respondents had formal plans and plans for the next phase of their life.

Many of the business owners, 51 percent, plan on continued involvement with their business even after transition. 31 percent indicated they would continue in a formal advisory role such as chairperson of the board, but not have day to day involvement. Of those surveyed, 15 percent stated they would still be available if they were needed in a crisis.

SECTION 2
ANALYSIS AND RELEVANT OBSERVATIONS

WHICH OF THE FOLLOWING BEST DESCRIBES POTENTIAL CHANGES TO YOUR LIFESTYLE FOLLOWING THE TRANSFER OF OWNERSHIP?



State of Financial, Tax, and Estate Planning

According to most financial advisors, an owner's business wealth is usually 80 to 90 percent of their overall net worth. Creating and maintaining updated Personal Financial Plans, estate plans, and tax plans are important for one's personal financial strategy and mitigation of personal financial risk.

When asked about how their lifestyle would change post-exit, we received mixed responses. 44 percent of owners are not expecting any changes to their lifestyle after exiting. This statistic is very strong. However, 47 percent indicated the "company must perform well to maintain my lifestyle." Additionally, 93 percent of the survey respondents indicated it would be helpful for the company to remain profitable for their transition plan to be executed properly. In fact, over half of the owners, 52 percent, responded that this would be "critical" to their lifestyle.

We feel this is because 81 percent of the owners in this 2021 New York City survey were leaning towards an internal transition option to family, employees, management, or partners. Although there are significant advantages to these options, in particular Employee Stock Ownership Plans (ESOPs), often there is not a large liquidity event upon the initial transfer of the business. Instead, owners receive their total payout over time. Given this audience leaned so heavily towards these internal options may be reason 47 percent of them need the company to perform well even after their exit and 52 percent indicated it would be critical for the company to remain profitable for their plan to be executed properly.

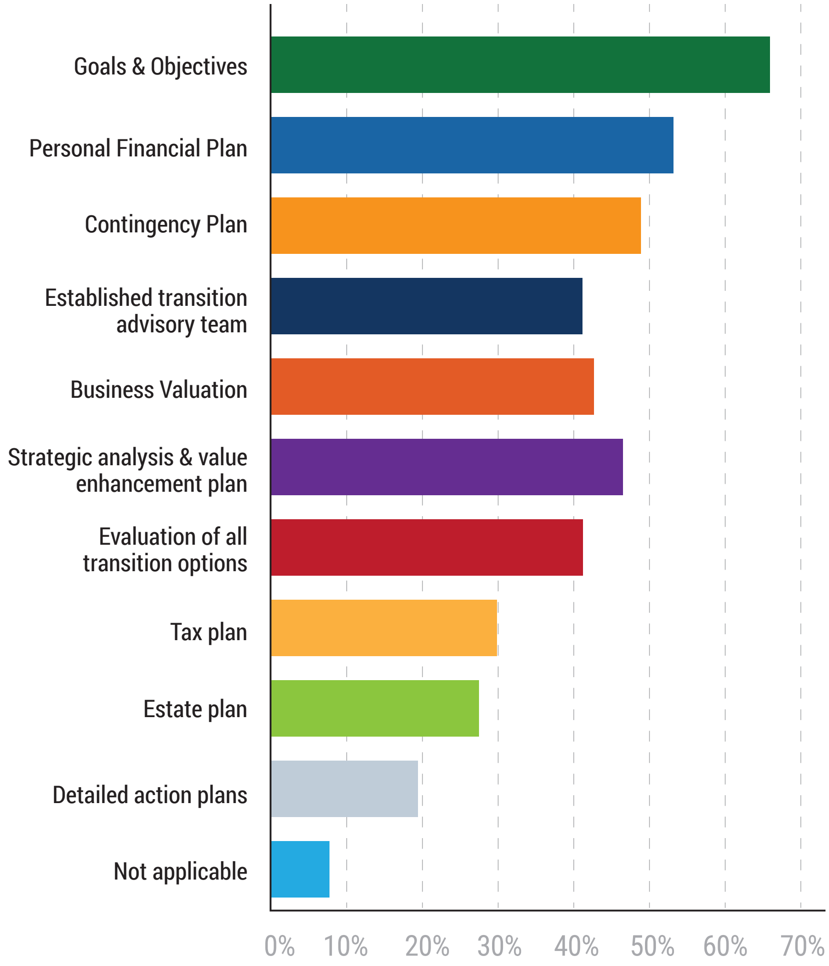
This is not a bad thing, provided the appropriate tax, estate and financial planning activities are taken prior to exit. Of those owners who had a formal transition team, 56 percent indicated a wealth or financial advisor was part of their team. Overall, 55 percent indicated their financial advisor was their most trusted advisor. Of those who had a written transition plan, 53 percent stated it included a Personal Financial Plan.

On the estate planning front, of those owners who had a formal transition team, 33 percent indicated an estate planning attorney was engaged. Of those who had a written transition plan, only 27 percent said it included an estate plan and only 29 percent included a tax plan.

SECTION 2

ANALYSIS AND RELEVANT OBSERVATIONS

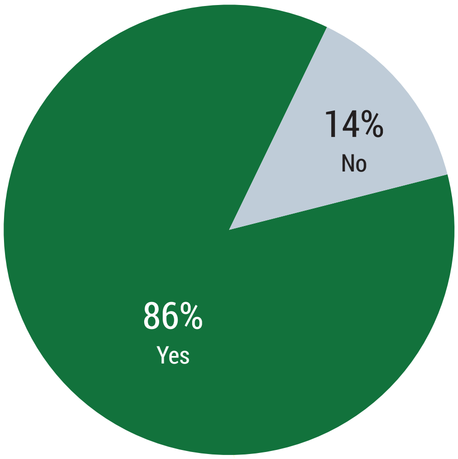
What does your written plan encompass?



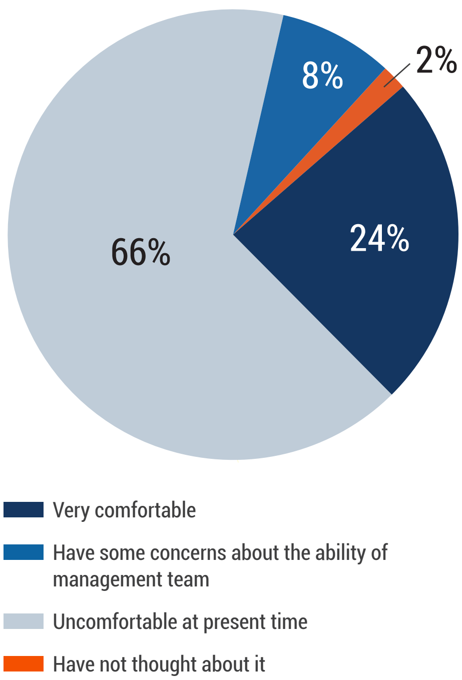
56 percent of the owners surveyed shared the transition of the business had been incorporated into both their personal financial and estate plans. 34 percent of owners surveyed said the transition of the business had only been incorporated into the personal financial plan and six percent said the transition of the business had only been incorporated to the estate plan.

Although these results are better than in previous surveys, ideally these numbers should be much higher, especially given the preference of this group towards internal options and family transitions.

DOES YOUR PLAN DIFFERENTIATE BETWEEN MANAGEMENT SUCCESSION AND A TRANSFER OF OWNERSHIP?



HOW COMFORTABLE ARE YOU THAT YOUR MANAGERIAL TEAM WILL BE SUCCESSFUL?



Management and Risk

A buy–sell agreement is like a business valuation in that it should be revisited annually, even if it requires no changes. Moreover, ensuring that the buy–sell is funded is key to ensuring that the terms can be met if the agreement must be invoked.

86 percent of the business owners surveyed stated they had multiple partners invested in their businesses. The good news is, 87 percent of those businesses, said they had a formal and written buy-sell agreement, and 80 percent shared it was funded by life and/or disability insurance.

The survey further indicates the importance of developing human capital by preparing management for succession and that owners understood the difference between management succession and ownership transfer. This is reflected by 86 percent of the business owners expressing their written transition plan differentiated between succession and transfer of ownership.

It is likely this preparation of management for succession has had an important impact on how the business owners in the survey feel about their state of readiness. As stated earlier, 89 percent of owners who took the survey scored themselves as above average in terms of being ready for exit. One reason for this may be that 66 percent said they felt “very comfortable” that their management team was ready for a transition right now and would be successful under new ownership. This would not only increase the attractiveness and value of the business to an outside party but would also significantly increase the probability of a successful transition to family, management, employees, or partners. 24 percent indicated they had “some concerns” about the management team taking over and eight percent stated they were uncomfortable.

Family

Is the family ready for the transition of the business and the potential lifestyle changes?

The complexity of family dynamics is always challenging, especially when they involve a business transition. In addition to being complex, we believe another reason why most family transitions are not successful is business owners tend to do less transition planning when they have decided to transfer the business to family. **The family should approach an intergenerational transition with the same vigor as they would if they were planning to sell it to a third party.** The characteristics that make a business valuable to a third party are the same that make it valuable to the next generation: low risk and high transferable value. The personal and business actions needed to successfully transition a business are the same as those needed to develop the next generation of family business owners. Utilizing value acceleration leads exiting owners to more frequently successful intergenerational transitions.

As stated previously, 69 percent of the sample included business owners that were second and third generation or more owners. Whereas 55 percent started their businesses from scratch. Therefore, many of these owners have already experienced a family transition. Furthermore, 58 percent of the businesses that took part in the survey were 100 percent family owned, and **80 percent were at least family controlled.**

SECTION 2
ANALYSIS AND RELEVANT OBSERVATIONS

WHICH BEST DESCRIBES THE LEVEL OF FAMILY AWARENESS OF THE MANAGERIAL AND OWNERSHIP TRANSITION PLANS?

69% Aware of both the managerial and ownership plans

21% Aware of managerial plan only

6% Aware of ownership plan only

<1% Not aware of either managerial and ownership plans

3% I do not have a transition plan

Transitioning to family was the number one transition choice in New York City. Perhaps because of their previous experience with a family transition, the owners in the New York City survey demonstrated very good involvement of family in the transition of the family business.

- **84 percent shared they had a family meeting regarding the business at least annually.** 63 percent stated they have a family meeting regarding the business more than once a year. Only five percent indicated they have never had a family meeting pertaining to the business.
- 69 percent of the business owners who had a plan said that family was aware of both managerial and ownership plans.
- 90 percent of the business owners who had a plan said at least some family members filling key positions were ready for transition; 30 percent indicated all family members filling key positions were ready to transition.

The benefits of this communication were evident. 45 percent of the survey respondents said they had not experienced intergenerational or active/passive conflict. Only 3 percent indicated they had intergenerational or active/passive conflict that caused unresolved problems.

Although 36 percent said their spouse was member of their transition team, surprisingly only 12 percent of the business owners considered their spouse their most trusted advisor. Another eight percent shared that a family member other than their spouse was on their transition team.

Teams, Advisors, and Boards

The use of outside resources—in particular, a board of advisors which includes non-family members, usually results in an increase in successful transitions and higher valuations.

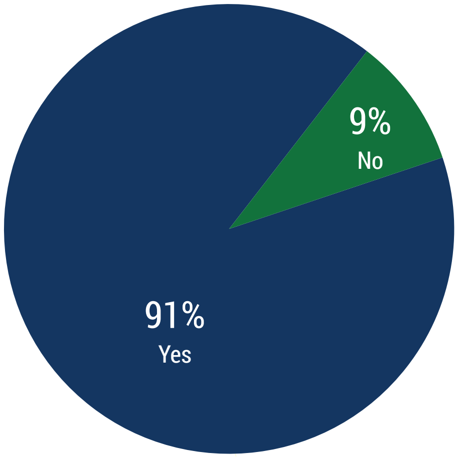
From previous surveys, we have observed that using outside resources and an active board of advisors, including non-family members, are two characteristics that directly correlate to better planning, preparation, and a greater focus on maximizing value. The New York City region business owners scored well in both categories.

As noted previously, 78 percent of business owners indicated that they had a formal transition team. Moreover, an additional eight percent said they used their board of advisors as their transition team, which is not recommended. The skill sets needed to transition a business are very different from the skill sets of members who sit on the owner's advisory board. However, both are necessary and play distinct roles in supporting the business owner.

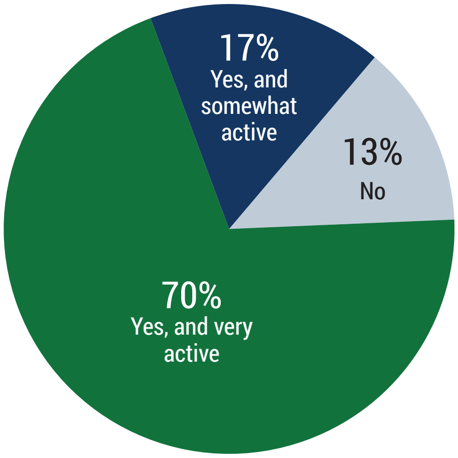
The core transition team for the owner should be comprised of, at minimum, an attorney (typically a business attorney), a CPA, a wealth manager/financial advisor, and a credentialed exit-planning advisor such as a CEPA (Certified Exit Planning Advisor®). For the owners who said they had transition teams, the corporate attorney (61 percent), the wealth/financial advisor (56 percent) and their insurance professional (52 percent) were the most highly selected professional advisors to be named to the transition team.

SECTION 2
ANALYSIS AND RELEVANT OBSERVATIONS

DO YOU HAVE A BOARD OF DIRECTORS / ADVISORS?



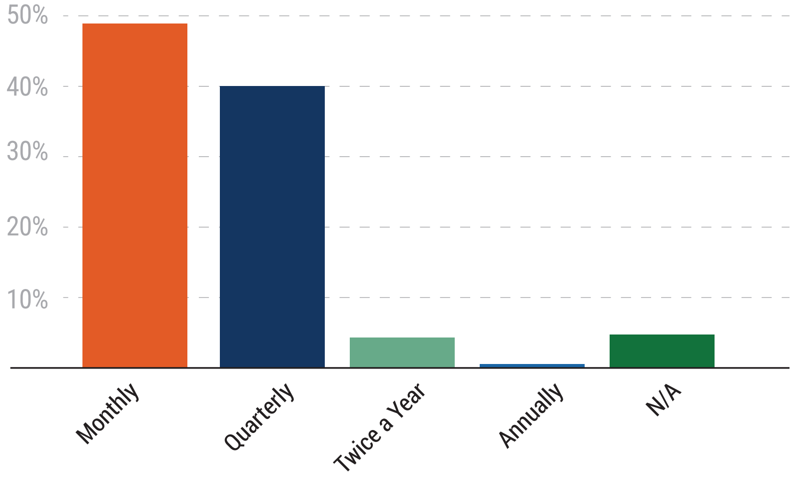
DO YOU HAVE OUTSIDE BOARD MEMBERS ON YOUR BOARD?



Although many business owners seemed to recognize the need for a corporate attorney and wealth/financial advisor, several other key advisors were missing:

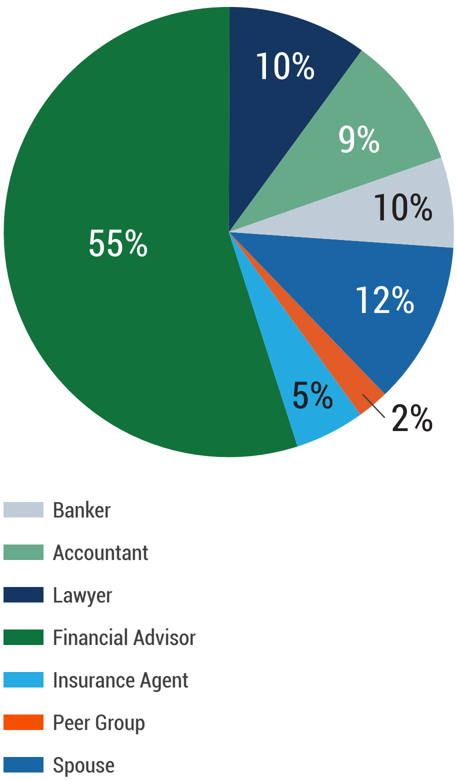
- Surprisingly different from other surveys, only 26 percent of the teams included a CPA.
- Only 36 percent included the spouse.
- Other advisors identified as being needed for the transition team included: the estate planning attorney (33 percent), a securities attorney (39 percent), and an M&A advisor (41 percent).
- Scoring below 20 percent were a family member other than the spouse (8 percent) and a commercial banker (11 percent).
- Of the business owners surveyed, 91 percent shared they had an established board of advisors. This compares to an average of only 24 percent in previous EPI surveys. 50 percent of the owners stated that their boards met monthly and 40 percent met quarterly. 83 percent of the respondents selected that they had outside (non-owner/non-family) board members on their board that were at least "somewhat active" while 70 percent said their outside board members were "very active."

How often does your Board of Directors/Advisors formally meet?



SECTION 2
ANALYSIS AND RELEVANT OBSERVATIONS

WHO DO YOU SEE AS YOUR MOST TRUSTED ADVISOR?



When asked, "who do you see as your most trusted advisor?", 55 percent named their Financial Advisor. This is the first of our 11 State of Owner Readiness surveys where the Financial Advisor has been chosen as "most trusted." The financial advisor scored most trusted roughly 10 percent of the time in all previous surveys. However, this is the first research effort by the Exit Planning Institute since 2019. Over the last few years, the financial industry has made significant investments in exit planning, value acceleration, and in changing the way they work – specifically with business owners. Results from this survey may indicate how financial advisors work with business owners and the corresponding investments are paying off.

This is good news for the industry. Involving a wealth manager or financial planner in the transition process as early as possible is clearly a best practice. Additionally, designing a comprehensive transition strategy without involving the financial planner or wealth manager is nearly impossible. The financial planner's role is critical for determining the owner's financial needs before, during, and after the exit. Financial planners are also crucial in evaluating options to optimize the owner's post-business lifestyle. They often dictate the available exit options and the structure of the exit transaction, whether it be an internal or an external option. After the owner's exit the financial planner's role becomes even more important. Business owners benefit tremendously by including the financial planner or wealth manager in transition planning in the years leading up to the actual transition.

Inconsistent with previous surveys, the Financial Advisor was the most trusted advisor.

Other team related observations:

- Although the insurance professional was considered most trusted advisor by only 11 percent of the business owners in this survey, they scored third highest as a key member of the owner's core transition team. Select companies in the insurance industry have also made significant investments in exit planning over the last several years. This survey shows that the industry's updated approach to exit planning has improved their status with business owners.
- Only nine percent of the New York City business owners surveyed considered their CPA as their most trusted advisor. This differs from the previous surveys where the CPA was considered most trusted advisor on average 25 percent of the time, the highest of all advisors, scoring as high as 46 percent in a survey conducted in 2018.
- Only 7 percent of the owners considered their commercial banker their most trusted advisor and only 8 percent indicated commercial bankers were members of their transition team. Apart from the CPA, commercial bankers are the advisors that are most familiar with the business. We have consistently observed opportunities for improvement in this relationship. It certainly is a two-way street. However, given the potentially significant role the commercial banker plays in the growth and transition process, both owners and commercial bankers would benefit from an improved relationship.

Conclusion

99.5 percent of the business owners in the New York City region who completed the survey indicated they agreed with the following statement: "Having a transition strategy is important for my future as well as the future of the business."

Business owners believe exit planning is critical to their personal and professional success. The data suggests there has been significant progress in exit planning and value acceleration. In this New York City survey, owners clearly recognize the importance of a written transition strategy. The evidence clearly demonstrates progress made with education and tangible action has helped this group of business owners prepare for a successful business and personal transition.

SECTION THREE

RECOMMENDED ACTIONS

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Advice to Business Owners

Owners of any sized business must be proactive to improve successful transition rates and harvest their most significant financial asset. We expect significant improvement of success rates with this group of business owners based on their responses to our State of Owner Readiness survey.

An effective exit plan is a strategic business tool that will create more income today, empower their management teams or children to take the business to the next level, and create owner independence. Exit plans also have the potential to increase the owner's wealth by 400 to 500 percent. In other words, exit planning is simply good business strategy. With $10 trillion of wealth at stake from an aging generation of business owners and with a younger generation of business owners at hand, a greater sense
of urgency is required.

For owners, the best practice is integrating the actions of a successful transition into the way they run their business every day. Owners can accomplish this by following the Five Stages of Value Maturity. Begin by identifying what they have now, take risk-mitigating actions to protect their wealth, tenaciously build value over time, position the business to harvest their value through multiple exit options, and always actively and holistically manage their wealth before, during, and after the exit event.

As previously stated, 80–90 percent of an owner's net worth is likely locked in their business. Moreover, 70–80 percent of that business wealth is tied to intangible assets. To determine this, owners must look at their present income statements and balance sheets. Does the income recorded on the income statement (for tax purposes) reflect the true cash flow benefit assumed by the owner or future owner? Often, when the owner considers normalized income and expenses, discretionary expenses charged to the business, and one-time, nonrecurring charges, the answer is no.

Does the owner's present balance sheet reflect the business's true "market value?" Again, not often. The balance sheet (again for tax purposes) reflects the book value of the owner's recorded business assets—not the true market value, which would include the value of the business' intangible assets.

SECTION 3
RECOMMENDED ACTIONS

Management systems must be adapted to give the owner strategy and feedback on the value of intangible assets on a regular basis. These intangible assets, as presented In Walking to Destiny: 11 Actions an Owner Must Take to Rapidly Grow Value and Unlock Wealth, are: Human, Social, Customer, and Structural Capitals. Most accounting and management systems today do not provide feedback on the value of the business. Focusing on value first drives all other positive outcomes, including increases in sales and profits. Integrating personal and financial plans with business planning prepares the business owner for all possible events from a personal, financial, and business standpoint. This is a concept called the “Three Legs of the Stool” or “Master Planning.” Owners must realize that 50 percent of all exits are forced—that is, they do not occur on the owner’s terms or timeline. This occurs as the result of one of the Five Ds: death, disability, divorce, distress, or disagreement.

By focusing on regular and consistent execution of actions to protect, build, and harvest business value, owners position themselves to harvest the wealth in their businesses no matter the circumstance.

Advice to Advisors

The wealth/financial advisor was the most trusted advisor in this survey for the first time in any State of Owner Readiness Survey. 55 percent of the business owners surveyed indicated their wealth/financial advisors were their most trusted advisors.

Clearly from this survey, wealth/financial advisors have significantly improved their status with business owners. The wealth manager is the one advisor, other than the business attorney, who is with the owner throughout the entire exit process. They assist the owner not only leading up to the transition event but thereafter and are charged with managing the owner’s wealth after the exit. The wealth manager is also vital to the owner and the owner’s advisory team and helps select and structure the appropriate exit option. Owners can underestimate the value that their wealth advisors provide before, during, and after the exit event.

Other key advisors, including CPAs, attorneys, insurance professionals, and commercial bankers, are all necessary to fill out a transition team. It is likely that 63 percent of the owners in these advisors existing client base are at least 57 years old. Therefore, it would be wise and financially beneficial for these professionals to go outside their subject matter expertise and attempt to develop a deeper, more personal, and more business-consultative role with business owners younger than 52 years old. Those younger than 52 years old make up 57 percent of those who took part in this survey. 92 percent of respondents shared their desire to exit their business in the next 10 years. To successfully reach the Gen X business owner, advisors must reach out to other professionals and become more collaborative.

This report was prepared and written by the Exit Planning Institute.

THANK YOU TO OUR LOCAL PARTNERS

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