PRIVATE EQUITY transitions

<u>Top Ten (10) Reasons to Plan Your Exit in 2013</u>

Dear [member_name_first],

Business owners who run their own companies mostly have the majority of their personal net worth tied to their illiquid business. The process of converting that illiquid wealth to cash while you transition the company's ownership to a future CEO is complex. Within the matrix of decisions that an exiting owner needs to make for this future transition is the critical factor of timing. And, 2013 may be the opportune time for you to begin planning your business exit. Listed below are the top ten (10) reasons why you should consider planning your exit in 2013.

<u>1. The Role of the U.S. President is Unlikely to Reduce Uncertainty</u>

Whether President Obama retains his job as President or Mitt Romney wins the election, one has to ask 'what is really going to change?' Uncertainty stems from a number of different factors. And, the only true solution to removing uncertainty is strong evidence of a recovering economy. The problem here is that a recovering economy is somewhat beyond the reach or control of any President – be it Republican or Democrat. Therefore, irrespective of who is President, it is up to you to gain clarity and certainty not just for your business but for an exit. Why not start in 2013?

<u>2. Europe May or May Not Recover</u>

On a topic relating to the first observation, our global, macro-economic factors have an impact on your exit plans because they drive investor and buyer behavior. If you believe that the problems in Europe will find there way to the United States, this could limit enthusiasm of buyers of businesses to take risks such as purchasing your business. Isn't it better to be ahead of this curve than behind it and to take control of the timing for your own planning?

<u>3. The United States' Fiscal Cliff is Heading for a Showdown in Washington D.C.</u>

This third global, macro-economic factor is another issue that is beyond your immediate control – the U.S. fiscal cliff. It is easy to remember the recent downgrade of the U.S. credit rating, along with the battle in Washington D.C. over raising the debt ceiling. The accord that was reached in 2012 calls for automatic spending cuts in 2013. This course of action has put us on a path being called the 'Fiscal Cliff'. With so much distrust for Washington D.C. these days, there is a growing sentiment that our elected officials will ultimately forge a compromise, but only after more damage has been done. Once again, if you are out ahead of these global, macro issues that will impact your exit, then you are doing everything that you can to control your own exit in light of some ominous, longer-term issues and forecasts.

4. When QE3 Ends, Interest Rates are Likely to Spike Higher

The Federal Reserve Bank, in the 2nd half of 2012, instituted their third round of quantitative easing. Right now, money continues to be very inexpensive so buyers – at least those who qualify for loans – can borrow at historically low rates to purchase your business. It is also commonly understood that when the U.S. economy does start to recover at a sustained rate, inflation will kick in and interest rates will go higher (perhaps substantially higher). When money 'costs' more, buyers will pay less for your business. By planning early, you are again controlling what you can with this uncontrollable issue.

5. Hoarding Cash is a Good Financial Strategy for Challenging Economic Times

On a topic relating to a spiking interest-rate environment, it is important to note that from a personal (and corporate) financial planning perspective, it is a good idea to 'raise cash' prior to a period of uncertainty. In this case, a monetization event for your largest financial asset, i.e. your privately-held business, would provide that cash. So, if you believe that the economy will decline and that interest rates will spike, it is a great time to be exiting your business and holding onto cash that can now be invested at higher interest rates in fixed income products that may be able to better fund your retirement.

6. There is Still Good Demand Today for Solid Businesses to Be Purchased by Private Equity Groups

On the related topic of financing for acquisitions and active buyers, it is important to highlight that certain types of buyers are continuing to purchase solid companies today. In fact, private equity groups need to 'spend' their investors' money or they have to give it back. This puts buying pressure on these private equity groups because they, as a group, will begin to lose more and more of their financial / investor commitments in 2013. If you can still catch this wave of buyers you may be advantaged in achieving a higher value for your exit (this is particularly true for owners who are leaning towards an outside sale for their exit).

7. Trillions of Dollars of Corporate Cash are Available for Acquisitions

Publicly traded companies are currently holding trillions of dollars in cash on their balance sheets. Similar to private equity, CEOs are supposed to return cash to investors if they cannot put it to productive use in their businesses. Because many CEOs would prefer to build their companies than return corporate cash, it seems like it is only a matter of time before this cash makes its way into the purchase of privately-held businesses. If you are prepared for this activity, you will likely get a better result when this buying begins.

8. The Entire Tax Code is Set for an Overhaul After the Next Election

The last time that the tax code was overhauled was in 1986 under President Reagan. These overhauls occur approximately every twenty-five (25) years. And, since the United States is burdened with $16 trillion dollars in debt, it is unlikely that tax rates and / or deductions and loopholes will continue to be available to those who are going through a large liquidity event, such as a business sale. It is hard to predict what the tax code changes will look like, but again, if you are early with your planning, you may be able to take advantage of certain tax benefits that may be going away with a tax code overhaul.

9. The Supply and Demand of Exiting Owners is About to Shift Dramatically

The year 2012 marks one more year that the majority of baby boomer business owners held onto their privately-held business. This means that over the next five (5) to twenty (20) years, millions of these owners will be looking to exit their business via a sale to a future owner. Simply put, there will be more sellers than buyers in the marketplace. Therefore, in order to stay ahead of this cycle, you might consider 2013 as a starting point for your exit planning.

10. If We Survived the Mayan Calendar, Then Maybe There is Hope for the World

Many years ago, the ancient Mayans predicted the world coming to an end in 2012. The Mayan calendar measured cycles, or bactuns, in approximately 5,000 year increments. 2012 marks the end of a 5,000 year cycle and, hence, the beginning of another. While some speculate that the Mayan temples were warnings to future generations of this pending doom, the further we get through 2012, the less likely it is that the world will end. However, it is compelling to consider that with such a fast-changing world, perhaps there was something that these Mayans did know about rapid change and it's impact on our now global, interconnected business world.

At least if you have your illiquid business converted into cash, you can choose to store your money in cash, gold, stocks and bonds, mutual funds, foreign investment, real estate, another (smaller) business, or even under the mattress. However, no matter what your forecast for the future, as long as your money remains illiquid, your options in a fast-changing world continue to be limited.

Concluding Thoughts

This newsletter was written to inform, educate, and provide a template and some rationale for thinking about your plans for an exit from your business. It is our hope that this objective was met and that you are further along in your thinking about forming an exit plan in 2013.

Regards,

Joe Bazzano