

Stewardship Advisory Group

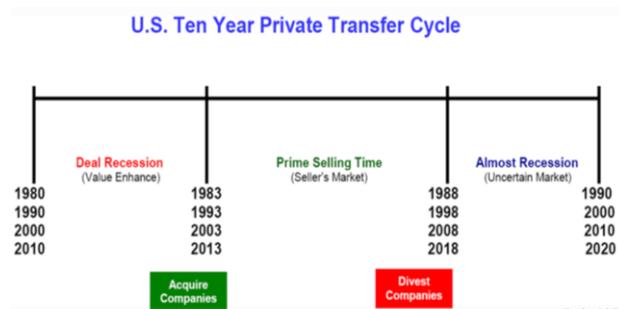
WEALTH MANAGEMENT ESTATE PLANNING LEGACY COACHING*

Eight Reasons to Plan Your Exit in 2016

With each New Year comes thoughts of new beginnings and resolutions. For businesses, this also comes with planning for the year ahead. This newsletter is written for business owners who run their own companies and have the majority of their personal net worth tied to that illiquid business. 2016 may be the opportune time for you to begin planning a future exit from your business. Listed below are eight (8) reasons why you should consider planning your exit in 2016.

1. The Timing is Right

In real estate, the saying is 'location, location, location' - with business transition planning, it is 'timing, timing, timing'. Just as timing was important as you built your business, it is critically important during your exit. If you are ready to exit within the next three (3) years, then 2016 could be an ideal time to plan for, and potentially execute your exit. To put this in perspective, let's look at the transfer spectrum chart below which indicates that we are currently in the middle of a prime selling time.



If you are ready to exit your business then you may want to take advantage of the fact that the chart forecasts another three (3) years of prime selling time in the transfer cycle. If you do not exit in this 'window' you will likely have to wait another eight (8) years (until 2023-2028) when the next 'exit window' opens.

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

Investment groups, called private equity groups, are continuing to purchase solid companies today. These investment groups exist to purchase private businesses and add value to them. As a result of thousands of these groups being in the market today, there is solid demand for good companies. If you can catch this wave of buyers you may be advantaged in achieving a higher value for your exit. There are two (2) caveats to this statement. First, the demographics show that a large number of owners will want to exit their business, and second, interest rates may be higher.

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

The oldest members of the Baby Boomer generation started turning 69 this year. This

means that over the next five (5) to ten (10) years, roughly 3.6 million business owners per year¹ 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 2016 as a starting point for your exit planning before too many businesses create a large supply of sellers.

4. Interest Rates Could be on the Rise

Interest rates are likely to begin to creep upward after a decade of historically low levels. When interest rates rise, borrowing costs increase. When this happens, a segment of the market that finances acquisitions with debt, i.e. the private equity groups mentioned previously, is impacted as these buyers have more expensive debt. When the cost of borrowing increases, generally speaking, this reduces the levels of value that these buyers will pay for a business. As a result, some of the buying demand that exists today could begin to wane when borrowing costs rise.

5. The Role of the U.S. President is Unlikely to Reduce Uncertainty

By the end of 2016 we will have a new President, but one has to ask ‘what is really going to change?’ Uncertainty stems from a number of different factors, from economic to geo-political to global threats. Whether a Republican or a Democrat occupies the White House, there will still be challenges to the overall economy that will impact your exit through continued uncertainty that exists in the world.

¹ Source: Pew Research Center
<http://www.pewresearch.org/daily-number/baby-boomers-retire/>

6. 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 \$19 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.

7. Your “Lifestyle Business” May Not be Providing you with the Lifestyle You Expected

If you are like many owners of privately-held businesses you probably have a lifestyle business, meaning that the business provides for your personal lifestyle. With tax rates having increased and the marketplace changing, you may not be experiencing the same lifestyle that you once did. Planning for your exit in 2016 may help you focus on your post-exit lifestyle and assesses your current ability to define and meet your post exit objectives. If your business value is higher today because of increased profitability, then perhaps an exit plan can help you pull the pieces together.

8. Your Business Likely Showed Improved Performance in 2015 – Hence A Trend Towards a Higher Value

The future owner of your business will ultimately care about two (2) financial components related to your company’s performance: (i) the future cash flows and (ii)

the [perceived] risk of receiving those cash flows into the future. Therefore, each additional year that you can show a trend towards improved performance is one more arrow in your 'negotiation quiver' to argue for – and defend - a higher value for your business exit. This is particularly important if you need that additional value to meet your personal, financial goals, as presented above.

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 2016.

Regards,

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