



CT Business Owners
EXIT PLANNING
Survey

2020 Year End Report



ZANGARI COHN
CUTHBERTSON DUHL & GRELLO P.C.
NEW HAVEN · HARTFORD · PROVIDENCE



BUSINESS SALES
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About VR Business Sales

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 traded companies, 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.

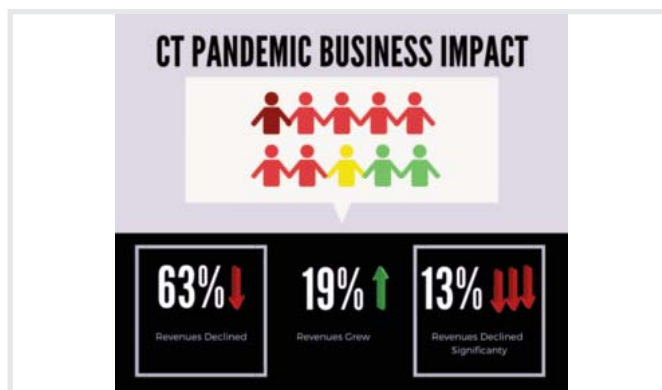
Key Findings from the Survey:

The pandemic was the big story in 2020, its effects were reflected in the survey participant responses.

- 76% of businesses have been hurt by the pandemic.
- In 2020, the Connecticut transaction market grew more favorable to buyers than sellers mirroring the trend in the national market.
- Connecticut businesses are recovering from the pandemic, but the large majority of owners anticipate it will take 12 to 24 months to fully recover.
- 4 in 10 business owners say their exit strategy has changed since the onset of the pandemic.

Pandemic Impact on CT Businesses

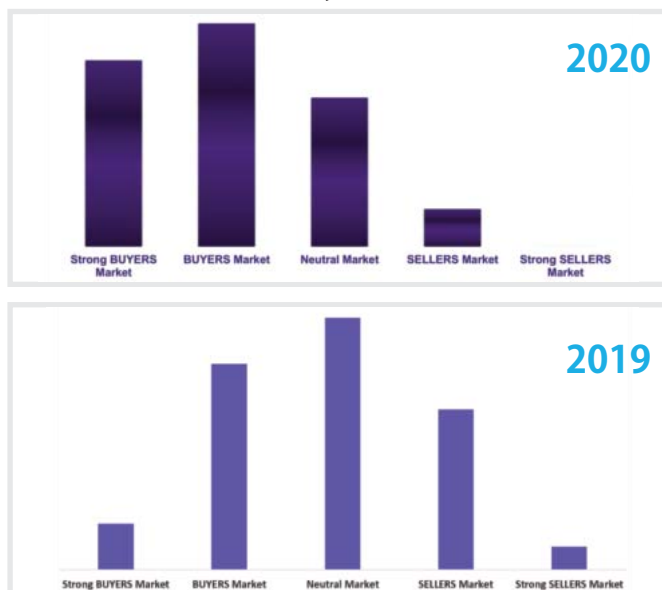
As it was across the nation, the majority of businesses were negatively impacted with 76% stating they suffered moderate to significant revenue declines. Business owners largely agree that it will take 12 to 24 months for a full economic recovery. Only about 1 in 10 businesses weren't impacted by the pandemic. The result of all this is that 44% of owners reported that their exit strategy plans changed during 2020.



Connecticut Business Transaction Market

The transaction market was shaken in the second quarter of 2020 as businesses adjusted to the pandemic. During this time period, according to a survey conducted by BizBuySell, business sales nationwide dropped 51% compared to the year prior. Although the third and fourth quarter showed strong signs of recovery, a lasting, major shift in the market occurred. Connecticut, in step with the nation, swung heavily to a Buyers Market. Our 2019 report showed Connecticut had already shifted slightly towards a buyer's market, but the economic shock created by the pandemic pushed the pendulum heavily in that direction in 2020.

COMPARISON: Buyer or Seller Market?



While business sales transactions will take a while to fully recover and the market currently favors buyers, those companies with healthy operating results that go to market now are in fact receiving higher than average historical sales multiples according to recent surveys by BizBuySell and M&A Source.

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Exit Planning

31% of owners do NOT know how they will exit their business; this has improved from 37% not knowing a year ago. The top three exit strategies were to sell to another company, sell to a family member, or initiate a management buyout. 4 out of 10 owners reported that their exit strategy had changed since the onset of the pandemic. Sentiment was split on whether it would be hard or easy to sell a business when the time came to do so.

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. In 2020, owners stated that among this group they would more likely rely on their CPAs to advise them. However, owners continue to look to a wide circle of friends, family and other advisors for guidance on exit planning.

Company Valuation

Sixty nine percent of owners say they know the value of their company, but are split on whether or not they can sell it for that price. This data is likely distorted based on the current economic conditions.

Conclusions

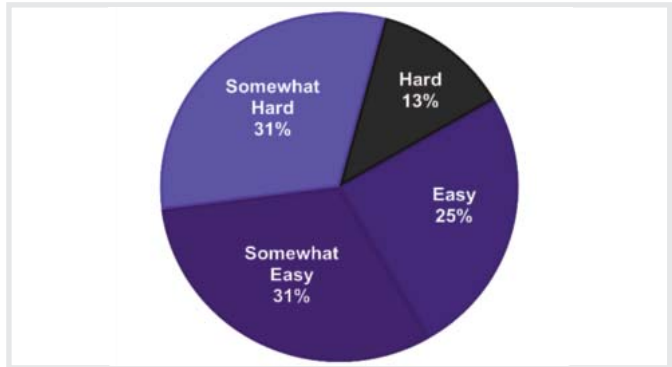
CT business owners had to shift priorities in 2020 to deal with a volatile environment. While many owners were negatively impacted, some did experience growth. For those companies doing well despite economic conditions, there are Buyers sitting on a lot of cash waiting for the right opportunity. Businesses viewed as “pandemic-proof” are selling for multiples higher than historical averages.

For those whose perspectives and planning has changed, for better or for worse, 2021 is a time to evaluate or reevaluate businesses in a new light. Many should consider becoming actively engaged in the exit planning process and take the next steps in formalizing or updating exit plans. 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.

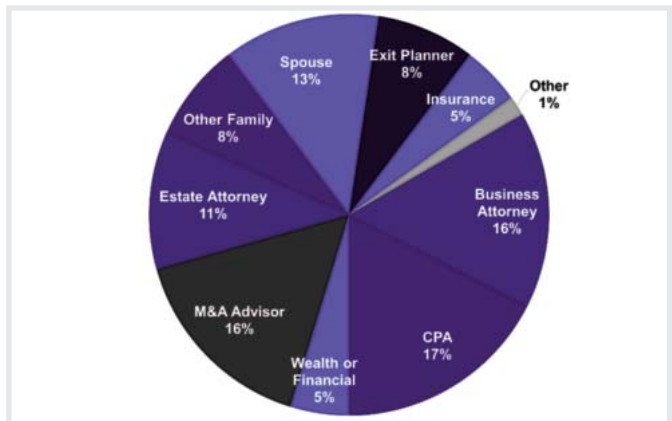
How to Plan

- 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.

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



Advisors Business Owners Plan to Consult



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.

Do you know the value of your business?

