

CT Business Owners EXIT PLANNING Survey

2019 Year End Report

Project Sponsors

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VR Business Sales New Haven represents owners of businesses valued between \$500,000 and \$25 million or with annual revenues from \$1 million to \$30 million. Operating within a wide range of industry segments, the office provides exceptional merger and acquisition advisory services to companies in Connecticut, Southern New England and Metro NY. Independently owned and operated, the office consistently ranks within the Top 10 of over 50 offices worldwide with the VR franchise network.



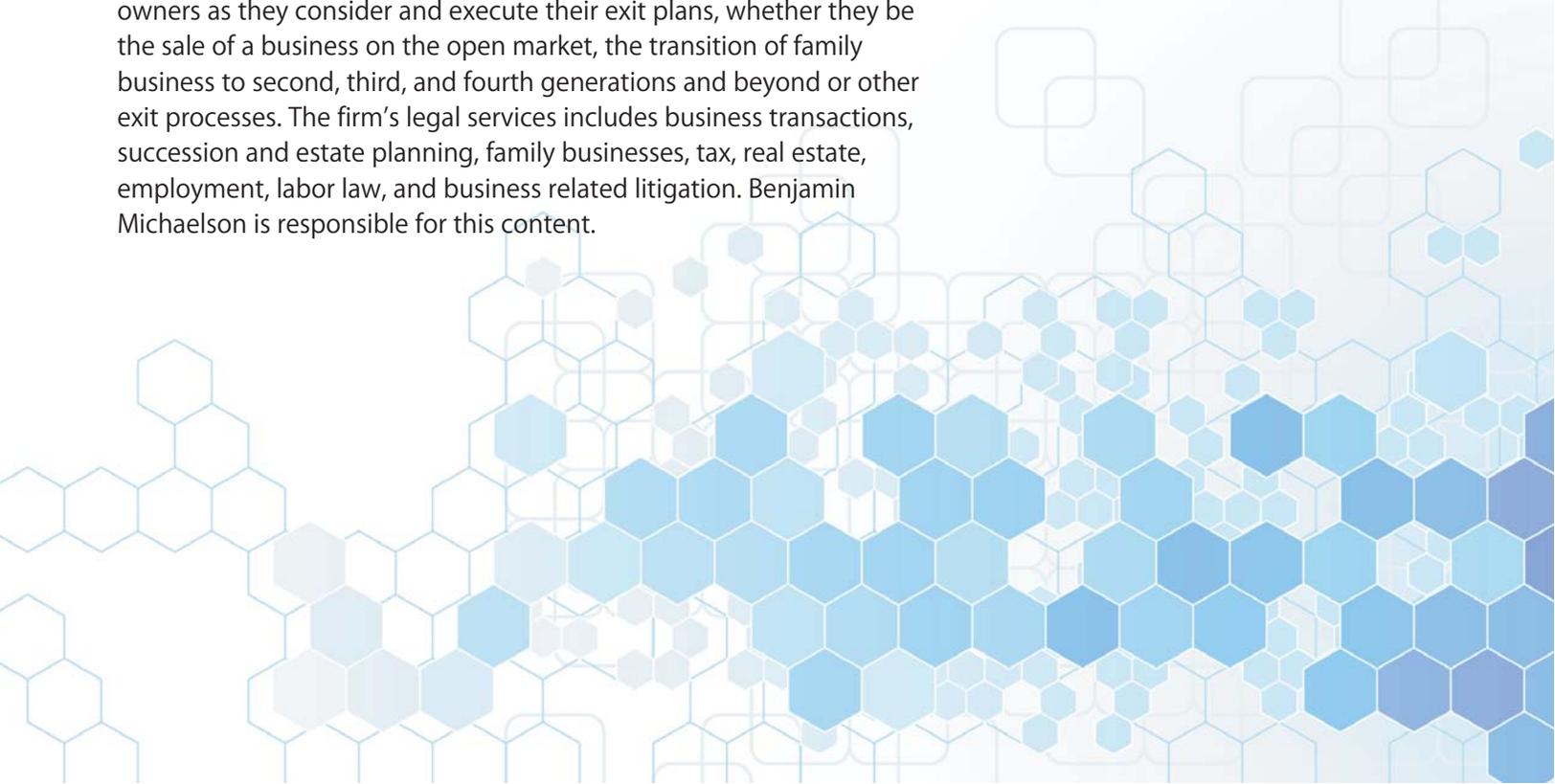
About Marcum LLP

Marcum LLP is one of the largest independent public accounting and advisory services firms in the nation, with offices in major business markets throughout the U.S., as well as Grand Cayman, China and Ireland. Headquartered in New York City, Marcum provides a full spectrum of traditional tax, accounting and assurance services; advisory, valuation and litigation support; and an extensive range of specialty and niche industry practices, as well as high net worth individuals, private equity funds and hedge funds, with a focus on middle-market companies and closely held family businesses. Marcum is a member of the Marcum Group, an organization providing a comprehensive array of professional services. For more information, visit www.marcumllp.com.



About Zangari Cohn Cuthbertson Duhl & Grello P.C.

Zangari Cohn is a firm of accomplished attorneys providing smart and creative solutions to local, national, and international businesses and their owners, since 1946. Our attorneys are trusted advisors to business owners as they consider and execute their exit plans, whether they be the sale of a business on the open market, the transition of family business to second, third, and fourth generations and beyond or other exit processes. The firm's legal services includes business transactions, succession and estate planning, family businesses, tax, real estate, employment, labor law, and business related litigation. Benjamin Michaelson is responsible for this content.



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Executive Summary

Exit strategies consist of a variety of ways to transfer business assets; these can range from transferring them to the next generation in a family business, selling to current management, or selling to a strategic buyer or private equity group. Ideally, companies prepare for a sale as a part of the normal course of managing their business. Good exit planning enables owners to realize a smoother transfer at higher valuations. The Connecticut Business Owners Exit Planning Survey was created to measure how well owners are prepared for an exit and to gauge their sentiment for selling a business in Connecticut.

VR Business Sales - Mergers & Acquisitions, Marcum LLP and the law firm of Zangari Cohn Cuthbertson Duhl & Grello P.C. teamed up to conduct this survey because of the Firms' and their clients' interest in issues related to exit planning, with the belief that it is important to quantify the challenges ahead for business owners as the population ages. The market surveyed included owners of businesses located in Connecticut from various market segments, see Survey Demographics for more information.

Key Findings from the Survey:

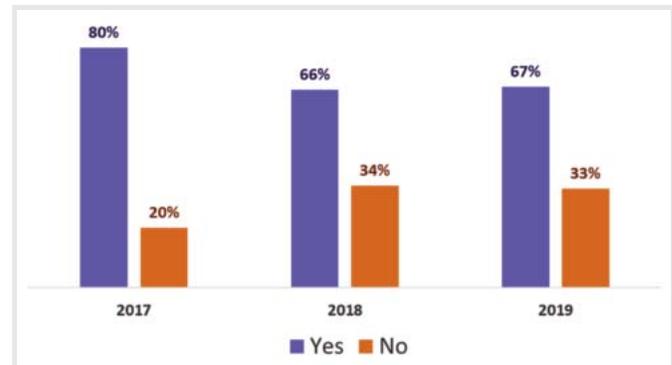
- Connecticut has a steady transaction market, while the national market slowed slightly.
- Sentiment among Connecticut owners regarding exiting their businesses remains positive.
- Only 7% of owners have a completed exit plan, over half of owners intend to create one but have not done so.
- Only 37% of owners have undertaken a formal valuation of their business and the balance are making educated guesses as to what it is.
- The majority either use or plan to use their CPA as a trusted advisor in the transaction.

Connecticut Business Transaction Market

The transaction market sentiment remained steady in Connecticut in 2019, with two-thirds of business owners believing Connecticut has an active market. Nationally, the transaction market slowed slightly with a 5.5% decrease in closed business transactions, according to the 2019 BizBuySell Insight Report. The Connecticut market foreshadows the larger transaction market, with owner sentiment dipping on market activity the previous year, ahead of national statistics. Business sales remain near historical highs. Supply continues to hit the markets as Baby Boomers transition out of business ownership. National sentiment, according to the BizBuySell report, mirrors local sentiment of a market slightly favorable to buyers as sale prices remain steady among rising business financial performance.

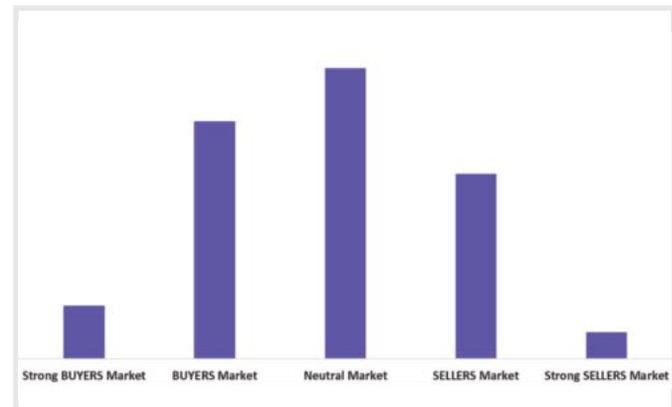
CT Market Activity

Do you think there an active market in CT for buying and selling business?



Buyer or Seller Market?

Do you think it is a better time to BUY or SELL a business in CT?



1 BizBuySell. Insights Charts, 2017Q3_Closed_Small_Business_Transactions.png, https://www.bizbuysell.com/news/images/insight_charts/2017Q3_Closed_Small_Business_Transactions.png
https://www.bizbuysell.com/news/media_insight.html

2 United States Census Bureau. Survey of Business Owners (SBO) Survey Results: 2012. <https://census.gov/library/publications/2012/econ/2012-sbo.html>

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Exit Planning

37% of owners do NOT know how they will exit their business, and a quarter of respondents do not intend to create an exit plan. The majority of owners who plan to sell within 5 years intend to create a plan and already know how they would like to exit their business. The top three exit strategies were to sell to another company or an outside individual, or initiate a management buyout.

Trusted Advisors

Building a team of trusted advisors who can guide an owner through a transition is important. A deal team should include at least four parties to ensure a smoother, more efficient sale process; a transaction attorney, CPA, wealth or financial planner and an M&A Advisor. Generally, owners stated they would most likely lean on their CPAs but had done little yet to enlist their services to develop a plan.

Estate Planning

Estate planning to minimize the tax effects of a business transfer should be considered by more owners. Dealing with some of these issues well in advance of selling a business can produce better outcomes. However, a little more than half of respondents had engaged an attorney or financial planner for Estate Planning purposes.

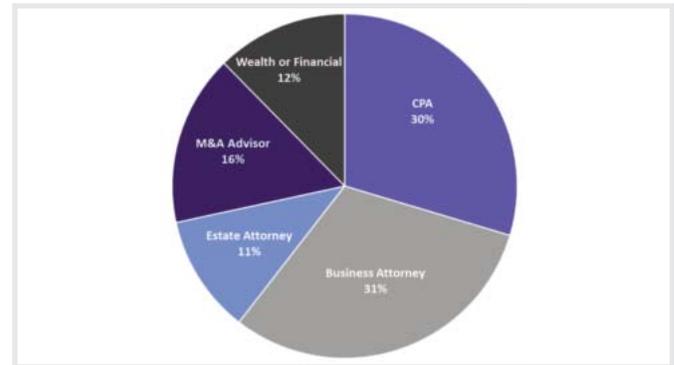
Company Valuation

Sixty percent of owners say they know the value of their company, but of those only a little over half had a formal valuation completed. Gaps between perceived value and market value can result in serious issues and delays during the sale of a business. Owners who did have a formal evaluation completed were more likely to be very confident or extremely confident the business will be sold for that amount.

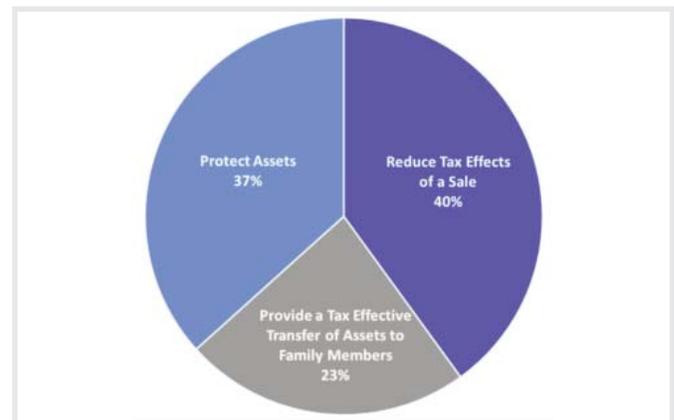
Sentiment Among Business Owners

Owner sentiment about selling a business remains positive with 70% believing it will be easy or somewhat easy to sell, up from 53% in 2018. Out of those who responded that the process would be Hard or Somewhat Hard, the most common reasoning was difficulty letting the business go. For those who responded that selling would be Easy or Somewhat Easy, the most common reason is that they believe the company will sell for a price they are content with and that it will be easy to let the business go. 57% of owners plan to Retire or Semi-Retire upon selling their business, the majority of which plan to only semi-retire.

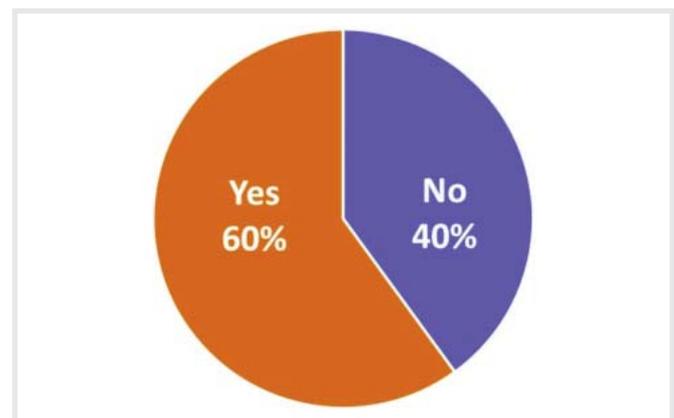
Advisors Business Owners Plan to Consult



What do you believe Estate Planning will accomplish?

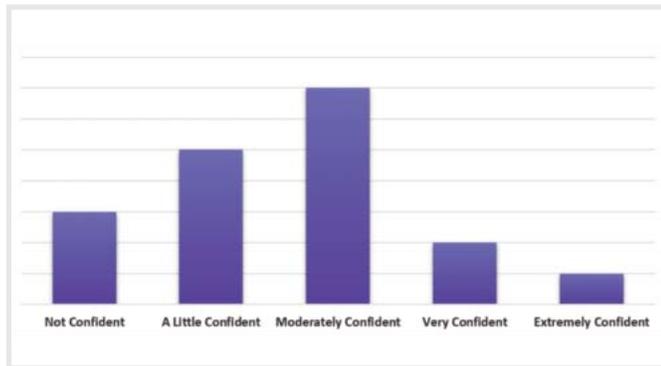


Do you know the value of your business?

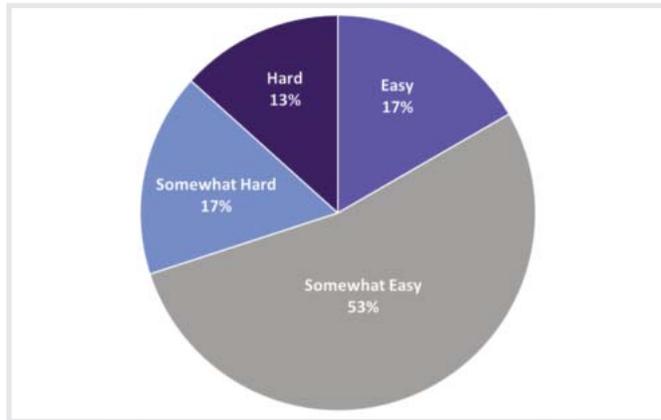


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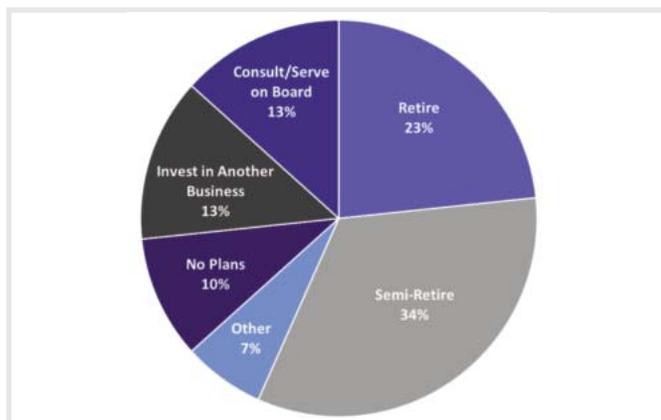
How confident are you that you will be able to sell your business for that amount?



How difficult will it be for you to exit your business when the time comes?



What do you plan to do post transition?



Conclusions

While many CT business owners are focused on developing exit strategies in a transaction market that is still very active, many more should become actively engaged in the exit planning process and take the next steps in formalizing a plan. The benefits to doing so include an optimum sale price, better sale terms, greater ease letting a business go, a transition more beneficial to employees and a less problematic sale process.

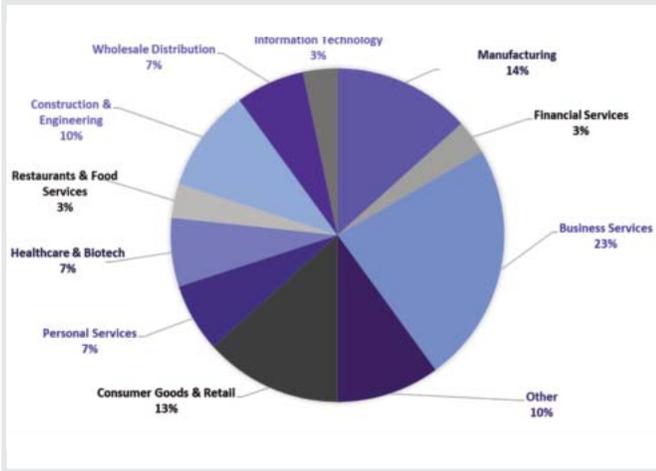
How to Plan

- Request a formal valuation. Don't guess at what your company is worth. If it is not what is desired, then you have time to set a strategic plan to increase value.
- Once you understand your value, then sit with your trusted advisors including your accountant, financial planner and estate attorney to understand what will be available to you in retirement and to the rest of your family. Consider Estate Planning as a part of this process.
- Create a written exit plan which includes everything you've agreed upon with your advisors. It will make your transition much easier and less stressful.

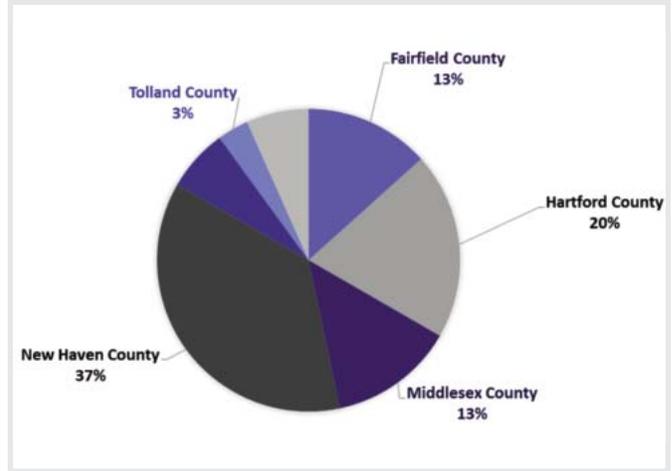
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Appendix: Survey Demographic

Industries



Connecticut Counties



Yearly Gross Revenues

