NEBRASKA

2019

THE LOCAL MARKET STUDY:

The State of Owner Readiness

BENCHMARKING LOWER MIDDLE MARKET BUSINESSES AND EDUCATING OWNERS ON THE DIFFERENCES OF "ATTRACTIVENESS" VERSUS "READINESS"

EPI Exit Planning Institute™

THE STATE OF OWNER READINESS 2019 NEBRASKA REPORT

This research was made possible by our local partners: Lutz, First National Bank, Koley Jessen, SilverStone Group, and University of Nebraska-Lincoln Center for Entrepreneurship

Author: Christopher M. Snider, CEPA, CEO of Exit Planning Institute

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Survey Overview

A recent study was conducted by the Exit Planning Institute® (EPI™) and collaborative local firms located in the state of Nebraska. The study conducted looked at business owners in Nebraska to determine their state of readiness to transition their businesses and how well positioned they are to unlock the wealth accumulated within them. These results were then compared to the 2013 National Survey and other regional surveys that EPI has conducted over the previous five years. Finally, we noted specific facets that both successful and unsuccessful business owners do. These are best practices to improve the probability of a successful transition and unlock this vast amount of wealth and we offer those suggestions to close the report.

Roughly six million operating companies are privately held in the United States, representing approximately $30 trillion in sales. According to U.S. census data, baby boomers aged 55 to 73 own 63% 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 15 years and "retirement" age within 10 years. That represents nearly four million baby boomer businesses poised to transition. Assuming a business valuation of 50% of sales, which is reasonable by most standards, that number further 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 **most owners have 80 to 90% of their financial wealth locked in their businesses.** Given the significance of this asset in an owner's wealth portfolios, the ability to monetize this wealth at some point will have a significant impact on an entrepreneur's financial security and lifestyles once he or she exits the businesses.

The significance of the business asset transition is of great importance beyond the owners and their family. Failure to provide for the continuity of the business affects not only owners' personal wealth and that of their family, but also the future of all other stakeholders who depend on the businesses' successful transition. Legendary expert on family businesses, Dr. Leon Danco, noted in his book *Beyond Survival, a Guide for Business Owners and Their Families* that "the business owner is the giver of life. With roughly six million operating privately held companies in the United States, representing around $30 trillion in sales and $15 trillion in wealth, the continuity of owners' businesses significantly matters. The importance is not limited to their family; it extends to their employees, vendors, customers, charities, and the surrounding communities, all of whom the owner contributes to the economic and social well-being.

What happens if the business does not successfully transition? The alternative is that the business shuts down. People lose their jobs. Families suffer. Communities suffer. In addition, in many cases, an owner's life's work is liquidated for pennies on the dollar.

Previous surveys conducted by EPI, PricewaterhouseCoopers, the Alliance of Mergers and Acquisitions Advisors (AM&AA), Business Broker Press, and the Family Firm Institute have determined that **historical transition success rates are only 20 to 30% nationally.**

Changing this outcome is the mission of EPI and all Certified Exit Planning Advisors™ (CEPA™) worldwide. Using the successful transitions as repeatable models, the exit planning advisory community helps many business owners develop best practices and increase transferable value when they decide that 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 U.S. alone. Even though boomers hold onto their business longer than previous generations, they must face the reality that preparing for a business transition is an urgent imperative. Transitioning a business is a high stakes endeavor, and for many, a once-in-a-lifetime process that requires significant focus, action, and time to do properly.

How do business owners benefit from transition planning?

Transition planning and value acceleration address several problems that prevent owners from achieving better transition succession rates and sustaining business growth. The typical issues we see include the following:

- **First,** when owners do decide to exit, they realize they have not allowed themselves enough time to position their businesses for transition, minimized taxes, or maximized net proceeds. Thus, they achieve significantly lower net proceeds.
- **Second,** they 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.
- **Third,** when the time comes, owners can't sell. Private equity and strategic buyers are very seasoned and selective. They are unable to complete a sale (or even a partial sale) of the business to a third party because the business is unable to pass the test of due diligence.

- **Fourth,** they may also be unaware that they have eliminated their inside options, including transitioning to a family member, because the business cannot operate without the owner and is potentially undercapitalized, has insufficient cash flow or too much risk to succeed with an inside option.

The correct approach to a business transition can have crucial benefits. For many owners, the business represents most of their wealth. With the average middle-market business, which we define as a business with sales between $5 million and $100 million that holds an average market value of $8.5 million, successfully transitioning represents the difference between having $2.1 million in pre-tax wealth to $10.6 million in pre-tax wealth. Even at an aggressive rate of 6% per year, the difference in pre-tax income is $510,000 ($637,000 versus $127,000) per year.

For the micro market, the consequences are even more compelling. The micro market, which we define as those businesses that do less than $5 million in sales per year, the average business value is just over $300,000. Most of these businesses are owner-operated, so the owner derives almost all their income from the business. Moreover, roughly 5.7 million (94%) of the six million privately held businesses fall into this category. Assuming again that, for many, 80% of their wealth is locked up in the business, successfully monetizing the business asset is the difference between having $400,000 and $100,000 at transition.

To successfully transition, a business owner must focus on three things: (1) maximizing transferable business value; (2) preparing financially for a lifestyle without the income from the business; and (3) planning personally for what they will do (as a "third act") after exiting the business.

The State of Owner Readiness Research

The Exit Planning Institute has been conducting the State of Owner Readiness™ research and surveying business owners with the help of its many strategic partners since 2013. The Nebraska State of Owner Readiness Report is the ninth regional study released by EPI; past research reports included two national surveys (2013; 2014) and eight regional surveys (2017 San Diego County; 2017 Greater Nashville; 2017 Twin Cities Metro Area; 2017 Arizona; 2018 Georgia; 2018 Long Island; 2018 North Texas; 2018 Wisconsin).

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

The reader should note that **the data reflects the surveyed owners' perceptions.** Although the answers may be factual, they are not based on proof. The only way this 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 assessing a given owner's *state of awareness* regarding readiness to transition from a business, personal, and financial standpoint.

Owners would be wise to consider obtaining a personal, financial, and business assessment to support their current perceptions and their business valuation as to avoid surprises when the time comes for executing the business transition. This is also necessary for proper estate and personal financial planning.

What we do know from past studies is that success rates in the United States are in the range of 20 to 30%—far below what they should be from an economic and social standpoint. Many of the owners' responses in this study (and all other State of Owner Readiness studies since 2013) demonstrate the business owner's misunderstanding or underestimation of what a successful transition requires. In other words, **business owners don't know what they don't know.**

Although business owners do many things right, exiting one's business can be a "one and done" undertaking and getting it right the first time is vital. Each study has illuminated a general lack of formal education in the business community as to what successful exits entail. One benefit to surveyed owners who participated in this study is that they completed the questionnaire more educated on transition than before taking the survey.

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

Explore the findings report now

This report is divided into three sections: In Section One, we make general observations about the data collected from the Nebraska survey and how the data compares to the national surveys that EPI conducted in 2013 and 2014.

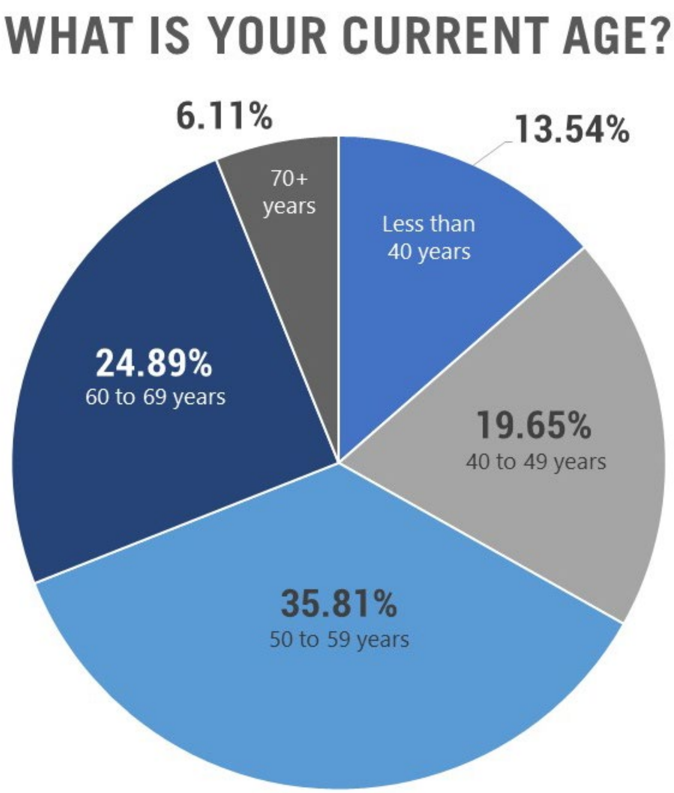
In Section Two, we provide our analysis of the data and make observations regarding the data's implications for the business owner.

In Section Three, we provide recommended actions business owners and business advisors should take to improve the probability of a successful transition and capture this hard-earned wealth.

The Nebraska State of Owner Readiness data represents 237 responses from Nebraskan business owners. The survey included 44 questions, organized as follows:

- Demographic information (age, revenue, industry, etc.);
- Current transition plans and thoughts; and
- Owner, shareholder, family, and company readiness to transition.

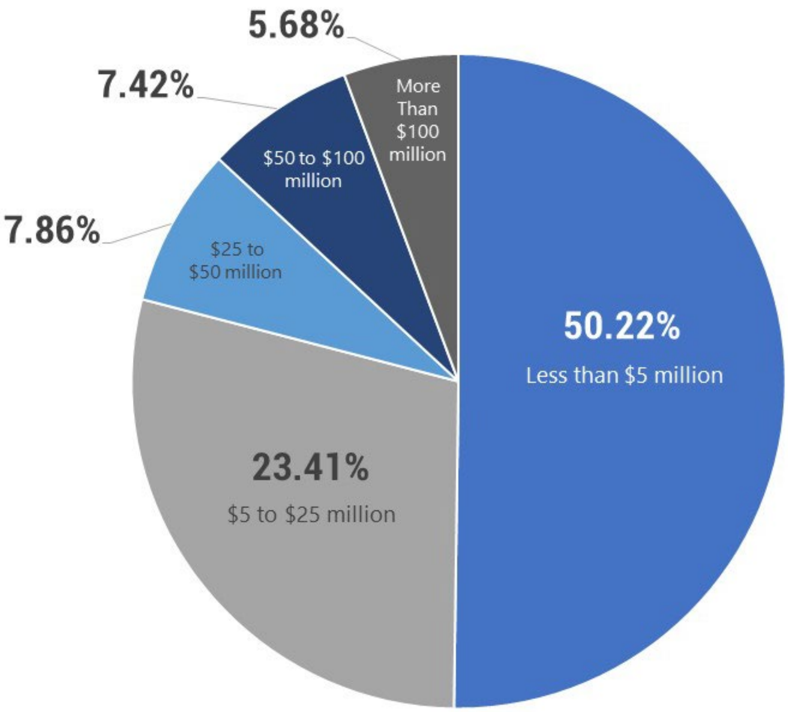
Section 1: Demographic Data



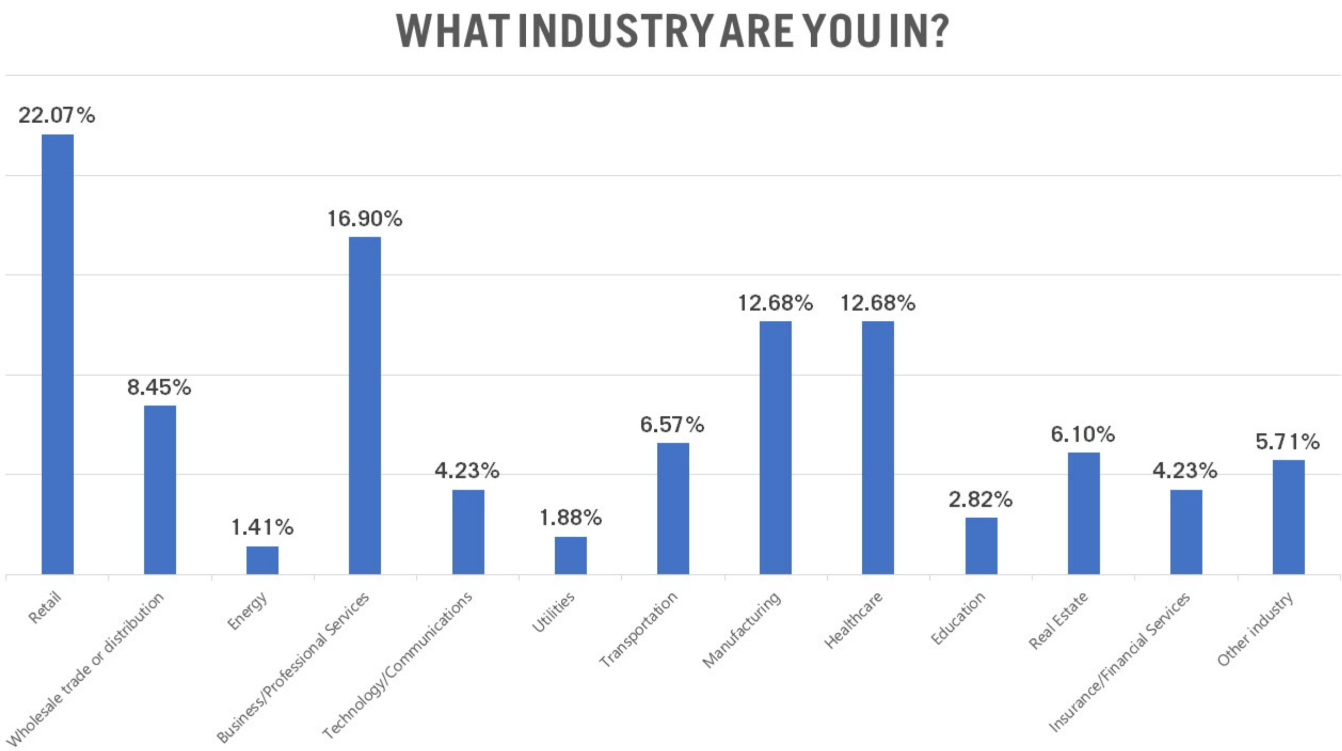
OWNER AGE: 67 percent of the respondents were over the age of 50. **31 percent of the Nebraska sample were 60 years of age or older.**

Note on gender: 69% of respondents were male; 31% female.

WHAT IS YOUR COMPANY'S ANNUAL REVENUE?

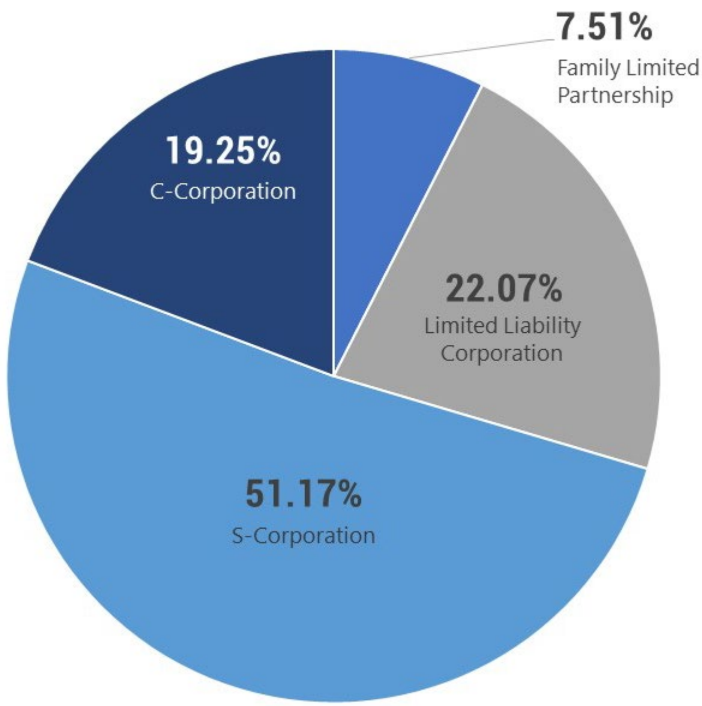


BUSINESS SIZE: 50 percent had business sales of less than $5 million, 44% had sales in the range of $5–100 million, and 6% had sales of $100 million or more. The Nebraska data shows a strong middle-market focus representing a greater share of businesses over $5 million in sales than that in the national US Census data (which indicates that 94% of all privately held operating businesses achieve $5 million in sales or less, 5.8% achieve between $5 million to $100 million, and only 0.2% achieve over $100 million in sales).



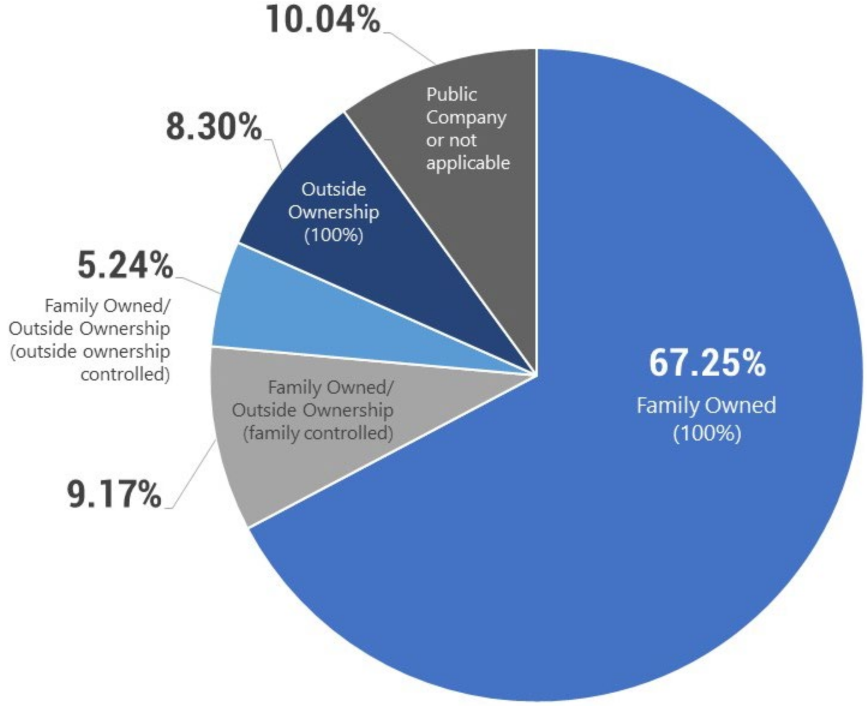
INDUSTRY BREAKDOWN: The sample included a diverse industry pool. No industry domination was present in the sample.

HOW IS YOUR BUSINESS ORGANIZED?

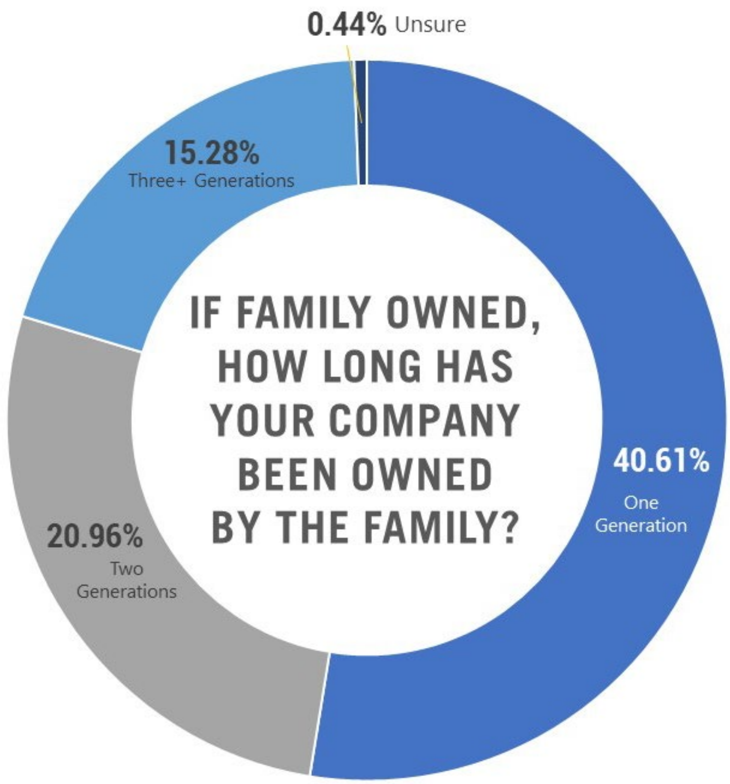


BUSINESS ORGANIZATION: Most businesses in the Nebraska sample were S-Corps (51%), followed by LLC (22%), C-Corps (19%), and Family Limited Partnerships (8%).

WHAT IS YOUR OWNERSHIP STRUCTURE?



OWNERSHIP STRUCTURE: Nearly 82% of businesses in the sample identified as family-owned enterprises in whole or in part. 67 percent were 100% family owned; 76% were at least family controlled. Just over half of the surveyed businesses were first-generation with more than **two-thirds were started from scratch by the existing owner (70%).**



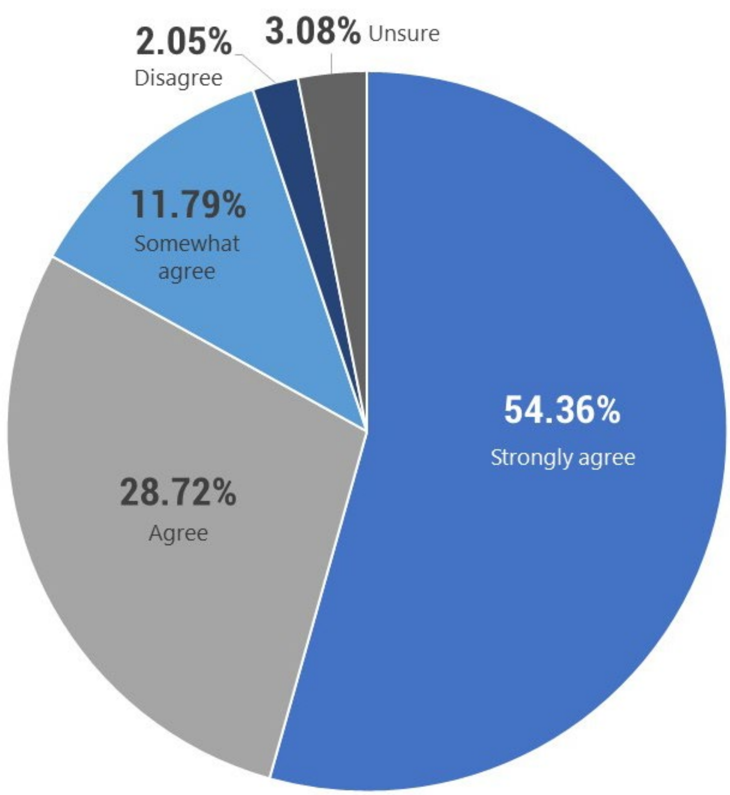
GENERATIONAL CONTINUITY: The Nebraska survey showed a higher proportion of third+ generation businesses versus US national data and other regional survey data. Nearly 20 percent of the business owners indicated they were third generation or greater businesses, mostly family businesses, as compared to only 10 percent on our national survey and only an average of 8 percent on all previous regional surveys.

Section 2: Analysis and Relevant Observations

Given the general lack of family and business transition readiness evidenced in the survey results, it is not surprising that 70–80% of transitions fail.

As you read through the rest of this report, bear in mind the following statement: 95% of surveyed Nebraska business owners indicated that they *agreed* with this statement:

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



Yet, most of this report *contradicts* that statement. In fact, the Nebraska data indicates the state of transition planning is very weak despite a large segment of business owners indicating that they would like to transition their businesses within five to ten years.

Despite 95% of the business owners affirming that "transition strategy is important" ...

- 62 percent had given limited to no attention to their exit plans.
- 71 percent had no written company transition plan and 43% had done "no planning at all";
- 81 percent had not established a formal transition team;
- 72 percent had not accomplished any formal transition education.

The above statistics are alarming, considering **that 70% of the business owners who completed the survey indicated that they would like to transition their business within 10 years or less**, and more than one-third (36%) within 5 years or less. In fact, 30% indicated that they had *no plans* to transition even though it is an inevitable fact the all business owners must exit their businesses at some point.

Early planning is key. Successful transition takes time and to achieve it, owners must start planning long before they want to exit. Only then will an owner have appropriate time to maximize the value of the business and to prepare financially and personally for it. The best time to do exit planning is now if you want to transition when you want, how you want, for the price you want.

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

- Business owners realize they should have integrated a value acceleration process to prepare themselves and the business much earlier.

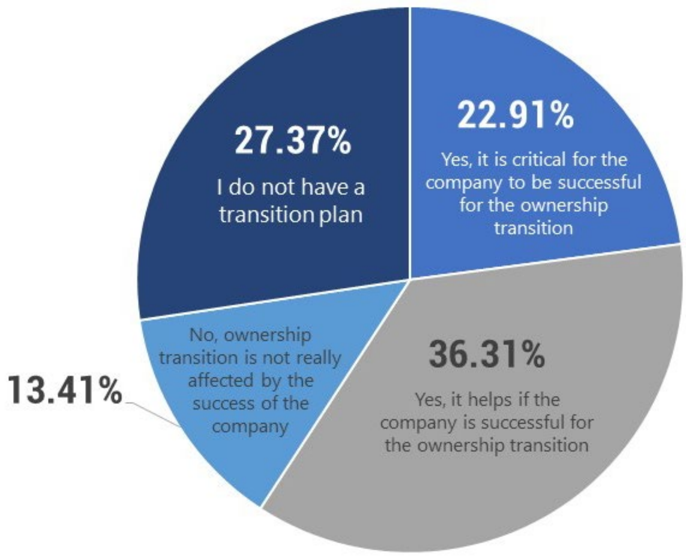
- They realize after the fact that they left money on the table because they did not maximize the value of the business at the time of exit.

- Personally, many are miserable post transition. In a survey completed by PricewaterhouseCoopers, 75% of business owners profoundly regretted the decision one year after selling, primarily because of poor personal planning for what they would do next. Business owners who fail to prepare a personal plan for how to fill their newly found windfall of time post transition are often missing a fulfilling life experiences post-transition.

Ironically, although 41% of business owners had done "no planning at all," 80% of the sample responded to (instead of skipping) the question: **What do you plan to do post-transition?**

The most popular answer was "retire," leaving a lot to the imagination as to what that would entail and what it will require financially. Other popular answers included philanthropy, consulting, sitting on a board, or investing in another business.

DOES YOUR OWNERSHIP TRANSITION PLAN REQUIRE THE COMPANY REMAIN PROFITABLE FOR YOUR PLAN TO BE PROPERLY EXECUTED?

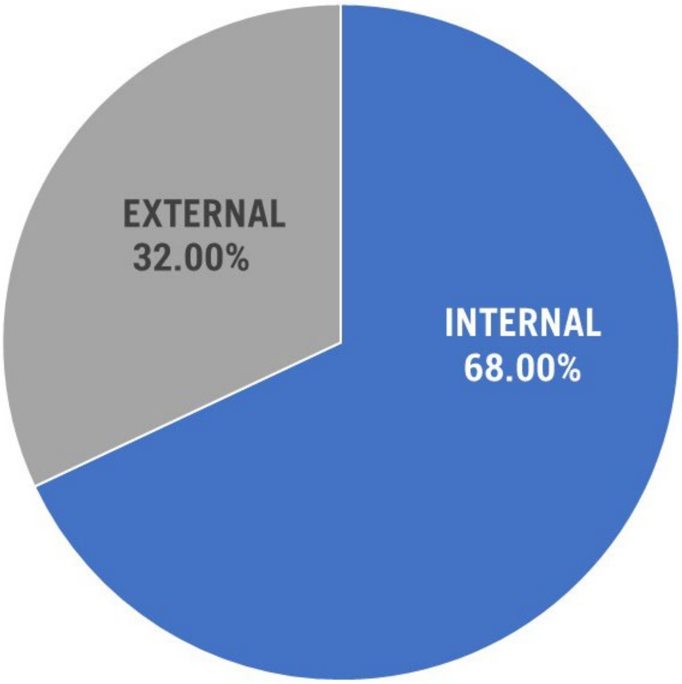


To execute their transition plans properly, most business owners need their companies to remain profitable.

In the survey, more than 80% said it was at least helpful that the company remain profitable for their transition plan to be properly executed; 36% said that it was "critical." Many owners need the business to remain profitable because it can be several years after the actual exit from the business 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 upon 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 and ownership to fulfill the terms of the agreement and accomplish this without the present owner leading the business.

WHICH EXIT OPTION TYPE WOULD YOU MOST LIKELY CHOOSE?

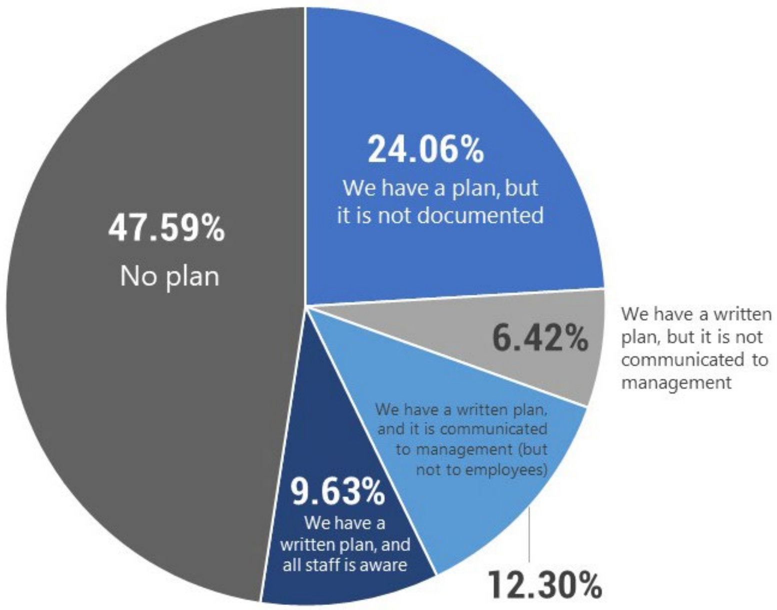


For the owners who had a specific exit option in mind, the vast majority preferred internal exit options versus external exit options. While the preference towards internal exit options is higher in Nebraska than comparable markets, it is likely due to having a greater number of multi-generation businesses in this surveyed sample.

However, one-third of these owners were not sure which exit option they ultimately preferred.

This uncertainty is very relevant and somewhat concerning given that 70% of the owners indicated they would like to transition within ten years and 36% would like to transition even sooner (within zero to five years).

WHAT BEST DESCRIBES YOUR COMPANY'S TRANSITION PLAN?



The 1979 Harvard Business School study made a correlation between written goals for the future and likelihood of achieving them, tying the results directly back to financial key performance indicators.

In Nebraska, when asked, "What best describes your company's transition plan?" the respondents did not align with of the Harvard goal-setting mentality. 65 percent either had no plan or mentioned having a plan "but it has not been documented."

What do Nebraska business transition plans include?

Business valuation and value enhancement are cornerstones of successful business transitions. From this angle, it appears that owners in Nebraska are stuck in an old exit planning paradigm. Planning is important; but a focus on actions which preserve and build business value is the key to transition success. The data suggests this is a big opportunity for improvement in Nebraska.

Only 28% reported having a written company transition plan. For those owners who did have a plan, we asked **"What do your plans include?"**

- 61 percent indicated that their plans included a business valuation.
- More than half (56%) written goals and objectives.

Less than half had these critical planning staples in place:

- 47 percent included an estate plan.
- 46 percent had a documented contingency plan.
- Only 43% had a personal financial plan.

Though most of the owners need the business to remain profitable after ownership transition:

- Only 33% of owners who said they had a business transition plan, said their plan included a strategic analysis and value enhancement plan.
- Only 26% said it included an analysis of exit options.
- Only 21% had a detailed action plan.

Oddly, only 12% had completed a recent tax plan. How can an owner maximize net proceeds without a tax plan? How would the personal financial plans and estate plans be accurate without it? Short answer, it wouldn't.

“Price is what you pay; value is what you get.”

–Warren Buffett, CEO of Berkshire Hathaway, Omaha, Nebraska

Building a business with transferable value is the key to getting the price you want when you decide to sell. Despite the increased accessibility of reliable information and planning, only 19% of respondents had their business formally valued. Further, few included a strategic analysis and value enhancement plan virtually taking maximizing the value of the business off the table.

How can an owner know what the business is worth from a transition perspective if that business has not been formally evaluated by a valuation professional? In past research, many owners felt they understood the value of their business without formal valuation citing reliance on hearsay and their own research. Does this misimpression of value relate to the low transition success rates? Yes.

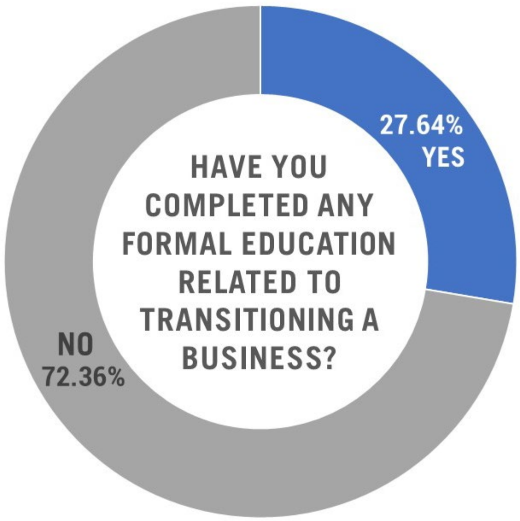
Cited in an AM&AA industry study, 95% of mergers and acquisitions professionals indicated that the owners’ ”overestimation of value” was the number-one factor in failed deals.

Owners tend to focus on sales and income without giving equitable attention to business value. For an owner to achieve success in both areas, a paradigm shift is needed. **Maximizing business value, not business income, should be the primary business goal.** Income alone does not necessarily mean that the business has value. Attractiveness and readiness are both needed for the business asset to be ready to transfer.

The reality is that while focused on business value, sales, income, and profitability are byproducts and benefits an owner starts to experience in the exit planning process. Simply, focus on value to produce all other positive outcomes.

Many of the owners’ transition plans do not include business valuation, goals and objectives; written action plans; exit options analysis; a risk assessment; strategic value analysis, budget, or value enhancement.

So, what *do* they include?

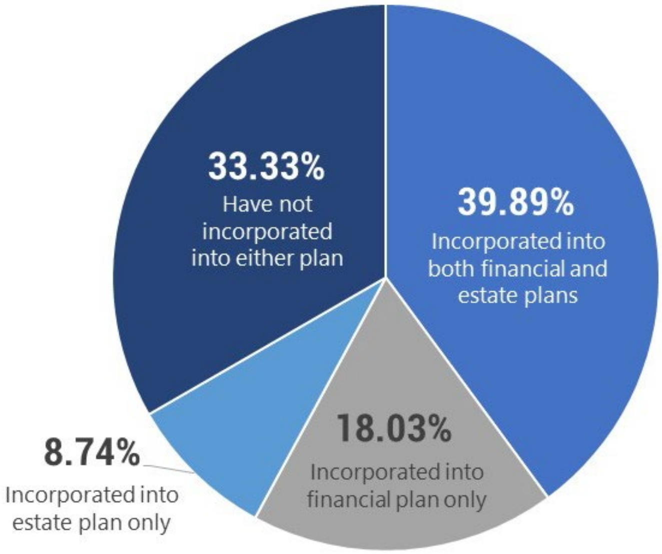


Given that most business owners are business savvy, one can only conclude from these responses that *owners don't know what they don't know*. This lack of education is further supported in that nearly **three out of four owners had done no formal business transition education.**

The danger in that response is that business owners are significantly underestimating what a successful exit requires. Owners *think* that both they and the business are prepared because they have given some attention to their transition, perhaps focusing on plans and estate planning. However, successful transitions require much more than that. They require solid, long-term business, personal, and financial plans grounded in action, focused on protecting and building value in the present tense, with specific deliverables completed along the journey well in advance of the actual exit from the business or formal turnover of children, management, or employees. Given the general lack of attention to business value, it is not surprising that historical transition success rates are so poor.

These actions are essential to position an owner for what the company transition represents for them holistically; it is nothing short of a significant transformation.

DESCRIBE THE LEVEL TO WHICH YOU HAVE INCORPORATED THIS TRANSITION INTO YOUR PERSONAL FINANCIAL AND ESTATE PLANS.

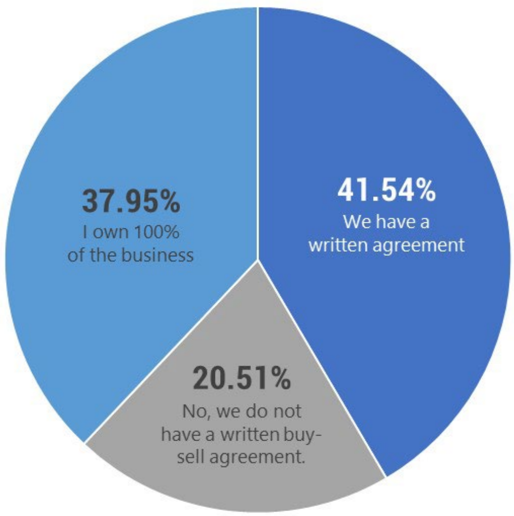


Owners scored poorly in personal planning, personal financial planning, and estate planning despite its vital role in a successful business and life transition.

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 business owners are underestimating the importance of both personal planning and personal financial planning.

Only 4% of business owners indicated that they had a written plan for what they would do post-exit.

IF THERE ARE MULTIPLE OWNERS OR PARTNERS, DO YOU HAVE A WRITTEN BUY-SELL AGREEMENT?



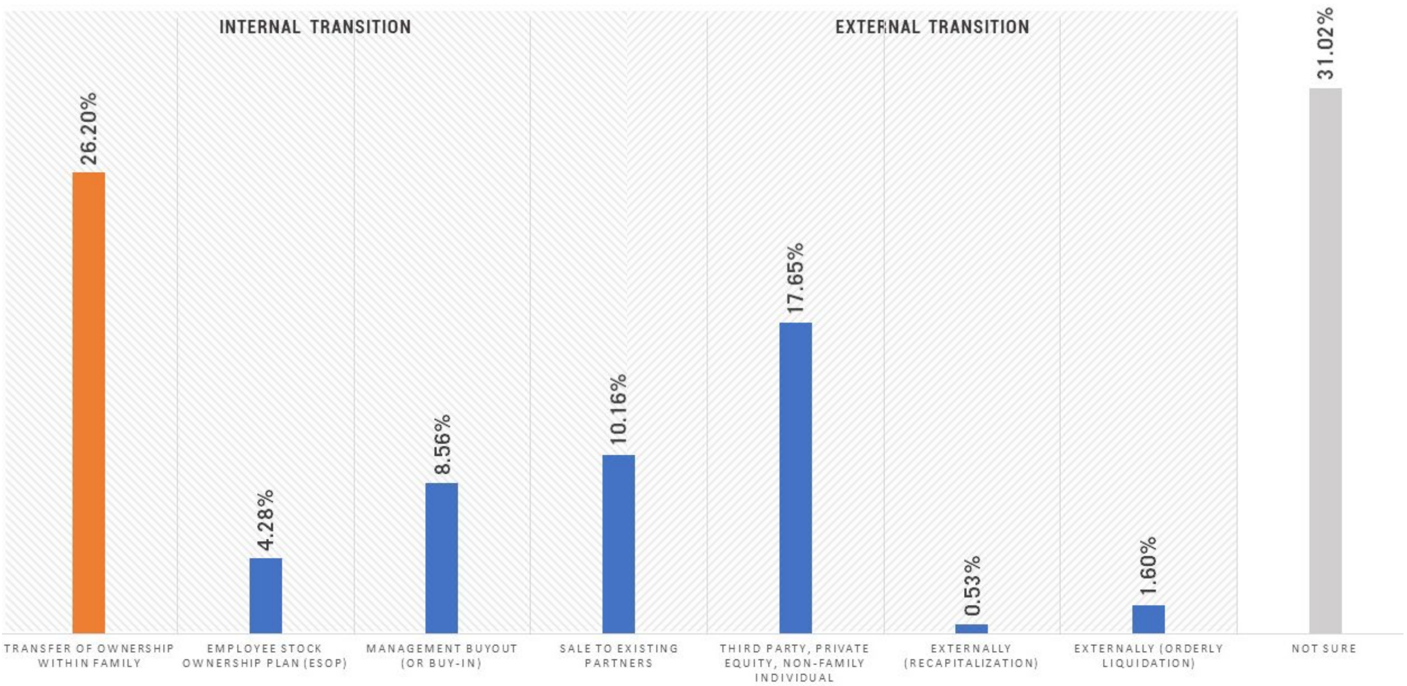
The transition planning process does not appropriately address management of business and personal risk.

The data illustrates that 46% of owners had a documented contingency plan, should they be forced into an exit.

62 percent of businesses had multiple partners invested in their businesses. Of the multi-partner businesses, 67% have no buy-sell agreement at all. Of those who did, only 41% of the agreements had been recently reviewed and updated and the same amount (41%) did not fund the agreement with a life insurance and disability policy.

A buy-sell agreement is as critical as a business valuation. It should be revisited annually, even if it requires no changes. Moreover, ensuring that the buy–sell is funded is key to ensuring that the terms can be met if the agreement must be invoked.

WHAT BEST DESCRIBES YOUR PREFERRED EXIT?



In Nebraska, transitioning to family is one of the most popular exit options.

67 percent of the sample were 100% family-owned and 76% were family controlled. In Nebraska, transitioning to family was the most popular exit option overall. Given the significance of multi-generational family businesses surveyed, it was encouraging to see indications that Nebraskan owners are placing higher focus on transition communication and collaborative family planning than previously surveyed regional markets.

While 45% indicated they had never had a family meeting about the business, Nebraskan family enterprises demonstrated more involvement of family overall:

- 45 percent indicated they held a family meeting about the business at least annually.
- 61 percent of business owners who said they had a plan indicated that the family was aware of both the management and ownership transition plans.

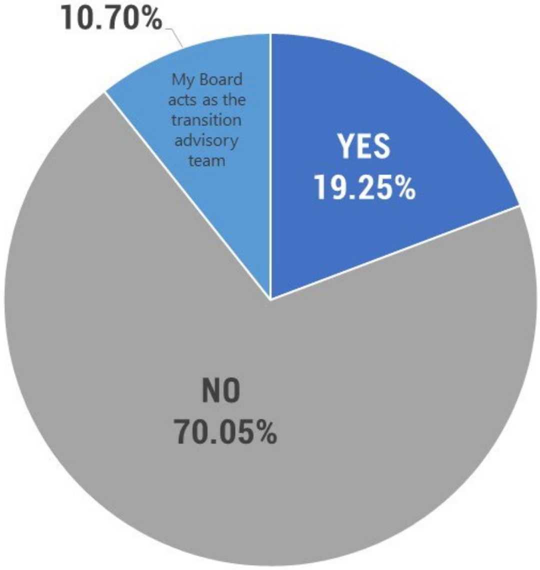
Regardless of family ties, many owners decide that no family members will fill key positions when it comes time to transition. In Nebraska, 45% of owners who had a plan indicated that no family members were filling key positions post-transition.

- Of the Nebraskan business owners who did plan to fill key positions with family members felt that that decision was sound; in fact, 68% said family members were ready to fill key positions.
- On another encouraging note, most owners with a formal transition team do recognize the need to include family. 67 percent of business owners indicated that their spouse or another family member were members of the business transition team.

The complexity of family dynamics is always challenging, especially when they involve the complexity of a business transition. In addition to complexity, we believe another reason why most family transitions are not successful 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 it 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 ones that make it valuable to the next generation; low risk, high transferable value. In addition, the personal and business actions associated to planning and executing successful business growth and transition using value acceleration can be also used as a tool for developing the next generation of family business owners leading to more frequently successful intergenerational transitions.

HAVE YOU ESTABLISHED A FORMAL TRANSITION ADVISORY TEAM?

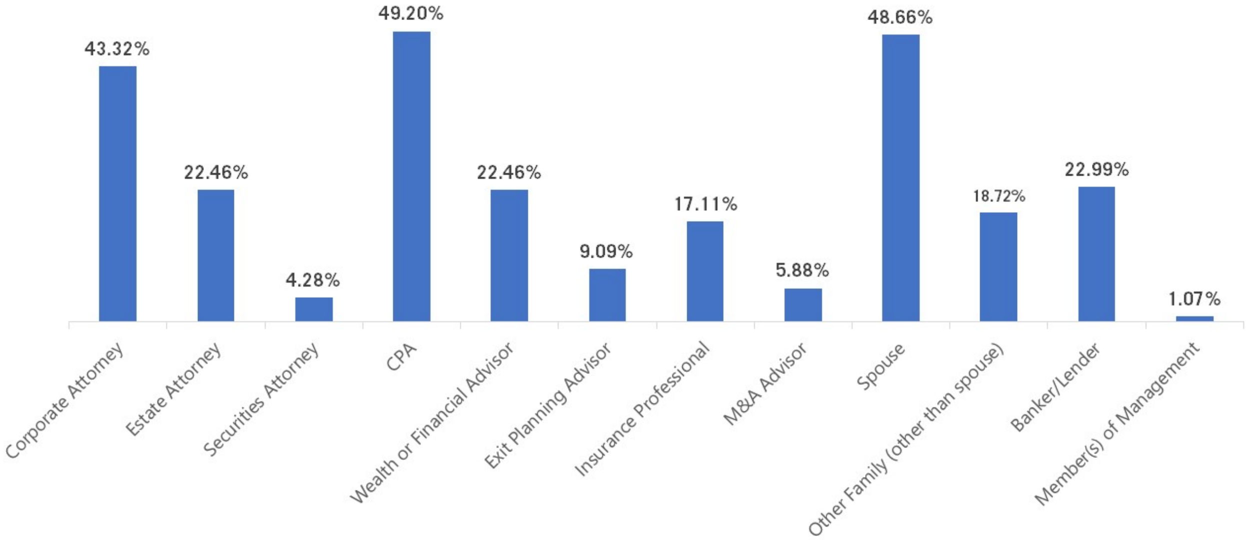


Improving the use of outside resources—in particular, a board of advisors that includes nonfamily members—would likely result in an increase in successful transitions and higher valuations.

From past 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 Nebraska business owners scored lower than is needed in both categories.

As displayed above, 81% of business owners indicated that they had not set up a formal transition team. Moreover, 11% indicated that they used their board of advisors as their transition team—usually a mistake. The skillsets needed to transition a business can be much different from the skillsets of the members who sit on the owner's advisory board. Both are necessary and have distinct roles in supporting the business owner.

LIST ALL ADVISORS THAT ARE ON YOUR TRANSITION TEAM.



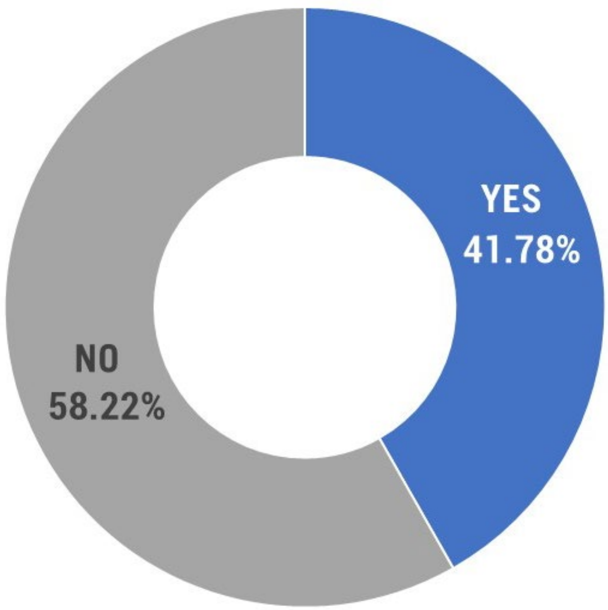
The core transition team for the owner should comprise, at minimum, an attorney (typically a business attorney), a CPA, as well as a wealth manager/financial planner, and a credentialed exit-planning advisor such as a CEPA (Certified Exit Planning Advisor).

For the 19% of owners with transition teams, the spouse or other family member, CPA, and corporate attorney were the most highly selected advisors to hold a role. Although many business owners seemed to recognize the need for a corporate attorney and CPA, several other key advisors were missing.

Other members of the transition team included:

- Less than 10% had an exit planning advisor or transition expert on their team.
- Critical team roles that included wealth advisor, estate attorney, commercial banker, and insurance professional appeared on the transition team less than 25% of the time.

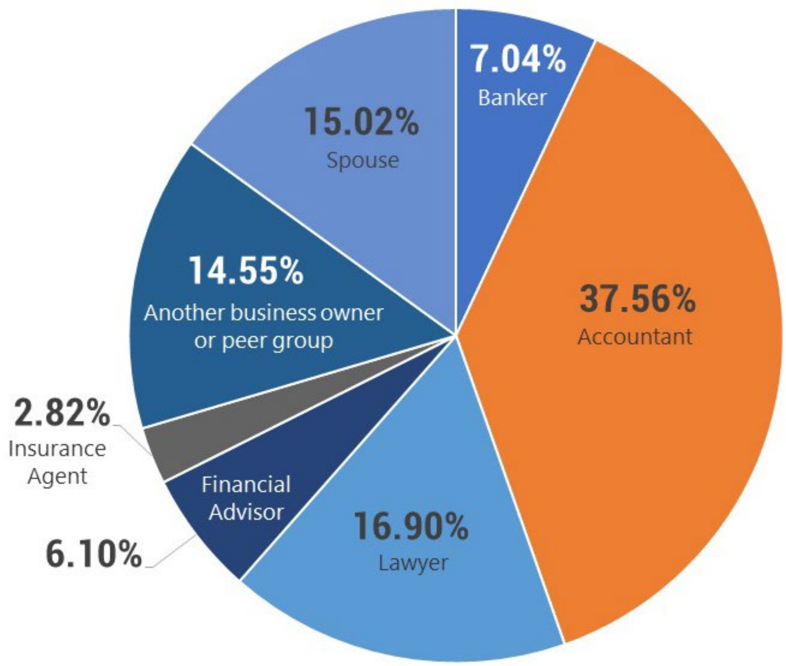
DO YOU HAVE A BOARD OF DIRECTORS/ADVISORS?



Less than half of surveyed Nebraskan business owners had a board of advisors.

Those with boards had the seats primarily filled with family members. Alarmingly, 78% of the of the boards reported that they did not have any non-family members participating.

WHO IS YOUR MOST TRUSTED ADVISOR?



In Nebraska, the accountant is the most trusted advisor.

When asked, "who do you see as your most trusted advisor?" Nearly 40% indicated it was their accountant (two times more than any other advisor).

Interesting contrast: While 67% of owners included the spouse on the transition team, only 15% ranked their spouse as the most trusted advisor.

Notable considerations and concerns:

Only 6% considered the wealth manager or financial planner to be the most trusted advisor.

This is a huge opportunity for the financial planning industry. Involving a wealth manager or financial planner in the transition process as early as possible is clearly a best practice. Designing a comprehensive transition strategy without involving the financial planner or wealth manager is impossible.

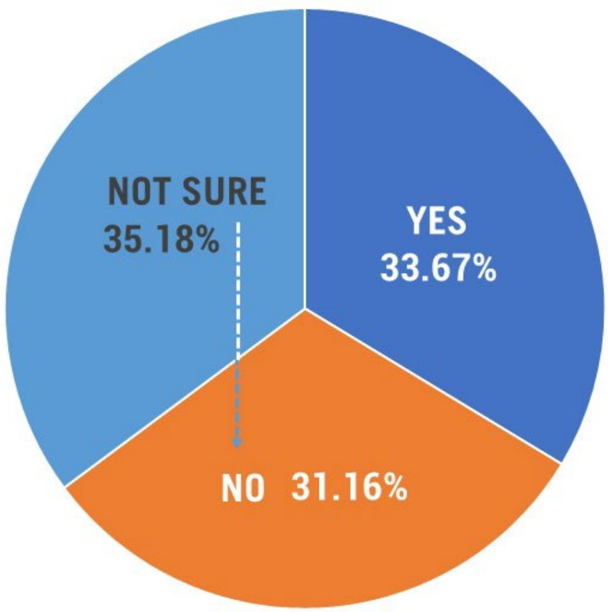
The financial planner’s role is critical for determining the owner’s financial needs before, during, and after the exit. The financial planner’s role is also critical in evaluating options to optimize the owner’s post-business lifestyle and often dictates the available exit options and the structure of the exit transaction, whether it be an internal or an external option. In addition, after the owner’s exit, the financial planner’s role becomes even more important.

The financial planning industry and owners themselves would benefit tremendously if the financial planning industry did a better job of educating owners on the importance of including the financial planner or wealth manager in transition planning in the years leading up to the actual transition.

Only 7% of owners considered their commercial banker to be their most trusted advisor. Except for the accountant, no other advisor will be as familiar with the business as the commercial banker.

We have consistently observed opportunities for improvement in this relationship. It certainly is a two-way street. 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.

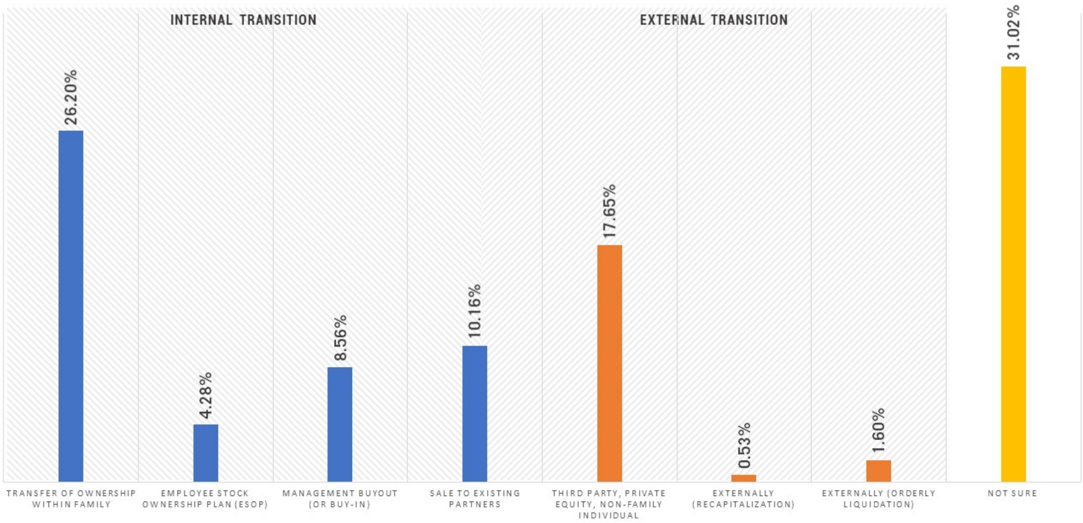
ARE YOU FAMILIAR WITH ALL YOUR TRANSITION OPTIONS?



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

66 percent of Nebraska business owners answered "no" or "not sure" (which effectively means no) when asked if they were **aware of all their exit options.** This 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 YOUR PREFERRED EXIT?



Most owners do know of how they'd like to transition. When asked, Nebraska owners leaned heavily toward internal transitions (38% chose family) over transferring control of the business to an outsider. In fact, Nebraskan owners show a uniquely high preference towards inside options as compared to other US regions and has indicated the highest emphasis on family transition as compared to all prior EPI State of Owner Readiness™ findings to date.

49% percent preferred to transition "inside" to family, employees, management, or partners. Only 20% were inclined to transition "outside" to a third-party, recap, or through an orderly liquidation. Nearly one-third were "not sure." This uncertainty is not uncommon; this percentage of "undecideds" is aligned with all past survey findings.

A Note on Recapitalization: Less than 1% indicated an interest towards recapitalization. To see so few business owners considering recap as an exit option is disappointing and perhaps reflects their lack of focus on value acceleration which can ensure a business's ability to pass generation to generation. In the state of Nebraska, multi-generational transfer has shown importance so to see so little interest in recaps as a viable option was worth further consideration.

This disinterest is likely due to lack of education. In fact, if fully aware of the pros and cons, owners would likely conclude that a recap is an excellent way to "take some chips off the table" and possibly step away from the daily operations of the business while simultaneously injecting capital and talent to accelerate the growth of the business and achieve major financial gains.

Conclusion

At the end of each personal and business section, owners were asked to rate their overall readiness to transition their businesses and readiness to transition personally. Despite the evidence the respondents supplied that indicated otherwise, 42 percent of owners rated their business readiness as above average.

Recall the opening data point in this section: 95% of the business owners in Nebraksa who completed the survey indicated they agreed with the following statement: "Having a transition strategy is important for my future as well as the future of the business."

While true in thought, (lack of) action does speak louder than words.

While the data suggests there is a significant disconnect, it simply represents an opportunity for growth and change. Owners do recognize the importance of transition strategy. The 2019 Nebraska State of Owner Readiness™ study tells a story that it is time to back up that belief with action and more education.

Creating market awareness and empowering owners to bring exit planning into the present is needed to position Nebraskan owners for successful business, financial, and personal transitions.

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.

Exit planning is present tense. 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 their management teams or children to take the business to the next level, create owner independence, and potentially increase the owner's wealth by 400 to 500%. In other words, exit planning is simply good business strategy. With ten trillion dollars of wealth at stake from an aging generation of business owners (remember, 67% of our survey respondents were aged 50 or older and 31% were over 60-years-old) and with a new generation of business owners at hand, a greater sense of urgency is required.

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 (Identify Value), taking risk-mitigating actions to protect their wealth (Protect Value), tenaciously building value over time (Build Value), positioning the business to have multiple exit options—and, perhaps, multiple exit events (Harvest Value)—and always actively and holistically managing their wealth (including the business wealth) before, during, and after the exit event (Manage Value).

As previously pointed out, 80 to 90% of the owner's net worth is likely to be locked in the owner's business. Moreover, 70 to 80% 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.

Management systems must be adapted to give the owner strategy and feedback on the value of intangible assets; human, customer, structural, and social on a regular basis (read full '4Cs' concept in the book, *Walking to Destiny: 11 Actions an Owner Must Take to Rapidly Grow Value and Unlock Wealth*, by Christopher Snider).

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% of all exits are forced—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, consistent 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.

Advice to Advisors

The accountant was the most trusted advisor in this survey. 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 and most access into the business financials and operations. Going beyond self-imposed boundaries and becoming more consultative with the owner about managing the value of the business and exit options is an opportunity that would benefit the CPA as well as the business owner.

Only 6% of the business owners surveyed indicated that their wealth advisors were their most trusted advisors. Wealth managers continue to have a significant opportunity to improve their status with business owners, given that the they are likely 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 and liquidity event, but afterwards and into the post-transition future. Wealth managers are charged with managing the owner's windfall after the exit event itself.

The fact that very few owners indicated that the wealth manager was the "most trusted advisor" is another indication of how lacking the necessary information is. If owners were educated on all available exit options, they would identify the value that the wealth advisor provides; before, during, and after the exit event.

The exit advisor community is growing, but it is a blue ocean; an evolving cross-functional profession driven by the approaching wave of four million baby boomer business owners who will be exiting their businesses and a next generation of business owners that will assume control in the coming years.

Too many owners are not aware that exit planning advisors exist. Professionals who can help grow value, unlock wealth, and position the business for transition success (regardless of the exit option in play). In Nebraska, only 9% of the business owners who had designated a transition team had a designated exit advisor on it.

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, 63% of their existing client base are likely to be aged 55 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.

This report was prepared and written by Christopher Snider of the Exit Planning Institute.

We would to thank and recognize the work of our valued partners at Lutz, First National Bank, Koley Jessen, SilverStone Group, and University of Nebraska-Lincoln Center for Entrepreneurship.

This research was a collaborative effort of many partners and organizations in the Nebraska marketplace. Thank you to the survey respondents in the local region for their willing contribution to this study. Your participation has created an opportunity to educate and empower middle market business owners nationwide.

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, EPI serves the needs of CPAs, financial planners and wealth managers, attorneys, commercial bankers, management consultants, M&A advisors, ESOP, and family business advisors. EPI 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 education credits with twelve major professional associations, making it the most widely accepted and endorsed exit planning program in the world. For more information, please visit **www.EarnCEPA.com.**

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.**

UNDERSTANDING THE NEBRASKA
STATE OF OWNER READINESS

67% of surveyed business owners in Nebraska are 50 or older.

Recent US Census data indicates that 49% of Nebraska businesses are owned by Boomers; 43% by Generation X. Note: **31% were over the age of 60 or older**, which means that successful conversion of the business wealth is *(or should be)* top of mind for most owners.

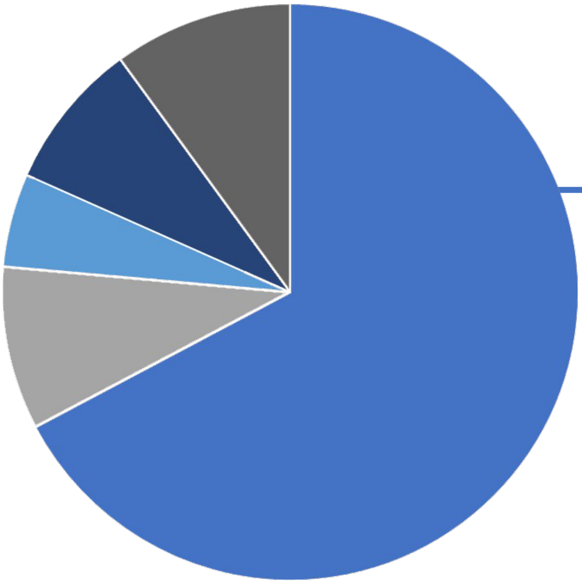
NEBRASKA BUSINESS SIZE? ABOVE AVERAGE.

44% of Surveyed Owners indicated sales of $5 million or more.

The Nebraskan sample represents a strong middle market focus that represents a much greater share of businesses over $5 million in sales than that found in the national US Census research data for American privately-held companies.

Nebraska Surveyed Revenue Data:
50% Annual sales of less than $5 million.
44% Sales in the range of $5 million–$100 million.
6% Sales of $100 million or more.

National US Census Data:
94% Annual sales of less than $5 million.
5.8% Sales in the range of $5 million–$100 million.
0.2% Sales of $100 million or more.



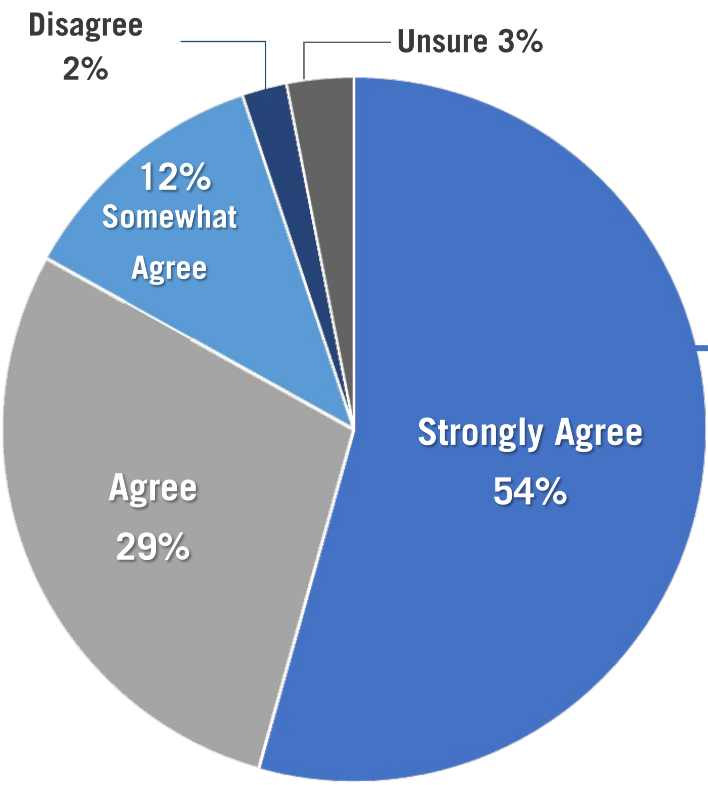
When it comes to business ownership, family matters...
...at least 76% of the time.

Surveyed owners reported the following data when asked about the amount of family ownership that exists in their business:

- 67%: Family Owned (100%)
- 9%: Family/Outside Ownership, Family Controlled
- 5%: Family/Outside Ownership, Outside Controlled
- 9%: Outside Ownership (100%)
- 10%: Public Company or not applicable

95% OF OWNERS *AGREED* WITH THIS STATEMENT:

"Having a transition strategy is important to my future and the future of my business"



AND YET...

The very same surveyed Nebraskan owners reported the following data which proved contrary to the statement that readiness was important:

62% HAVE GIVEN LITTLE TO NO ATTENTION TO EXIT PLAN

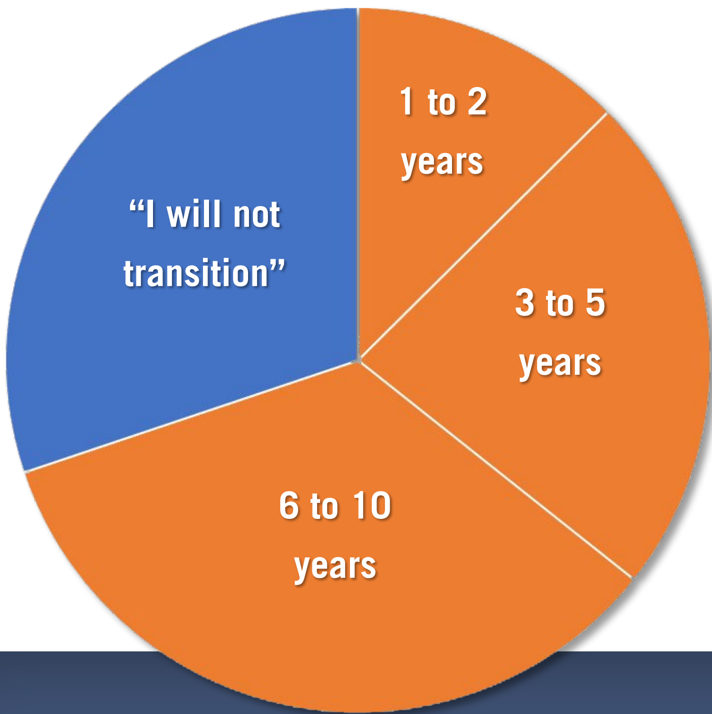
43% HAVE DONE NO PLANNING AT ALL

71% HAVE NO WRITTEN COMPANY TRANSITION PLAN

Unfortunately, most owners didn't know how much is needed to fund retirement and post-business life plans, plus...

66% ARE UNFAMILAR WITH THEIR TRANSITION OPTIONS

81% HAVE NOT ENGAGED WITH OR FORMED A FORMAL TRANSITION TEAM



70% OF NEBRASKAN OWNERS INTEND TO TRANSITION IN THE NEXT ONE TO TEN YEARS.

THANK YOU TO OUR LOCAL PARTNERS

For more research or information, visit www.OwnerReadiness.com.