



THE STATE OF OWNER READINESS 2018 GEORGIA REPORT

SURVEYED BY: The Exit Planning Institute
SPONSORED BY: The Georgia Owners Forum Council
AUTHORED BY: Christopher M. Snider, CEPA

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Survey Overview

The Exit Planning Institute (EPI) and its Georgia chapter (based in Atlanta) conducted a survey of business owners in Georgia to determine their state of readiness to transition their businesses to unlock the wealth accumulated within them. We also compared the results from Georgia to those from EPI's national and other regional surveys conducted over the previous four years. Finally, we noted specific actions both successful and unsuccessful business owners, offering suggestions to business owners and advisors regarding how they can improve the probability of a successful transition and unlock this vast amount of wealth.

Roughly 6 million operating companies are privately held in the United States, representing approximately \$30 trillion in sales. According to US census data, baby boomers aged 54–72 own 63 percent of these companies. Although baby boomers are holding on to their businesses for a longer period, all boomers will reach the age of 70 or older within the next 16 years. That represents nearly 4 million baby boomer businesses poised to transition. Assuming a business valuation of 50 percent of sales, which is reasonable by most standards, that number represents \$10 trillion of wealth poised to transition.

Unlocking this wealth should be of paramount importance to all business owners if for no other reason than that **most owners have 80–90 percent of their financial wealth locked in their businesses**. Given the significance of this asset in owners' wealth portfolios, the ability to monetize this wealth will have a significant impact on owners' financial security and lifestyles once they exit their businesses.

The significance of business asset transition is of major importance beyond the owners and their families. Failure to provide for the continuity of a business affects not only owners' personal wealth and that of their families, 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 Leon Danco, a legendary expert on family businesses, in his book *Beyond Survival: A Guide for Business Owners and Their Families*. With roughly 6 million privately held companies operating in the United States, representing \$30 trillion in sales and \$15 trillion in wealth, the continuity of owners' businesses matters not just to their families, but also to their employees, vendors, customers, charities, and the surrounding communities, for whom the owner provides jobs and economic and social well-being.

What happens if a business does not successfully transition? It may shut down entirely. People lose their jobs. Families suffer. Communities struggle. In many cases, an owner's lifework is liquidated for pennies on the dollar.

Previous surveys conducted by the EPI, PricewaterhouseCoopers, the Alliance of Mergers and Acquisitions, Business Broker Press, and the Family Firm Institute have determined that **historical transition success rates are only 20–30 percent nationally.**

Changing this outcome is the mission of the EPI and all Certified Exit Planning Advisors™ (CEPAs) worldwide. The truth is that we have models drawn from the 20–30 percent of business owners who do successfully transition—models that other business owners can emulate when they decide a successful business transition is in their future.

The significance of this is becoming more urgent as baby boomers, who own nearly two-thirds of privately held businesses, face the inevitable condition of aging. Boomer-owned businesses represent roughly \$20 trillion in sales and \$10 trillion of wealth in the United States alone. Even though boomers have been holding on to their businesses longer than previous generations, they must face the reality that preparing for a business transition is an urgent imperative; that transitioning a business is a high-stakes endeavor; and that for many, properly executing this once-in-a-lifetime process will require significant focus, action, and time.

Transition planning and value acceleration address several potential problems that prevent owners from achieving better transition succession rates and improving growth sustainability. These are the four typical issues we see:

1. When owners do decide to exit, they realize they have not allowed themselves enough time to position their businesses for transition, minimize taxes, or maximize net proceeds. Thus, they achieve significantly low net proceeds.
2. Business owners 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.
3. Business owners are unable to complete a third-party sale of the business because the business fails to pass the due diligence test to complete the sale—even a partial sale—to a third party. Private equity and strategic buyers are seasoned and selective.
4. Owners may also be unaware that they have eliminated their inside options, including transitioning to a family member, because their business cannot operate without them and is potentially undercapitalized or has insufficient cash flow to succeed with an inside option.

Taking the right approach to a business transition yields crucial benefits. For many owners, their business represents the majority of their wealth. If the average middle market business—which we define as a business with sales between \$5 and \$100 million and holding a market value of \$8.5 million—transitions successfully, assets at the time of transition could go from \$2.1 million to \$10.6 million in pretax wealth. Even at an aggressive rate of 6 percent per year, the difference in pretax income is \$510,000 (\$637,000 vs. \$127,000) per year.

For smaller markets, the consequences are even more compelling. In the micro market—that is, those 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, meaning the owner derives almost their entire income from the business. Roughly 5.7 million (94%) of the country's 6 million privately held businesses fall into this category. Assuming that 80 percent of an owner's wealth is locked up in the business, successfully monetizing these business assets could mean quadrupling the value at transition (\$400,000 vs. \$100,000).

To successfully transition, business owners must address three things: maximizing transferable business value if they hold onto it, while positioning successful transfer on exit so that they can harvest the wealth locked in the business; preparing financially for a lifestyle without the business income; and planning personally for what they will do (their third act) after exiting the business.

The State of Owner Readiness Research

The EPI, with the help of its many strategic partners, has been conducting surveys of business owners since 2013. This report, EPI's first study released in 2018, has been preceded by national surveys in 2013 and 2014 and five regional surveys in 2017 of the metro areas of Los Angeles, the Twin Cities, Phoenix, Nashville, and San Diego. Additional EPI regional surveys are underway in the Long Island and Indianapolis metro areas.

The survey results continue to demonstrate that many business owners are not appropriately planning for business and personal transition, nor are they integrating the principles of value acceleration into their business. These are key reasons many transitions fail. EPI's research also demonstrates the need for massive education of business owners and advisors regarding what actions are necessary to successfully transition privately held businesses.

The reader should note that **the survey answers reflect the owners' perceptions.** Although the owners' answers may be factual, they are not necessarily based on proven fact. The only way an accurate assessment can be accomplished is to complete a thorough personal, financial, and business assessment conducted by an independent credentialed advisor such as a CEPA.

Nevertheless, the data is useful for at least assessing a given owner's *state of mind* as it relates to readiness to transition from business, personal, and financial standpoints.

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 it is time to complete a business transition. This is also necessary for proper estate and personal financial planning.

What we do know from previous studies is that transition success rates in the United States are 20–30 percent—far below what they should be from economic and social standpoints. Many of the owners' responses in this study and others completed by EPI since 2013, demonstrate business owners' misunderstanding or underestimation of what a successful transition requires. It may be a situation in which business **owners don't know what they don't know.** Although business owners do many things right, exiting one's business is, for many, a once-in-a-lifetime event that they have never undertaken. Certainly, their lack of formal education demonstrates that they have not received enough information and education to transition successfully.

The purpose of this data is to create awareness that will initiate discussions between business owners and advisors to identify areas where education and assistance are urgently needed. At a minimum, advisors should review the results with business owners to begin assessing owners' particular situations, educating them on critical success factors, examining options, and determining the probability of a successful transition based on their state of readiness today.

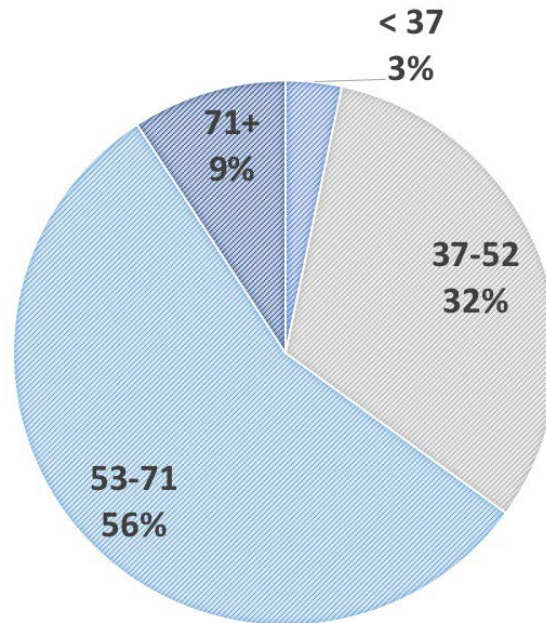
This report is divided into three sections: In Section 1, we make general observations about the data collected from the Georgia survey and how the data compare to the information collected in previous EPI national and regional surveys. In Section 2, we provide data analysis and make observations regarding the data's implications for the business owner. In Section 3, we provide recommended actions for business owners and advisors to improve the probability of a successful transition and capture this hard-earned wealth.

In January 2018, the Georgia State of Owner Readiness report was drafted based on the 121 responses collected. The survey included 50 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

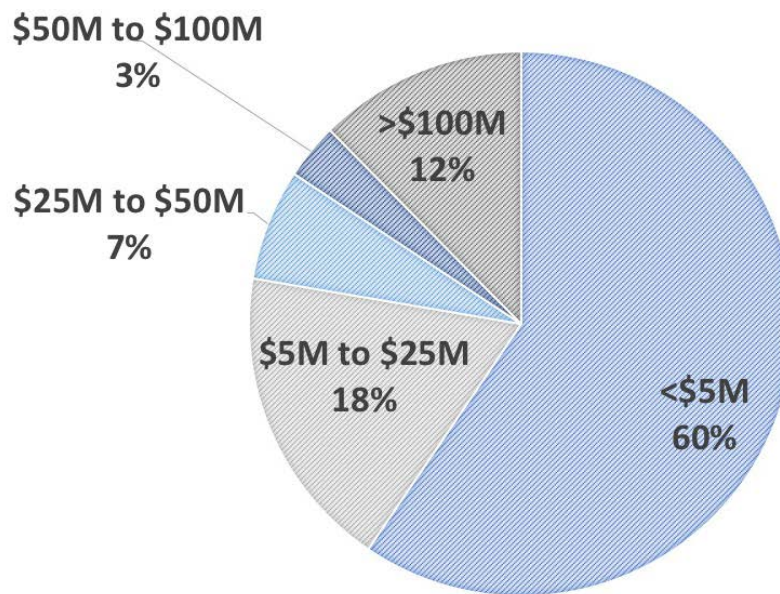
Section 1 – Demographic Data

WHAT IS YOUR CURRENT AGE?



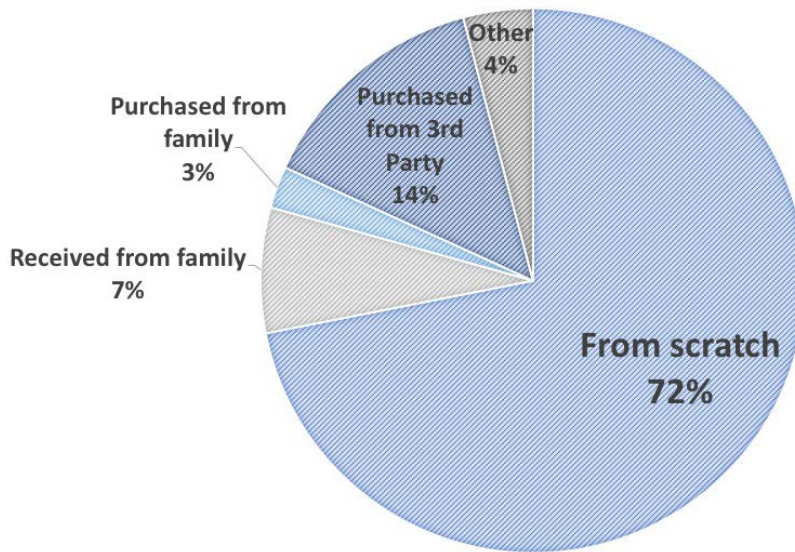
OWNER AGE: 56 percent of the respondents are baby boomers. This is slightly less than reflected in the latest US census data, which specified that baby boomers owned 63 percent of privately held businesses. In fact, **65 percent of the Georgia sample are 53 years of age or older.** The importance of transitioning rises significantly as the owner ages, meaning that the importance of a successful conversion of the owner's most valuable asset, the business, should be a priority for at least 65 percent of the owners surveyed.

WHAT IS YOUR ANNUAL REVENUE?



BUSINESS SIZE: 60 percent of businesses had sales of less than \$5 million; 28 percent had sales in the range of \$5–100 million; and 12 percent had sales of \$100 million or more. The Georgia data show a strong middle-market focus representing a larger proportion of businesses over \$5 million in sales than in the overall national data, which indicate that 94 percent of all privately held operating businesses achieve \$5 million in sales or less, 5.8 percent achieve between \$5 million to \$100 million, and only 0.2 percent achieve over \$100 million in sales.

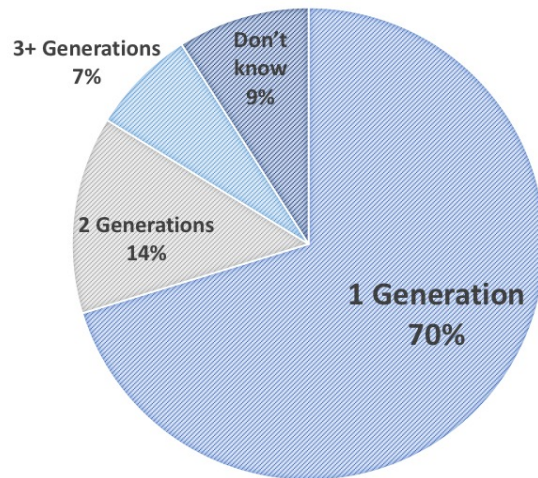
HOW WAS YOUR BUSINESS STARTED?



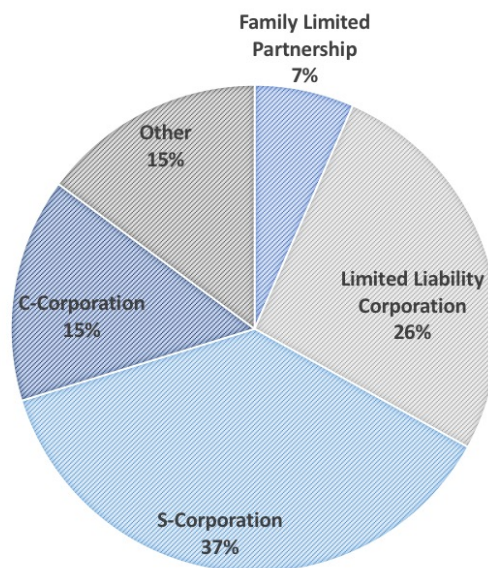
FAMILY OWNERSHIP: 75 percent of businesses were wholly family-owned, and 83 percent were at least family-controlled, with **70 percent of the businesses being first-generation businesses, 72 percent started by the owner.**

COMPANY STRUCTURE: A plurality of the businesses in the sample were S-Corps (37%), followed by LLCs (26%) and C-Corps (15%) (see page 11 for graph).

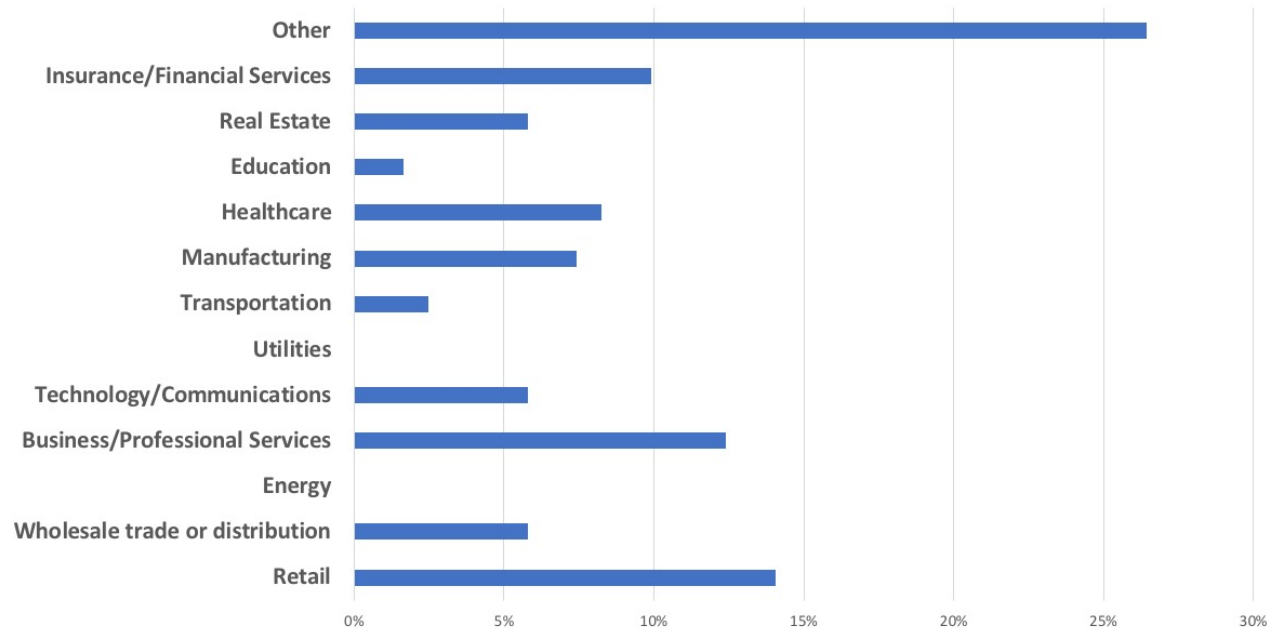
HOW LONG HAS THE COMPANY BEEN IN THE FAMILY?



HOW IS YOUR BUSINESS ORGANIZED?



WHAT INDUSTRY ARE YOU IN?

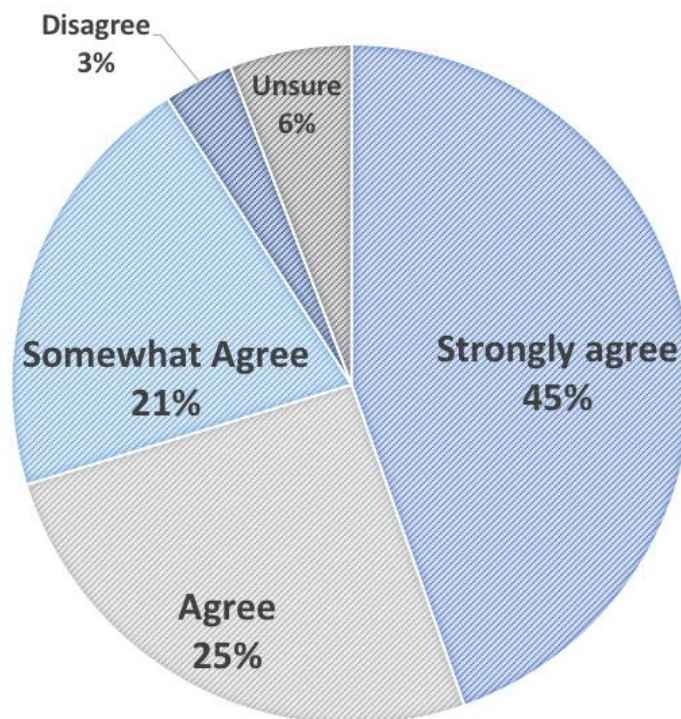


INDUSTRY BREAKDOWN: The sample included a cross-section of more than 32 industries with no industry domination.

Section 2 – Analysis and Relevant Observations

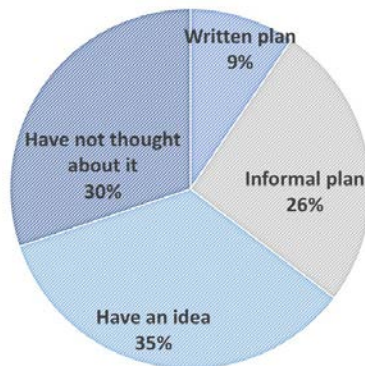
It is not surprising that 70–80 percent of transitions fail to be successful given the general lack of family and business transition readiness that the survey results demonstrate. As you read through the rest of this report, you should bear in mind the following statement:

“Having a transition strategy is important both for my future and for the future of the business.”



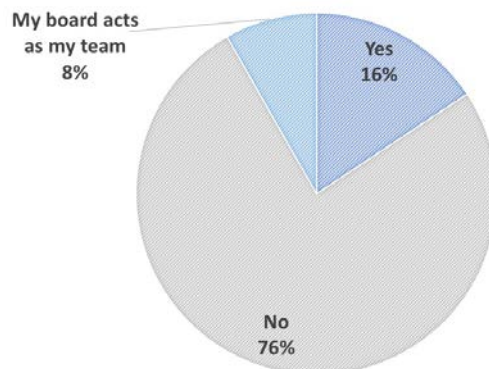
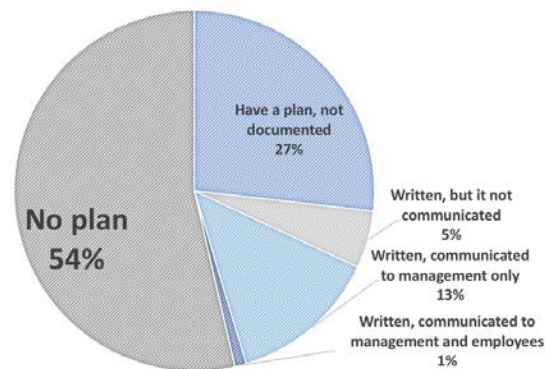
Of the business owners who completed the Georgia survey, **91 percent indicated they agreed with this statement: “Having a transition strategy is important for my future as well as the future of the business.”** Yet the data in this report indicate the state of transition planning is weak despite a large segment of business owners indicating that they would like to transition their businesses within 5–10 years.

Although 91 percent of the business owners indicated agreement with this statement and 45 percent specified strong agreement:



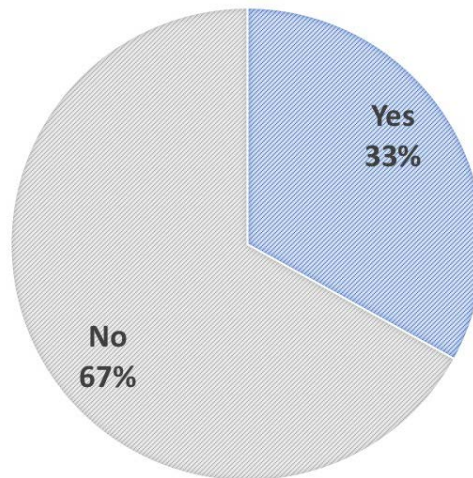
When asked "Which statement best describes your personal post-transition plan?", 91 percent had no written personal plan for what they would do after transitioning their business and 30 percent had not even thought about it.

Company Transition Plan?
81 percent had no written company transition plan and 54 percent had done no planning at all.

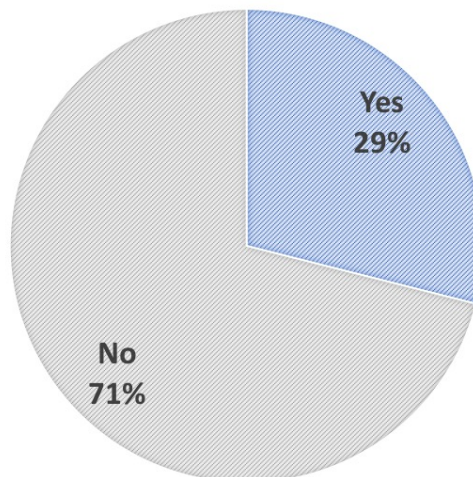


When asked "Have you established a formal transition advisory team?" No, 84 percent had not.

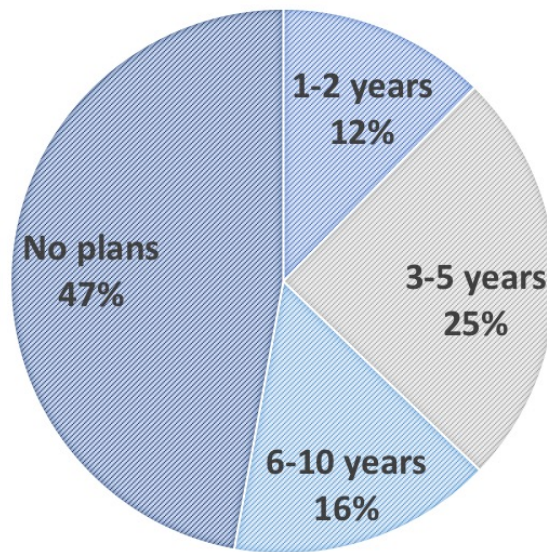
**HAVE YOU SOUGHT OUTSIDE ADVICE
REGARDING YOUR TRANSITION?**



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



WHEN ARE YOU PLANNING TO TRANSITION?



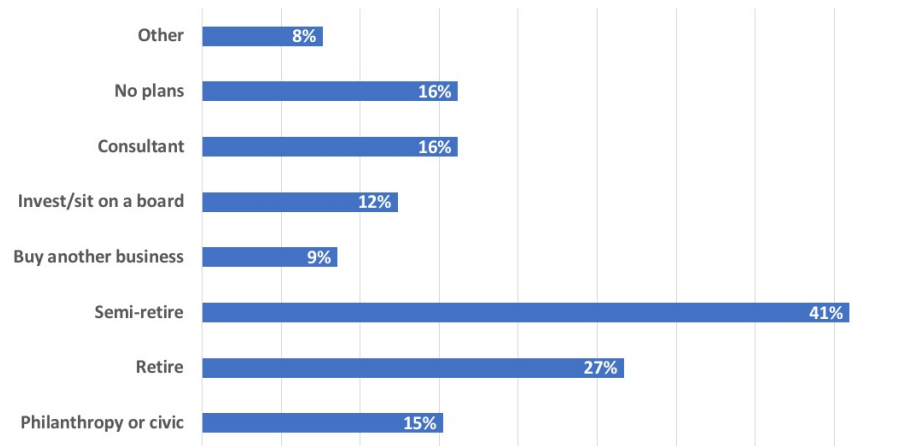
These statistics are alarming, considering that **37 percent of surveyed business owners indicated that they would like to transition their business within 5 years or less** and 53 percent within 10 years or less. In fact, 47 percent indicated that they had **no plans** to transition even though it is an inevitable fact that all business owners must exit their businesses at some point.

Owners must realize that to transition properly, they must start transition planning well in advance of their exit to maximize the business value and leave an appropriate amount of time to prepare financially and personally for it.

Many business owners who fail to plan for their transition face the following regrets:

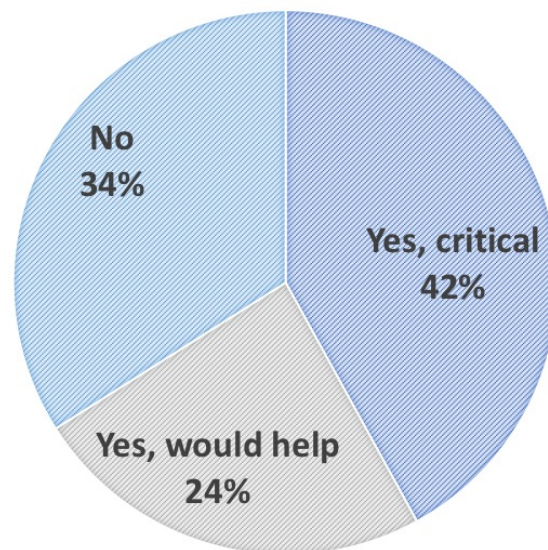
- Business owners realize they should have integrated a value acceleration process to prepare themselves and their businesses much earlier.
- They realize afterward that they left money on the table because they did not maximize the value of the business at the time of exit.
- Personally, many are miserable post-transition. Business owners who fail to prepare a personal plan for how to fill their newly found windfall of time after exit are often missing fulfilling life experiences post-transition.

WHAT DO YOU PLAN TO DO POST-TRANSITION?



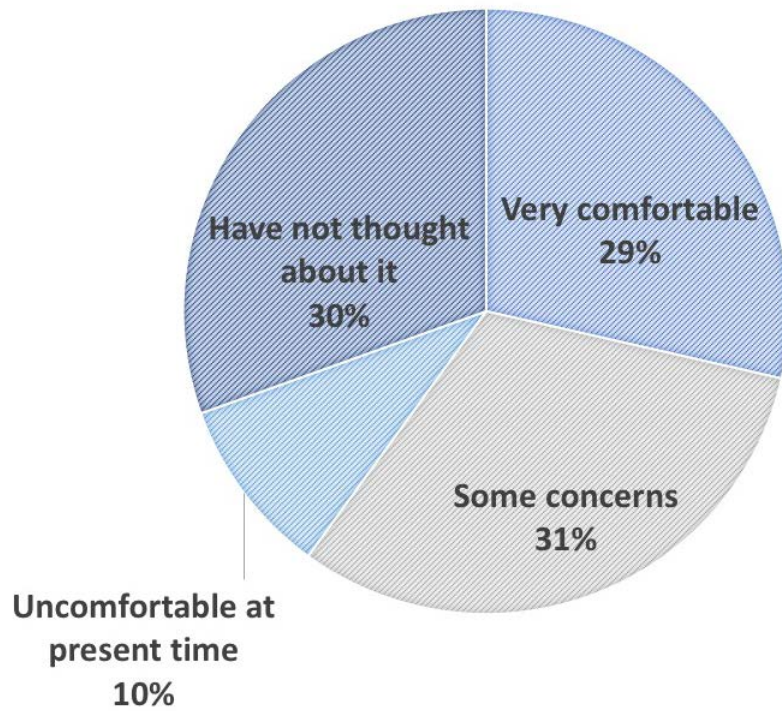
Although 91 percent of business owners surveyed specified that they had no written personal plan and **54 percent indicated they had done “no planning at all,”** 87 percent of the owners responded to the question “What do you plan to do post-transition?” The most popular answer was “retire” or “semi-retire” (68%). Other popular answers included “consulting” (16%), investing in or sitting on a board of another business (12%), and philanthropy (15%).

DOES YOUR TRANSITION PLAN REQUIRE THE COMPANY REMAIN PROFITABLE?



Most business owners need the company to remain profitable for their transition plans to be properly executed. Of the owners who said they had a plan, 66 percent specified that it would at least be "helpful" if the **company remains profitable for their transition plan to be properly executed**; 41 percent said that it was "critical." Many owners need the business to remain profitable because it can be several years after the actual exit before they extract all their wealth because of seller financing, holdbacks, and earn outs.

This is especially important for inside exit options such as ESOPs, family transitions, and management and partner buyouts. Usually, the owner does not achieve a windfall on the transfer of the business assets and management. Rather, the owner is required to finance the inside buyout creating a dependency on the next generation of management to fulfill the terms of the agreement and accomplish this without the owner leading the business anymore.



How comfortable are you that your management will be successful with the new ownership?

Another answer demonstrating a high degree of **misguided confidence** was that **only 60 percent of surveyed owners indicated that they had at least some comfort that the managerial team would be successful** if the owners were not involved with the business post-transition; only 29 percent said that they were very comfortable, and 30 percent specified that they had not even thought about it. This would be critical in a situation where the owners depended on the company remaining profitable after exit.

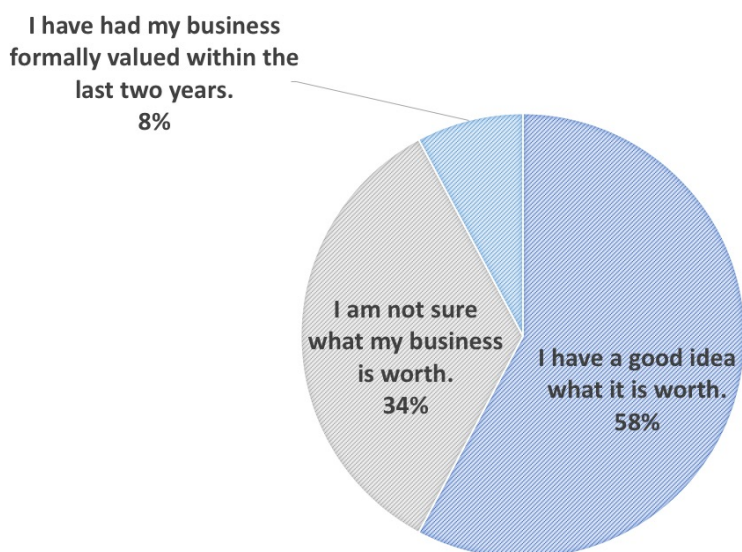
Business valuation and value enhancement are **cornerstones of successful business transitions.**

IF YOU HAVE A TRANSITION PLAN, PLEASE CHECK ALL THAT YOUR PLAN ENCOMPASSES.



- Only 50 percent specified that their plans included a business valuation.
- Only 35 percent had written goals and objectives and a written action plan.
- Only 24 percent included recast financials.
- Less than a quarter included a business risk assessment (24%), a business market attractiveness assessment (21%), and a business readiness assessment (15%). Only 17 percent said that their transition plans included an evaluation of exit options.
- Only 21 percent included a strategic analysis and value-enhancement plan, only 12 percent included a value growth budget, and only 24 percent included a stated value growth target or goal, **virtually taking maximizing value off the table.**

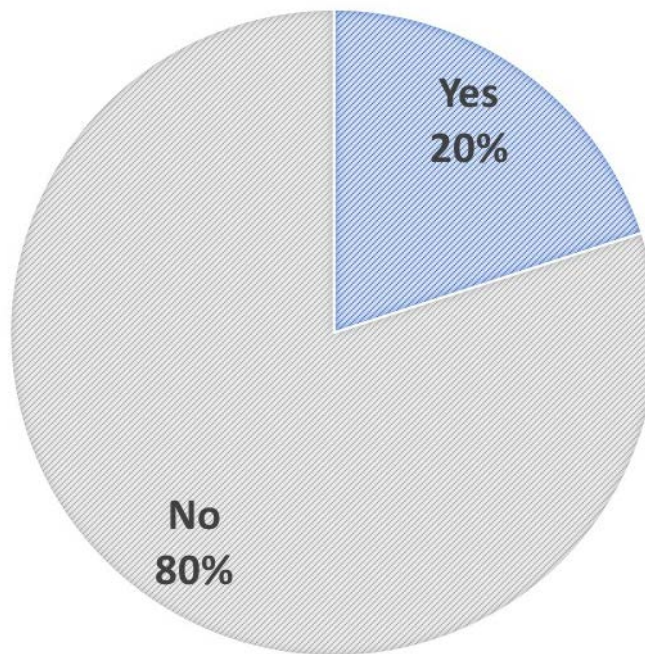
WHICH BEST REPRESENTS YOUR CURRENT UNDERSTANDING OF THE VALUE OF YOUR COMPANY?



Overall, **only 8 percent of responding business owners indicated that they had had their business formally valued in the previous two years.** However, 58 percent said that they “had a good idea what it was worth.” How would owners know that if the business had not been valued by an independent professional? One conclusion could be that owners are relying on hearsay and not on the facts that a formal business valuation produces. This is a major reason why only 20 percent of businesses that go to market sell. In an AM&AA study, 95 percent of mergers and acquisitions professionals showed that the owners’ overestimation of value was the number one factor in failed deals.

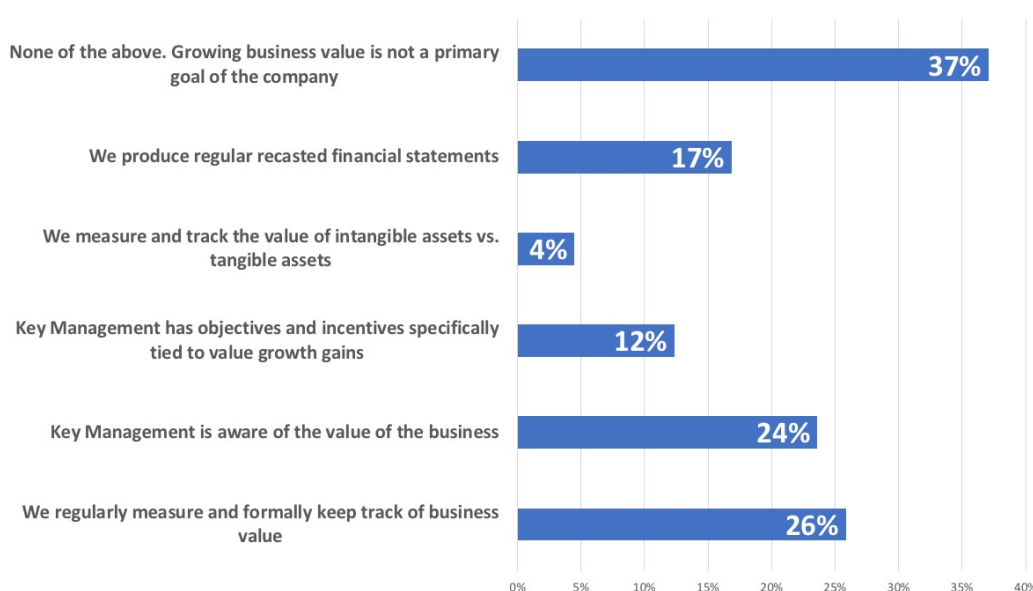
Owners tend to focus on sales and income. **Maximizing business value, not business income, should be the primary goal.** Although this sounds like a subtle play on words, it is a major paradigm shift. Income alone does not necessarily mean that the business has value if the asset is not ready to transfer. Focusing on value first is the only way the owner can achieve both business value and an increase in business income.

**HAVE YOU COMPLETED ANY FORMAL
PRE-TRANSITION VALUE ENHANCEMENT
/ PRELIMINARY DUE DILIGENCE PROJECT
IN THE LAST TWO YEARS?**



80 percent of the business owners declared that they **had not** taken on a value enhancement or de-risking project within the previous two years.

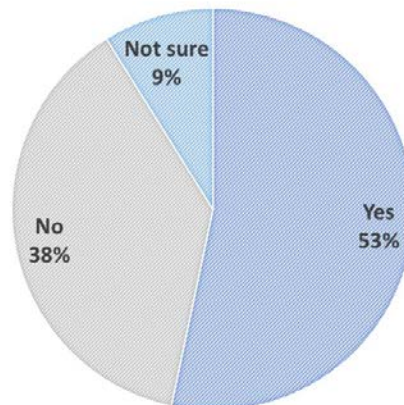
HOW FOCUSED ARE YOU AND YOUR TEAM ON GROWING THE VALUE OF YOUR BUSINESS? (SELECT ALL THAT APPLY)



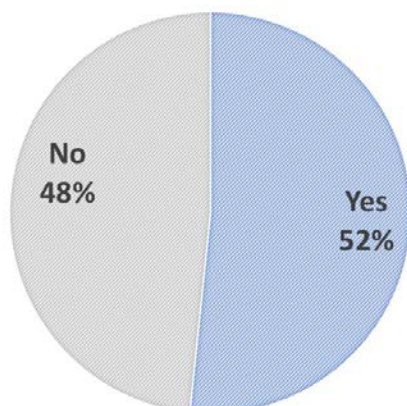
When asked, “How focused are you and your management team on growing the value of your business?” 37 percent answered, “Growing business value is not a primary goal of the company.” Additionally:

- Only 26 percent said that they regularly measured and formally tracked business value.
- Only 24 percent noted that key management was aware of the business value.
- Only 12 percent said that key management had objectives and incentives specifically tied to value growth gains.
- Only 4 percent noted that they measured and tracked the value of intangible assets vs. tangible assets.
- Only 17 percent showed they regularly produced recast financial statements.

**DO YOU NEED THE
INCOME PRODUCED
BY THE BUSINESS TO
SUPPORT YOUR
LIFESTYLE?**



Nearly two-thirds of the business owners (62%) indicated they **needed** the income from the business to support their lifestyle; nearly the same proportion (59%) said they **needed** to harvest the value of their business to support their lifestyle after transition. Yet only 52 percent specified they had completed financial planning to know what they needed to net from the transition after taxes to fund their retirement and future goals.



**HAVE YOU
DETERMINED HOW
MUCH YOU NEED TO
NET TO FUND YOUR
FUTURE GOALS?**

Given that so many owners' transition plans do not include business valuation, goals, or objectives; written action plans; an exit options analysis; a risk assessment; or a strategic value analysis, budget, and value enhancement, one may well ask: **What do they include?**

One can only conclude from these responses that owners **don't know what they don't know**. This lack of education is further supported in that **71 percent of owners showed that they had not completed any formal transition planning education**.

The danger in that response is that business owners are significantly underestimating what a successful exit requires. Owners have the perception that both they and the business are prepared because they have given some attention to their transition; however, successful transitions require much more than thought. They require solid, long-term business, personal, and financial plans grounded in action, with specific deliverables completed along the journey well in advance of the actual exit from the business or formal turnover to children, management, or employees.

Given the poor state of planning and transition readiness and the lack of focus on value acceleration, it is not surprising that historical transition success rates are so poor. Business owner planning and actions required to build a growing and transferrable business are clearly lacking. All of the actions surveyed in this report are essential to sustaining growth and building transferability.

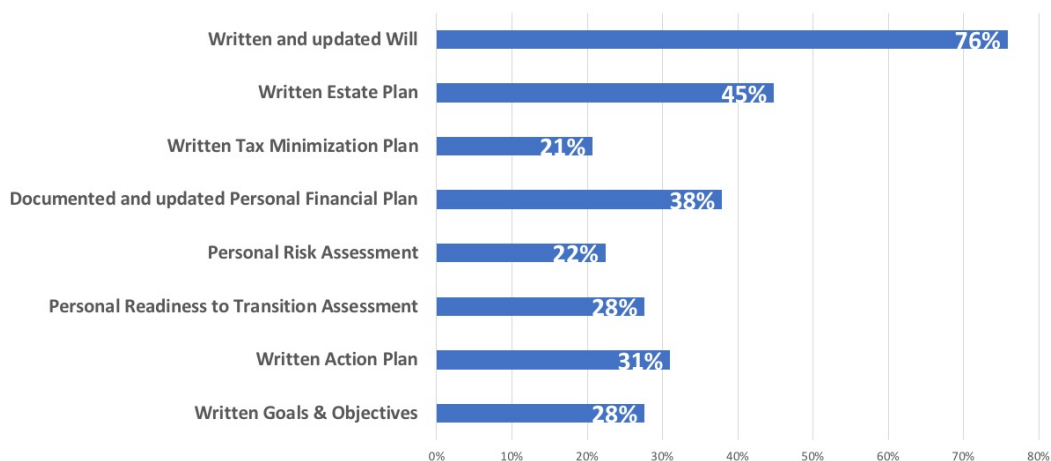
Owners scored poorly in personal planning, personal financial planning, and estate planning despite the vital role they play in a successful business and life transition.

Personal planning (what next?) and personal financial planning (financial independence) are also essential to a successful transition and to living a fulfilled and financially secure life post-exit. Owner responses to the state of their personal plans regarding what they would do after they exit their business demonstrate that they are underestimating the importance of both personal planning and personal financial planning.

Fewer than one in ten business owners specified that they had a written plan for what they would do post-exit, and only 38 percent had a documented and updated personal financial plan.

Small victory: 9% *did* have a written plan for their personal post-transition goals, which is higher than other surveyed markets.

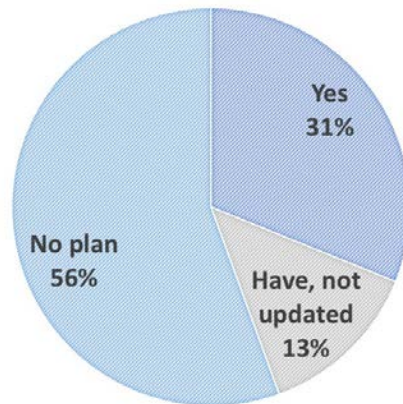
PLEASE CHECK ALL THAT YOUR PERSONAL TRANSITION PLAN ENCOMPASSES.



We asked those who did have a personal transition plan to indicate what the plan encompassed.

- Only 28 percent had written personal goals and objectives
- Only 31 percent had a written personal action plan
- Only 28 percent had completed a personal readiness-to-transition assessment
- Only 22 percent had completed a personal risk assessment

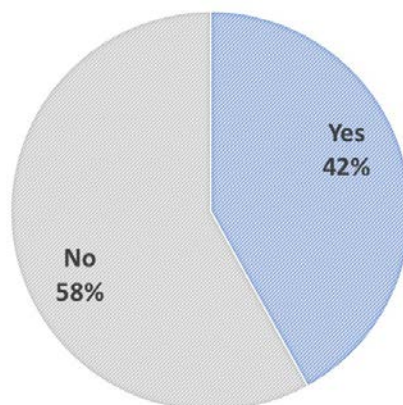
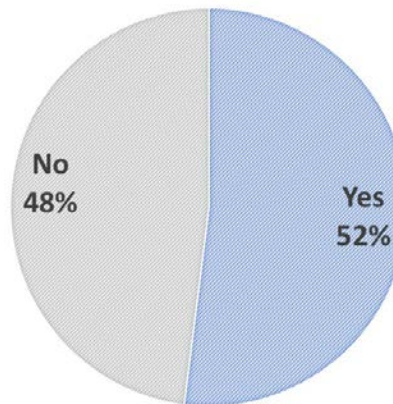
Only 45 percent of the business owners indicated they had a written estate plan; 76 percent had a written and updated will; however, only 27 percent specified the business transition had been incorporated into their personal financial and estate plans, and only 21 percent had a written tax minimization plan.



Tax Minimization Plan?

Of those who had a tax minimization plan, only 31 percent indicated it was up to date.

Current Estate Plan?
If an estate plan was in place, only 52 percent had updated it in the past two years.



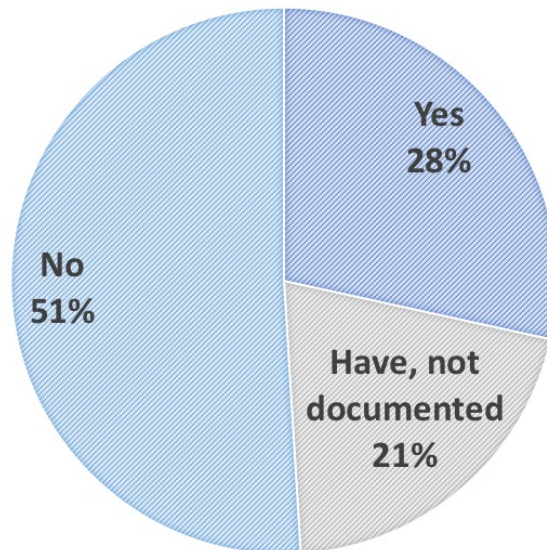
Surprisingly, 58 percent specified their estate plan did not provide for the sale of their business and 63 percent indicated it did not include an updated business valuation.

How can estate and personal financial plans be accurate if they do not provide for the transition of business value, which—according to most financial advisors—usually accounts for 80–90 percent of the owner’s net worth?

Estate and financial plans, therefore, are likely missing 80 percent of the owner’s net worth, which is clearly important for one’s personal financial strategy and mitigation of personal financial risk.

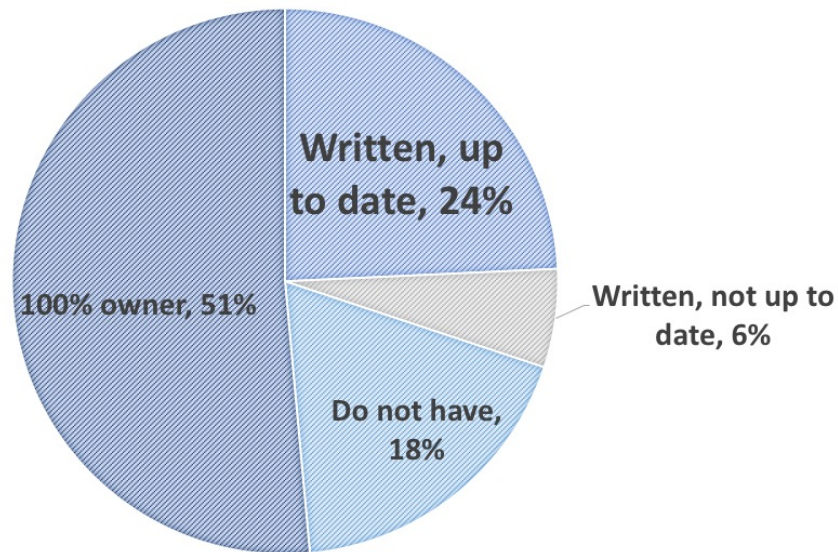
The transition planning process **does not** appropriately address management of business and personal risk.

DO YOU HAVE A DOCUMENTED CONTINGENCY PLAN FOR YOUR BUSINESS?



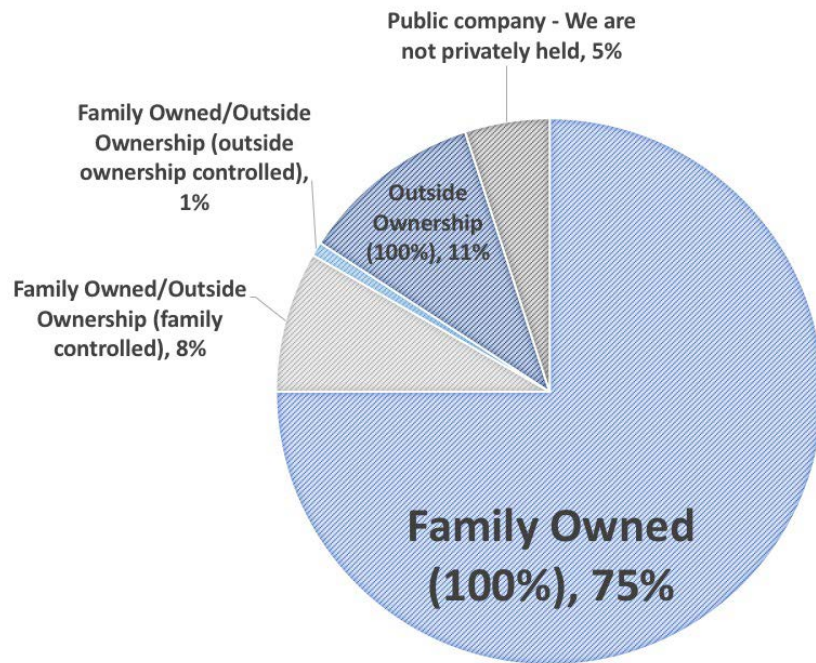
In our study, 51 percent of the owners said that, should they be forced into an exit, they had no contingency plan. Only 40 percent had their contingency plan documented. And only 40 percent said it was funded by life and disability insurance.

DO YOU HAVE A WRITTEN AND UP TO DATE BUY-SELL AGREEMENT?



Buy-Sell Agreements Are Lacking or Outdated

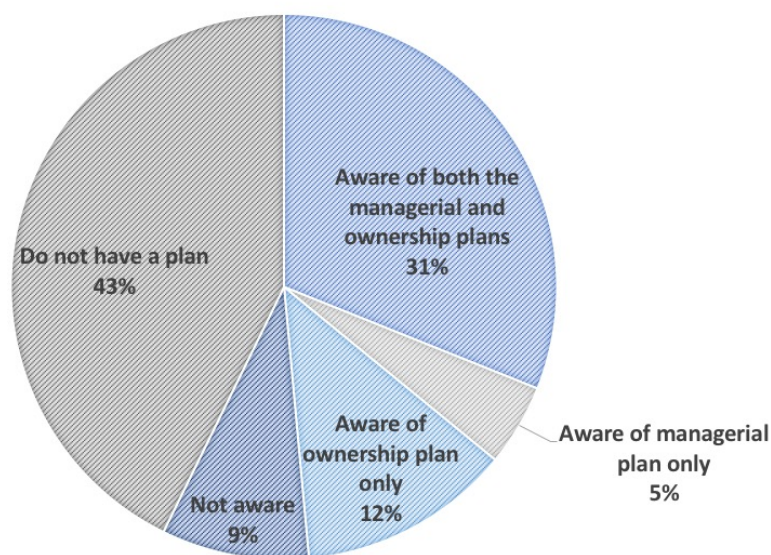
Almost half (49%) of the business owners surveyed noted they had multiple partners invested in their businesses; however, 24 percent said their buy-sell agreement was written and updated within the previous three years. Only 31 percent said it was funded by life and disability insurance. A buy-sell agreement is like a business valuation. It should be revisited annually, even if it does not require changes. Moreover, ensuring that the buy-sell agreement is funded is key to ensuring that the terms can be met if the buy-sell must be invoked.



Family is still important, but is the family ready for the transition of the business and the corresponding potential lifestyle changes?

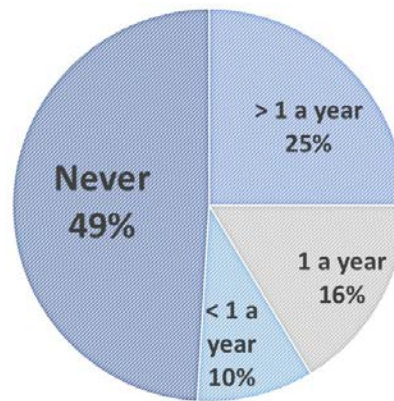
Around 75 percent of the sample included businesses that are entirely family-owned, and **83 percent are at least family-controlled**. Transitioning to family was the top inside transition choice; however, the survey results indicate that better family communication and planning for family transition are necessary.

WHAT BEST DESCRIBES THE LEVEL OF FAMILY AWARENESS OF YOUR TRANSITION PLANS?

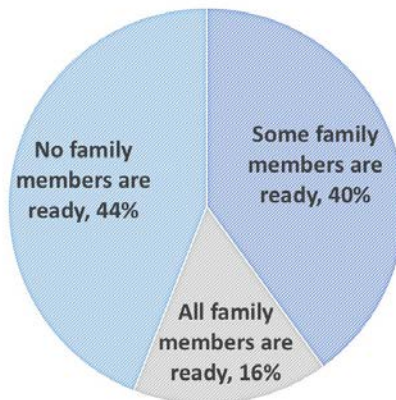


Fewer than one in three owners (31%) said that **the family was aware of both the owner's management and ownership transition plans.**

HOW OFTEN DO YOU HAVE FAMILY MEETINGS WITH REGARD TO THE BUSINESS?



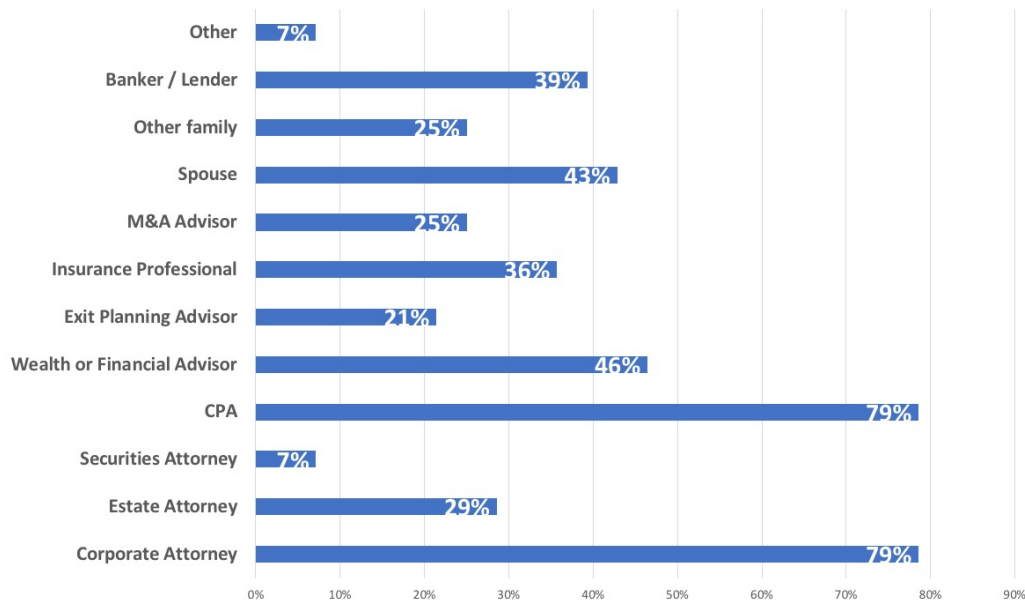
Nearly half (49%) indicated they had **never had a family meeting** about the business. Of those who did have family meetings regarding the business, only 41 percent had one at least annually.



IF FAMILY MEMBERS WILL BE FILLING KEY POSITIONS, HOW WOULD YOU ASSESS THEIR LEVEL OF READINESS?

Less than half (44%) of business owners who said their plans included filling key positions with family members said that no family members were ready to fill key positions. For this same group, 36 percent specified that the family members who would be filling key positions had no outside or company training.

PLEASE CHECK ALL ADVISORS THAT ARE ON YOUR TRANSITION TEAM.



On a positive note, although only 16 percent of surveyed business owners had established a transition team; those owners who had one recognized the need to include family in this team. **A full 68 percent of business owners indicated that spouses or other family members were members of their transition team.**

The dangerous aspect of family transition is that business owners tend to do less transition planning when they have decided to transfer the business to family. **The family should approach the transition with the same vigor as they would if they were planning to sell to a third party,** even if the family has decided on an intergenerational transfer. The characteristics that make a business valuable to a third party are the same characteristics that make it valuable to the next generation. One major reason that we do not see much higher success rates for family transitions (vs. third-party sales) is that many owners do not approach a family transition in the same way they would approach a third-party sale.

Improving the use of outside resources—in particular, a board of advisors that includes nonfamily members—would likely result 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 that includes nonfamily members are two characteristics correlated with better planning and preparation and a greater focus on maximizing value. The Georgia business owners scored low in both categories.

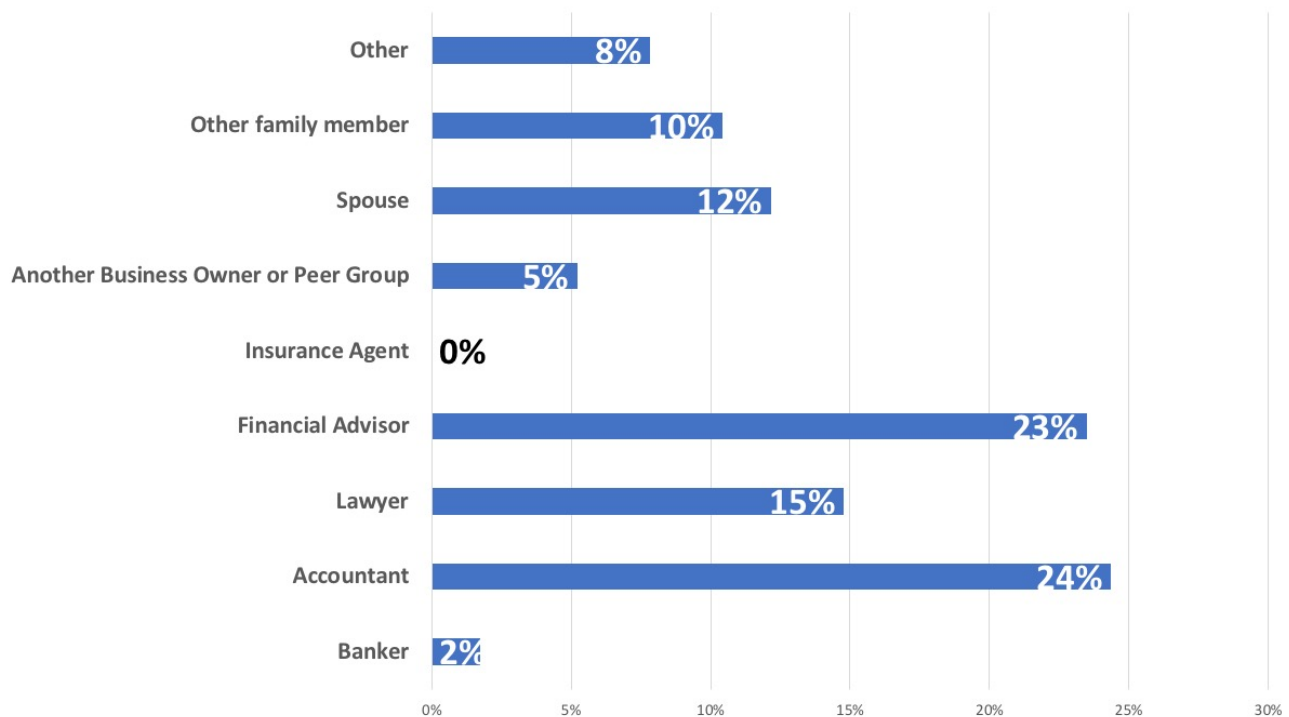
As noted previously, **84 percent of business owners specified that they had *not* set up a formal transition team.** Moreover, 8 percent indicated that they used their board of advisors as their transition team, which is usually a mistake. Most advisors and many owners should realize that the skill sets needed to transition a business can be much different from the skill sets of the members who sit on the owner's advisory board. Both are necessary and have distinct roles in supporting the business owner.

For the 16 percent of the owners who said that they had transition teams, the corporate attorney (79%) and CPA (79%) were the most commonly selected professional advisors to be named to the transition team. The core transition team for the owner should comprise, at minimum, an attorney (typically a business attorney), a CPA, a wealth manager/financial planner, and a credentialed exit-planning advisor such as a CEPA.

Although business owners seem to recognize the need for a corporate attorney and CPA, several other key advisors were missing:

- Less than half (46%) included a wealth or financial advisor
- Only 39 percent included a commercial banker; 36 percent included an insurance professional
- Other notable and critical advisors scoring below 30 percent included the estate planning attorney (29%), M&A advisor (25%), and the exit planning advisor (21%).

WHO DO YOU SEE AS YOUR MOST TRUSTED ADVISOR?



Consistent with previous surveys, the accountant was the most trusted advisor.

Despite this trusted relationship, two-thirds (67%) of business owners had not sought outside advice related to their transitions and only 16 percent of respondents in Georgia had a board of advisors with non-owner/non-family members.

A few concerns should be noted:

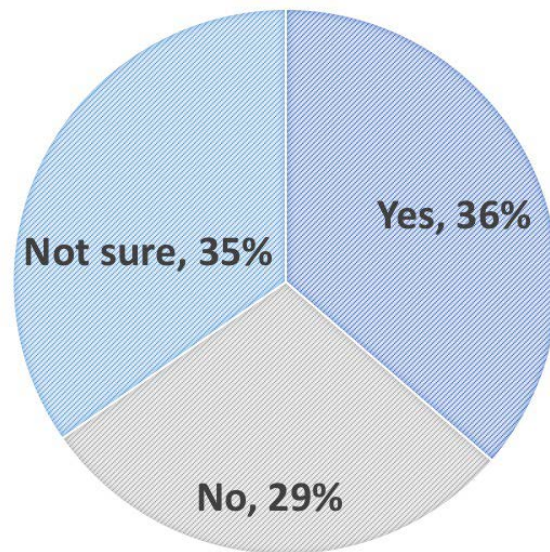
Although 46 percent of the owners specified that the wealth manager/financial planner should be or is on the transition team, **only 23 percent considered the wealth manager/financial planner to be the most trusted advisor.**

This is surprising and, I believe, a huge opportunity for the financial planning industry. It is clearly a best practice to have a wealth manager or financial planner involved in the transition process as early as possible. I don't even know how it's possible to design a transition strategy without involving the financial planner, who plays a critical role in determining the owner's financial needs before, during, and after the exit. The planner's role in evaluating options to optimize the owner's post-business lifestyle is vital and often dictates the available exit options and the structure of the exit transaction, whether that be an internal or external option. The financial planning industry and the owners themselves would benefit tremendously if the financial planning industry did a better job of educating owners on the roles of financial planners and wealth managers in the transition process.

Only a tiny minority of owners (2%) considered their banker to be their most trusted advisor. Except for the CPA, no other advisor *should be* as familiar with the business as the commercial banker. We have consistently observed opportunities for improvement in this relationship. However, given the potential significant role the banker plays in the growth and transition process, both owners and commercial bankers would benefit from an improved relationship.

It is also worth noting that **only 12 percent of the owners indicated their spouse as the most trusted advisor despite 43 percent specifying the spouse was or should be on the transition team.**

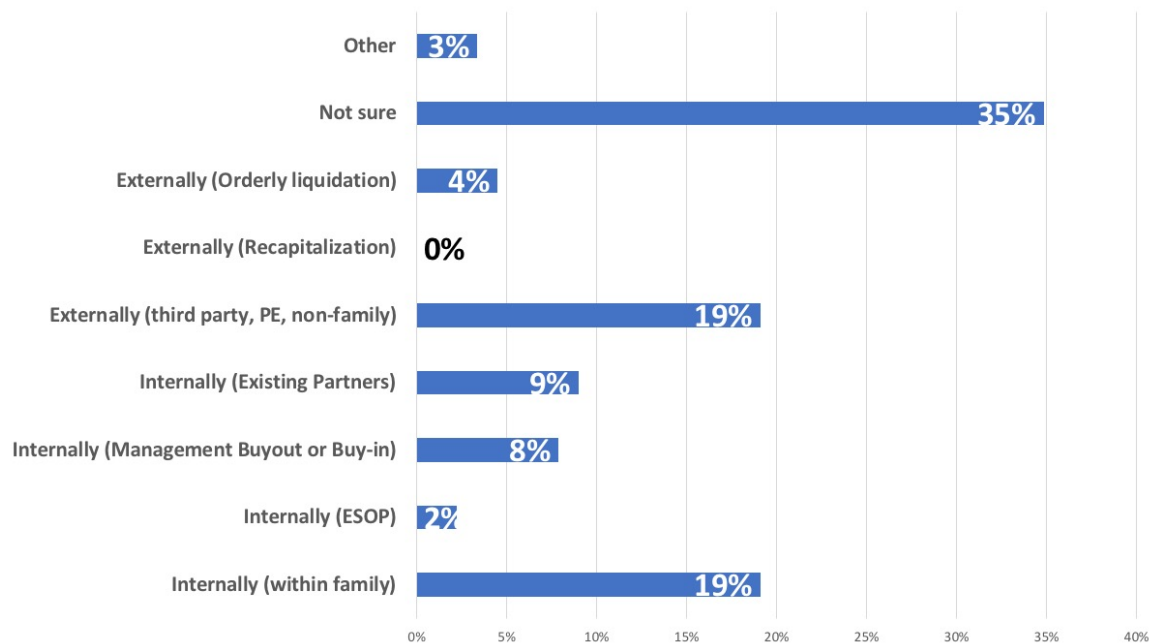
ARE YOU FAMILIAR WITH ALL YOUR TRANSITION OPTIONS?



The evidence is clear that more education on exit options is necessary and that Georgia business owners are not spending enough time analyzing their exit options.

Nearly two-thirds (64%) of surveyed business owners said “no” or “not sure” (which effectively means no) when asked if they were aware of all their exit options. This was consistent with all previous surveys and clearly points to the need for education regarding exit options. Not being aware of all their exit options means that owners risk leaving money on the table when they exit or structuring exits that are not ideal for their situations.

WHAT BEST DESCRIBES HOW YOU ARE PLANNING ON TRANSITIONING?



When asked, "What best describes how you are planning on transitioning your ownership?" 35 percent specified they were "not sure." This was consistent with data from all previous surveys.

Most business owners in Georgia prefer to transition to family, employees, management, or partners, with family (38%) as their first choice for an inside transition option, whereas 24 percent prefer an option to transition to a third-party, recap, or orderly liquidation, with a third-party sale as their top choice.

The most popular choices for those who indicated they had considered exit options were a third-party sale or a family transition (both 19%). The owners in Georgia were more inclined toward family transitions and less inclined toward third-party sales than in previous surveys. However, third-party sales and family transitions are consistently the most popular options in all EPI-completed surveys.

Overall, for the respondents who had considered their exit options, more than half (62 percent) preferred an inside option (family, management, employees, partners) and 38 percent preferred an outside option (third-party sale, recap, orderly liquidation). Again, this indicates Georgia is more inclined toward inside options and less inclined toward outside options than in previous surveys.

None of the owners specified an interest toward recapitalization. To see so few business owners considering recap as an exit option is disappointing. Our educated guess is that, again, this is due to lack of education. Recap is an excellent way for a privately held business owner to “take some money off the table” while at the same time bringing in capital and talent to accelerate growth.

So, at the end of the day, are you ready?

We asked owners to rate their readiness to transition their businesses and transition personally. Despite the evidence supporting the lack of transition planning, 41 percent still rated their business readiness as above average, and 43 percent rated their personal readiness to transition as above average.

In addition, 60 percent of the business owners surveyed rated the strength of their personal financial position (strength of financial assets not including the business) above average even though:

- 59 percent indicated they needed to harvest the value of their business to support their lifestyle post-transition;
- 48 percent specified they had not determined how much money they needed to net after taxes from the transition of their companies;
- 66 percent indicated their transition plan required the company remain profitable for the plan to be properly executed: 41 percent said it was critical.

Recall our opening statement in this section: **91 percent of the business owners in Georgia agreed that “having a transition strategy is important for my future as well as the future of the business.”**

If that is true, it is a good time to provide next steps to improve readiness.

Section 3 – Recommended Actions

Advice to Business Owners

Owners of businesses of all sizes must become much more proactive to improve successful transition rates and harvest their most significant financial asset. Success rates are not likely to improve if business owners view exit planning as “something I can do down the road” rather than an imperative integrated into the way they currently operate their businesses.

Owners must realize that they must redefine their present exit planning paradigm: until they do, progress towards improving successful transition rate will be limited.

“Exit planning is simply *good* business strategy.”

An effective exit plan is a strategic business tool that will create more income today, empower the owner’s management team or children to take the business to the next level, create owner independence, and potentially increase the owner’s wealth by 400–500 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 (remember, 65 percent of our survey respondents were aged 53 or older) and a new generation of business owners at hand, a greater sense of urgency is required.

Business owners must realize that exit planning is present tense. For owners, the best practice is for them to integrate the actions of a successful transition into the way they run the business every day. Owners can accomplish this by identifying what they have now, taking risk-mitigating actions to protect their wealth, tenaciously building value over time, positioning the business to have multiple exit options—and, perhaps, multiple exit events—and always actively managing their wealth (including the business wealth) before, during, and after the exit event.

Based on the survey results, this is not being accomplished today.

As previously pointed out, 80–90 percent of the owner’s net worth is likely to be locked in the owner’s business. Moreover, 70–80 percent of that business wealth is tied to intangible assets. To check this, owners need only look at their present income statements and balance sheets. Does the income recorded on the income statement (for tax purposes) really reflect the true cash flow benefit assumed by the owner or future owner?

Often, the answer is no when the owner considers normalized income and expenses, discretionary expenses charged to the business, and one-time, nonrecurring charges. 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.

"Most accounting and management systems today do not provide feedback on the value of the business."

Management systems must be adapted to give the owner strategy and feedback on the value of intangible assets—human, customer, structural, and social (a concept presented as the 4Cs in the book *Walking to Destiny* by Christopher Snider)—on a regular basis. 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 goals and plans with business planning prepares the business owner for all possible events from a personal, financial, and business standpoint (a concept called the "Three Legs" or "Master Planning"). Owners must realize that 50 percent of all exits are not voluntary—that is, they do not occur on the owner's terms or timeline—because of one of the five Ds: death, disability, divorce, distress, or disagreement.

By focusing on regular and relentless execution of actions to protect, build, and harvest business value owners position themselves to be able to harvest the wealth in their businesses in good times or bad.

Despite 91 percent of the respondents' indicating that a transition strategy was important to their futures and the future of their businesses, the survey results clearly indicate urgent education

most owners and their teams need. Owners can start by taking control of their own business and transition plan by educating themselves. Today, a vast number of resources are available to them, including their peer groups, their advisors, local universities, economic development organizations, books, and current research on the subject.

"Owners can start by educating themselves. "

Advice to Advisors

The CPA continues to be a key trusted advisor. In fact, the CPA has received the “most trusted” status in most surveys completed since 2013. Of all the owners’ possible advisors, the CPA most likely has the best insight of all outside advisors into the business’s financials and operations. Going beyond self-imposed boundaries and becoming more consultative with the owner with regard to managing the value of the business and exit options is an opportunity that would benefit the CPA as well as the business owner.

Only 24 percent of the business owners surveyed indicated that their wealth advisors were their most trusted advisors. Although the percentage for this response is much higher than in previous surveys, we feel that wealth managers still have a significant opportunity to improve their status with business owners, given that the wealth manager is—or at least should be—the one advisor (other than the business’s attorney) who is with the owner throughout the entire process, not only leading up to the transition event but thereafter, charged with managing the owner’s windfall after the exit event. The wealth manager is also vital for helping the owner select and structure the appropriate exit option. This is another indication of how owners often lack the necessary information regarding all their exit options and underestimate the value that their wealth advisors provide before, during, and after the exit event.

The exit advisor community is growing, but it is a blue ocean—a new profession driven by the wave of four million baby-boomer business owners who will be exiting their businesses and a new generation of business owners assuming control over the next 10–20 years. Many owners are not even aware of the existence of a group of professional advisors who focus on helping them rapidly increase the value of and unlock the wealth trapped in their businesses. In this survey, only 21 percent of the business owners who had designated a transition team had an exit advisor on that team. Although that number is still lower than it should be, it is a significant step up in recognition of the role of the exit advisor from previous research reports.

Other key advisors, including attorneys, insurance professionals, and commercial bankers, are all necessary to fill out a transition team. All three of these groups already have existing clients who likely match the demographics of this survey. For example, 65 percent of their existing client base are likely to be aged 53 or older. It would thus 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 their business owner clients. To accomplish this requires they reach out to other professionals and become more collaborative.

Thank you to our contributors.

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About the Exit Planning Institute

The Exit Planning Institute (EPI) delivers innovative learning experiences, performance-enhancing resources and strategic tools designed to enhance the exit planning profession. Formed in 2005 to serve the needs of CPAs, financial planners and wealth managers, attorneys, commercial bankers, management consultants, M&A advisors, ESOP and family business advisors, the Exit Planning Institute is considered the standard trendsetter in the field of exit planning across the globe. It is the only organization that offers the Certified Exit Planning Advisor (CEPA) Program and qualifies for continuing educational credits with eleven major professional associations, making it the most widely accepted and endorsed professional exit planning program in the world. For more information, please visit www.exit-planning-institute.org.

For more information regarding the key stakeholders and individual partners of the State of Owner Readiness Survey conducted in this region, visit www.OwnerReadiness.com.