The “Baby Boomer” Effect

Situational Analysis

The U.S. is on the verge of experiencing an anomaly unlike anything we have ever witnessed before and it is related to the vast number of businesses which will need to be transitioned over the next 15 to 20 years. This “tsunami” of forthcoming activity is being driven by our ageing “Baby Boomer” population and we have provided below some statistical data which helps add clarity to this pending occurrence.

- “Baby Boomers” are defined as those individuals being born between 1946 and 1964
- There are approximately 79 million Baby Boomers in the U.S. representing approximately 26% of the population (*U.S. Census Bureau*)
- 70% (55.3 million) of Baby Boomers are expected to retire over the next 15 years
- Individuals 65 and older are expected to increase from 13% to 18% of the U.S. population by 2030 (*Pew Research Center*)
- There are 28.5 million businesses (Businesses) in the U.S. of which 7.5 million have paid employees (non-sole proprietors) (*U.S. Census Bureau*)
- The following represents a breakdown of the ownership of the 7.5 million Businesses: (*Survey of Business Owners by the Census Bureau*)
    - 2002 – 29.6% owned by 45-54 year olds, 32.0% owned by those over 55 (Representing 61.6% of all Businesses)
    - 2007 – 33.1% owned by 45-54 year olds, 37.0% owned by those over 55 (Representing 70.1% of all Businesses)
- Business startups in 1996 – 38% by those over age 45
- Business startups in 2011 – 49% by those over age 45
- There are approximately 5,177,640 Businesses owned by Baby Boomers (*SME Research, LLC*)
- 3,365,466 of Baby Boomer Businesses are expected to be sold over the next 15-17 years. 51% (2,640,596) to outside parties and 14% (724,870) to employees, with 18% transitioned to family members with the remaining balance closed (*PriceWaterhouseCoopers Trendsetter Barometer and Family Business Survey*)
- The current capital markets are active with senior debt lenders who are lending at multiples up to 4.5 times EBITDA which are at, or higher than levels pre-2008 recession (*Pitchbook*)
- Interest rates charged on borrowings are at all time lows
- Valuations for middle-market Private Equity deals hit a 13 year high of 7.1X in Q3 2015 (*GF Data*)
- There is approximately $1.2 trillion in private equity capital “dry powder” available to invest, which represents an all time high (Preqin)
- There is an estimated $1.4 trillion of cash sitting on corporate balance sheets in the U.S. and an additional $2.7 trillion on balance sheets of non-U.S. corporations (*Credit Suisse US Asset Management Research Team*)
- There is an estimated $10 trillion in equity value in private businesses in the U.S. (*Family Firm Institute*)
- Interest rates on low risk investments are providing little return for investors with 5 year CD rates at approximately 1.77% and 5 year U.S. Treasuries at approximately 1.7%
- Fixed income investment yields have been low since 2008. With the possibility of pending interest rate hikes and reduced capital gains and ordinary income tax rates, a vast majority of

Baby Boomer business owners, who otherwise would have already sought exit alternatives, have remained engaged with their businesses and deferred taking any action pending those outcomes

- The Fed has been threatening interest rate increases and it is looking more likely that we will see rates increase over the next year with the first increase possibly as soon as December this year
- Most recent economic indicators are predicting that the economy may slip back in to a recession within the next two years and industrial manufacturing, representing about 10% of the economy, appears to have already fallen into recession

Implications for Business Owners

Based on the situational analysis described above there are several implications which are extremely important for business owners who may be considering an exit to consider. Particularly for those who fall in to the Baby Boomer category, the implications should become part of their critical thinking in terms of making plans for the future of their companies and for themselves. The implications include:

- Business values are presently very high due to (i) a limited supply of companies currently on the market, (ii) the amount of capital pursuing transactions and, (ii) the aggressive lending multiples currently being offered by lending institutions. This makes it a ***seller's*** market
- As interest rates start to increase one should expect to see more owners entertaining exit alternatives as fixed income investment options start providing greater returns
- There is imminent risk that the supply/demand imbalance will shift quickly to there being an over-supply of businesses on the market as the Baby Boomers are ultimately forced to seek exit alternatives which will have the impact of driving prices down
- Values are also likely to fall as the private equity capital "dry powder" and cash on corporate balance sheets starts getting absorbed
- If a recession does occur, senior lenders will become more conservative in their lending which will also drive down that values that buyers are willing to pay as their ability to leverage contracts
- As more sellers enter the market, buyers will become more selective and only those companies which are proven performers and more professionally managed will be able to dictate the highest values. Mediocre businesses may still find suitors however, their values may decline while underperforming or less desirable businesses may find it difficult in finding any buyers
- The increasing age of the Baby Boomers increases the probability that certain owners may fall victim to illnesses which could force departures from the businesses prematurely. For those companies that have not planned accordingly, by developing management depth, delegating authority, etc., there could be a devastating impact on the business operations and value

Conclusion

The current environment for prospective Baby Boomer Business owners who would like to sell has been a conundrum. On one hand, while they may desire to exit and enter into retirement, many have been concerned over their ability to replace current income from the business with investment returns generated from proceeds of a sale. Many have also taken solace in continuing to operate their businesses, which they understand and take comfort, in light of the unstable regulatory environment. Most shutter from the thought that we may enter another recession and while they have little desire or energy to contend if that were to occur, they have continued to defer action with hopes that the landscape may become more favorable. What then, is the solution?

Take Action. Action can be defined as (1) addressing the items in the business that will make it more attractive to potential suitors (i.e. systems, financial reporting, personnel, operations, etc.) (2)

commencing discussions with trusted advisors to determine and plan for future financial needs (wealth managers and trust and estate counsel), and exploring alternatives, options, market conditions and timing for a sales with an investment banker. A formal sales process will take 6-12 months to properly execute, assuming the business is prepared, and we may already be beyond the peak value cycle.

According to *Exit Planning Institute*, only a minority number of Baby Boomer business owners have exit strategies and succession plans and for many, the expected value they hope to receive for their businesses constitutes a major component of their expected retirement income. **There is a very narrow window of opportunity for taking advantage of the current favorable market conditions and any owners with any inclination for selling should take note.** By understanding the dynamics at work and by starting to take the necessary actions to prepare, owners can help to ensure that they will have a successful exit and receive reasonable values for their businesses.

The selling of a privately-owned business, for many, is a once in a lifetime event which can be very emotional and a decision not to be taken lightly. Aside from the economics, most owners are emotionally attached to their companies and its employees and often have multiple objectives they seek to accomplish. We at Windward appreciate those dynamics and sensitivities which is why we lead with education to help owners better understand their needs and then provide options and alternatives best suited to meet their goals.

Windward Advisors (Windward) assists owners in evaluating their companies, identifying necessary actions which may be needed to better prepare their businesses and to increase the value proposition, and at the appropriate time, represent owners in the formal sales process and marketing of their companies. With no obligation and at no cost, Windward will provide a complimentary consult to discuss the objectives of the owners, gain an understanding of the business, and provide insight into options which may be available to achieve the owners' goals. We encourage you to contact us with any questions and have provided below additional insight into our firm and the services we offer.

Windward Advisors, LLC

The partners of **Windward Advisors, LLC** ("Windward") bring over 65 years of extensive experience in having acquired, built, managed, operated, financed and sold businesses in diverse industries to advise owners in identifying needs, securing the resources, and establishing and executing action plans to achieve the desired objectives. At Windward we work collaboratively with business owners and their other trusted advisors to plan, coordinate and execute growth and exit strategies.

Services

Seller Representation: Conduct and manage formal sales processes, advise on alternatives and options, assist in developing strategies and implementation of initiatives to better prepare businesses for sale, and perform research to identify suitable buyers to try and achieve most competitive proposals.

Buyer Representation: Advise on "buy and build" strategies; including the identification and contacting potential acquisition targets and, provide assistance in analyzing candidates, negotiating, structuring, financing and closing acquisitions.

Capital Raising: Raising senior debt, subordinated debt and public or private equity capital to support business growth and acquisitions. This includes determining proper capital structure, identifying and contacting potential sources, analyzing proposals and assisting in negotiating terms and documents.

Corporate Growth Advisory: Advising owners in projects including the development of strategic growth and exit plans, enhancing operating efficiencies, structuring and capitalizing companies, identifying strengths, weaknesses, opportunities and threats (SWOT analysis), assessing organizational structure & staffing needs, and working in collaboration with businesses and their other trusted advisors to enhance performance and value.

Our People

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Barry was formerly a General Partner & Managing Director with Legg Mason Capital Partners (LMCP) that acquired and built businesses in diverse industries throughout the U.S. and in Canada. Prior to LMCP he held senior positions as a growth, merger and acquisition lender with NCNB, Barclay's and Fleet Banks. Barry has over 35 years experience in mergers, acquisitions, finance and corporate development.

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Steve was formerly a growth and acquisition lender with Fleet Bank and GE Capital. He was part of the senior management team that led Capital One through the initial public offering from Signet Bank and was instrumental in building the corporate infrastructure. Steve began his career in public accounting with KPMG and has over 30 years of experience in financial management, operations management, mergers, acquisitions and corporate development.

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