2023 NATIONAL

STATE OF OWNER READINESS REPORT

Exit Planning Institute®

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CEPA Certified Exit Planning Advisor®

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Letter from the EPI President, Scott Snider

Ten years ago, the Exit Planning Institute (EPI) embarked on a groundbreaking research endeavor in collaboration with several partners—the State of Owner Readiness Survey. This first-of-its-kind survey studied the personal preparedness of business owners for exiting their companies and assessed their companies' readiness for such transitions. At the time, the exit planning profession was still new, with EPI having launched the Certified Exit Planning Advisor (CEPA) credential just eight years prior, marking a significant milestone in the profession's evolution.

What came out of this survey was information that allowed the profession to evolve and better understand the needs of business owners across the United States. Owners were undoubtedly misinformed about what exit planning was and thus ill-prepared for their inevitable exit. Armed with this knowledge, the Exit Planning Institute, alongside our partners and CEPAs, set out to address this gap.

A decade later, this survey reflects a transformed landscape, business owners nationwide are undoubtedly more educated and aware than ever before. They are also more prepared for their exit and focused on blending and aligning the most critical components of a significant exit, known as the Three Legs of the Stool ™: business, personal, and financial. Furthermore, the demographic shifts in the marketplace and the remarkable 40% growth in wealth transfer opportunities underscore the evolving dynamics of the exit planning arena.

The momentum within the exit planning community has never been stronger, particularly as we navigate some of the most critical times in our privately held company market. In 2024, all baby boomers will be 60 years old or older and are rapidly approaching that "retirement" age. Understanding and catering to the unique needs of these owners is paramount as we usher in this new era.

While it's evident that business owners are better prepared today than a decade ago, our collective focus must now shift towards elevating them from merely successful companies to truly significant ones. A significant company is not only highly valuable and transferrable but also aligns seamlessly with the owner's business, personal, and financial goals.

The insights revealed in the 2023 National State of Owner Readiness Report not only showcase the collaborative efforts of our community, but also provide a roadmap for guiding privately held companies and their owners toward this pinnacle of readiness. As we stand on the brink of pivotal times in the privately held company market, let us harness this momentum to propel business owners towards not only success, but significance in the years ahead.

Scott Snider
President, Exit Planning Institute

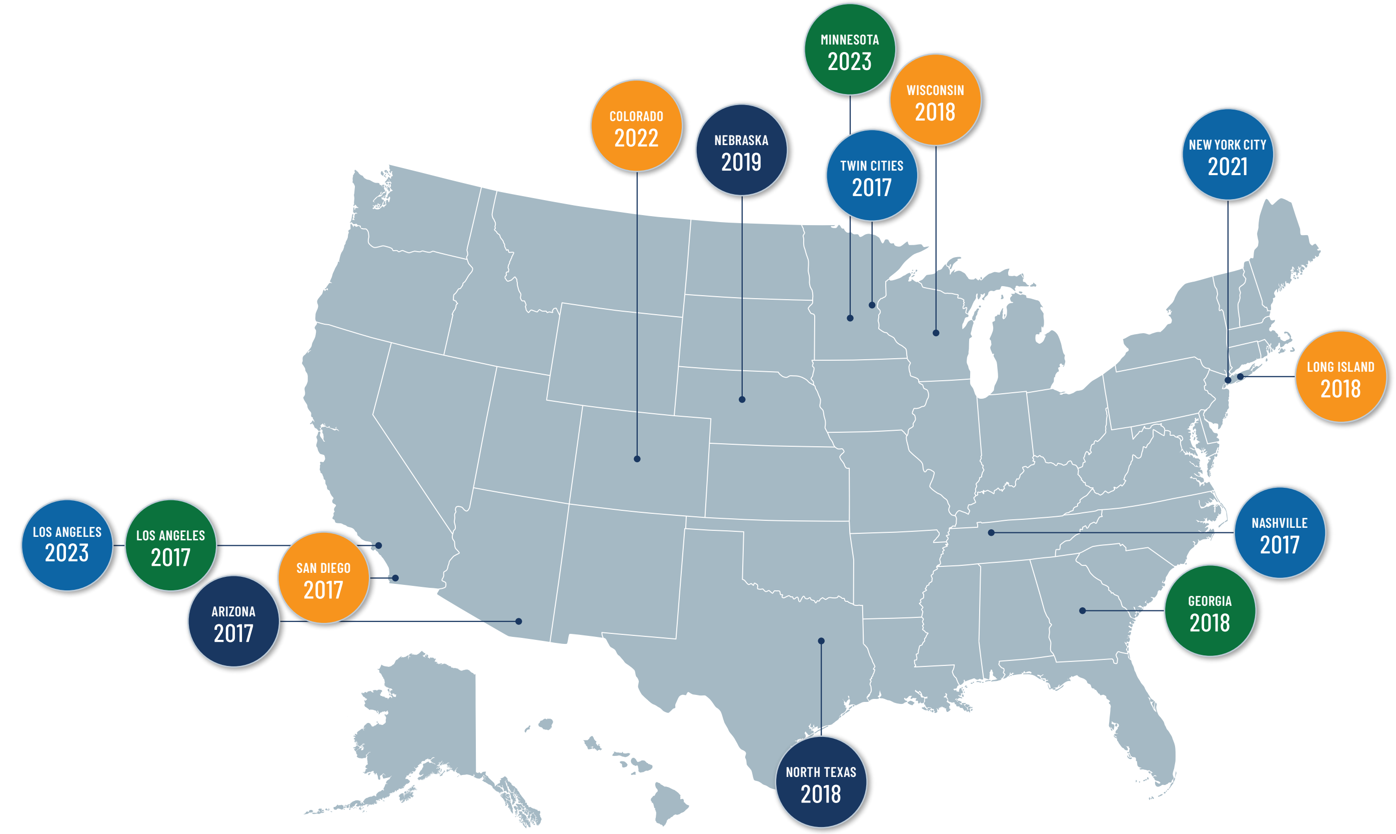
Introduction

1

For the past decade, the Exit Planning Institute has studied the evolving landscape of privately held businesses and their owners to understand their personal preparedness and assess company readiness. This study aims to unravel the nuanced dynamics at the intersection of individual preparedness and business readiness for inevitable exit.

75%

of business owners would like to exit their business within the next 10 years



In 2013 the Exit Planning Institute®, in partnership with the Northeast, Ohio Chapter of EPI, Grant Thornton, PNC Bank, and the Ohio Employee Ownership Center at Kent State University, set out to conduct a first-of-its-kind survey on privately held companies and their business owners. The goal of the survey was to understand how effectively business owners had planned for the exit of their company and how ready the businesses were for transition. Over the course of the next 10 years, the Exit Planning Institute, with dozens of strategic partners, colleges and universities, collaborative associations and institutions, state and local governments, and the media, have produced 14 regional surveys in locations including Los Angeles, Minnesota, Colorado, New York City, Nebraska, Wisconsin, Georgia, North Texas, Long Island, Nashville, Twin Cities, San Diego, and Arizona. Similarly, these research projects studied business owners in the small to lower middle markets, but from a micro level looking at a specific state, region, or county.

Improvements in transition readiness were driven by real actions being performed by business owners, albeit mostly younger owners, as will be revealed later in the report. Younger owners do not just feel or think they are ready to transition; they are demonstrating their readiness with actual actions. These include written goals and objectives, written action plans, and written personal and financial plans. Owners also shared they had formalized personal and business readiness assessments, formalized education, engaged outside advisors, and involved family in their planning. Additionally, the respondents have obtained formal business evaluations and completed contingency planning. Overall, these tendencies for making exit planning a priority and using exit planning as a catalyst for business, personal, and personal financial planning to build wealth and improve business continuity is great news for business owners and business owner advisors.

For advisors, exit planning is now an accepted profession which owners view as a needed skill and as a priority. For business owners, these actions should result in the improvement of transition rates allowing more owners in the future to unlock the wealth trapped in their businesses, improve business health and continuity for their families and communities, adding trillions of dollars in economic and social value in the years to come. The State of Owner Readiness Report shows that 75% of business owners would like to exit their business within the next 10 years. That means it is possible that 4.5 million privately held businesses will transition within the next 10 years representing nearly $14 trillion of business wealth at stake. Further analysis, observations, and commentary are provided in the remainder of this report.

In collaboration with multiple independent research companies, a total of 1,162 unique responses were gathered from business owners spanning across the United States of America. This extensive and geographically diverse pool of participants enriches the depth and breadth of our findings, providing a well-rounded perspective on the state of owner readiness in the nation.

Executive Summary

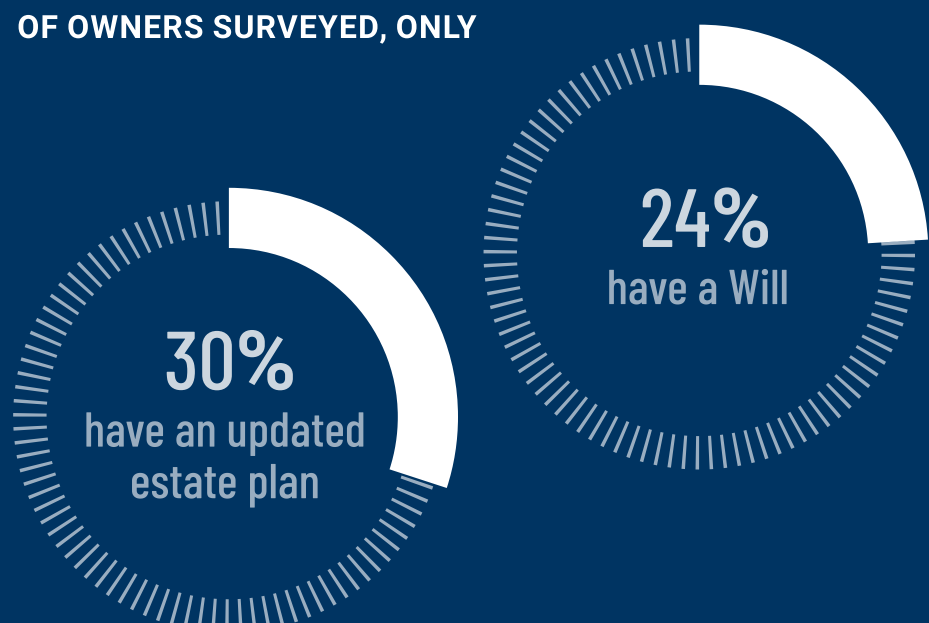
There has been a significant shift in generational ownership lowering the average age of the business owner.

Younger owners demonstrate a greater inclination towards embracing exit planning compared to baby boomers.

THE $10T OPPORTUNITY IS NOW A $14T OPPORTUNITY.

Use of estate planning as a tool to protect and transition wealth has not increased.

OF OWNERS SURVEYED, ONLY



50%

Increase in contingency planning from 2013 to 2023

69%

of business owners identified exit strategy on their priority list

vs only a historic 6%

Education, awareness, and readiness to transition have vastly improved and are supported by real actions by owners to better prepare themselves.

Younger owners are involving family in their plans and communicating more with family. Younger owners strongly favor an internal exit option, if possible, in particular a family transition, versus a sale to a third party.

Millennials have entered the market and show even greater aptitude for exit planning than Gen X and baby boomers.

Owners are much more aware of all exit options than in the past. In 2023, 70% report being aware of all their exit options versus only 34% in 2013.

There has been a significant shift in who owners see as their most valued advisor. Financial Advisors have become the most trusted advisor moving from fifth to first. The CPA has moved from first to third most trusted.

Use of outside advice has increased. Owners are presently seeking outside advice compared to 2013, with a notable increase in the engagement of outside boards.

Formal business valuation within the last two years has improved from only 18% in 2013 to 60% in 2023.

Despite a slower uptake in exit planning among baby boomers, their enduring impact remains significant as they continue to own 51% of privately held businesses (3M+ valued at nearly $10T). With the youngest of this generation reaching 69 years old in a decade, and the majority surpassing 78, there's a pressing need to address exit strategies. There is a positive trend driven by Gen X and millennials, who prioritize exit planning and proactive preparation for business transitions.

Notable Market Changes from 2013 to 2023

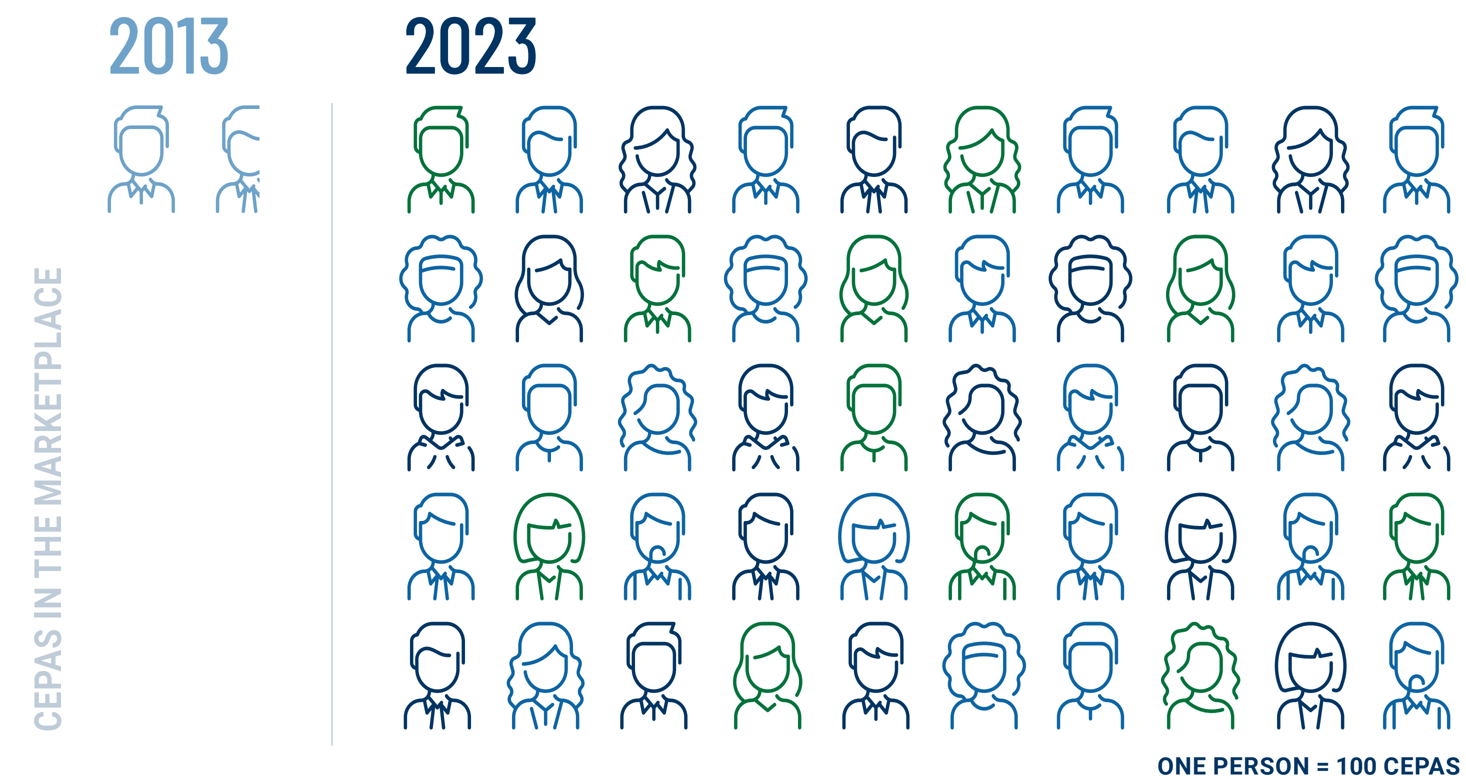
The 2013 National State of Owner Readiness Survey (SOOR) demonstrated that micro and middle market business owners were ill-prepared and unaware of the benefits of proper planning, failing to seek advice or education around the process or topic of exit strategy, and therefore certainly lacked action. The professional advisory community undoubtedly needed to come together around a common framework and comprehensive team approach toward educating business owners and delivering exit planning services.

The market has shifted significantly over the 10 years between surveys.

- Business owners are more educated about transition readiness than they were 10 years ago. As a result of exit strategy awareness, the level of readiness to transition has grown significantly. The average age of the business owner is much younger as business ownership has shifted from baby boomers to Gen X over the last 10 years. As a result, baby boomers are less influential and Gen X owners are more influential. Additionally, more millennials have entered the market of business ownership.
- The number of credentialed advisors specializing in exit planning has grown 28 times.

Not only are business owners more educated and aware of the effectiveness and need for an appropriate exit strategy but the demographics within the United States of America have shifted. In 2013, 67% of American privately held companies were owned by baby boomers whose age ranged at the time from 49 years old to 67 years old. Those baby boomers in the 2013 National State of Owner Readiness Survey represented 73% of the respondents. The average age in the US in 2013 was 51 years old. Currently, baby boomers span from 59 to 77 years old, with the average age in the US being 39 years old, and comprising only 19% of the total respondents. In 2023 the average baby boomer is 67 years old with US News reporting that the retirement age in the US is 62 years old. By the end of 2024, all business owners will turn 60, a significant milestone that may further prompt considerations of succession planning. Ernst & Young reports that the average family business owners begin to think about succession at age 63, underscoring the importance of proactive planning in ensuring smooth transitions and continuity for businesses.

Over the last 10 years exit strategy awareness has grown significantly. A simple Google search of the term “exit planning” yields nearly 1.2 billion results. Major institutions such as UBS Financial Services, Merrill Lynch, Edward Jones, Raymond James, Morgan Stanley, Bank of America, BDO USA, PricewaterhouseCoopers, CBIZ, CliftonLarsonAllen, Marcum, PNC Bank, JP Morgan, John Hancock, the Small Business Development Centers of America, amongst others across the US have embraced helping small to lower middle market business owners grow value in their company, align personal and financial goals, and exit successfully. These institutions have invested in strategies to better engage and support



the business owner. Additionally, they have spent millions of dollars investing in education and resources for their professional advisors to better equip them with the knowledge and tools necessary to drive significant exits for owners.

The Exit Planning Institute, now the global authority in the exit planning space, has grown from 180 Certified Exit Planning Advisors® (CEPA) in 2013 when the first survey was conducted, to over 5,000 CEPAs. Additionally, EPI has established a robust chapter network, online education platform, and renowned conference to support nearly 20,000 professional advisors annually. The Value Acceleration Methodology™, launched by EPI in 2013, has become the most widely accepted and endorsed process for effective exit strategy in the market today, becoming the foundation for where to start the exit planning engagement.

Today the market has shifted from 67% of privately held companies owned by baby boomers to 51% owned by baby boomers. 43% are owned by people between the ages of 36 and 58 years old–a notable generational shift when dissecting and analyzing this State of Owner Readiness Survey data. Understanding generational characteristics is a critical element in effectively connecting with the business owner and delivering exit planning. It is important to note commonly accepted generational characteristics when studying the research results. A notable characteristic for baby boomers is that one of their core values is success. They are the inventors of the 60-hour work week and they have an amazing ability to navigate crisis, a characteristic that has taken them through a Great Recession and a global pandemic amongst others in their business owner career.

Generation X, those between the ages of 44 years old and 58 years old, representing 39% of the respondents in the 2023 survey, value their time. Notably, they believe in working smarter not harder, are conversative investors, believe in saving money, and naturally yearn for a work-life balance. In the 2013 National State of Owner Readiness Survey these business owners were young in their careers ranging from 34 years old to 48 years old and represented 20% of the total respondents. Finally, millennials today range from 29 years old to 43 years old. Notable characteristics of this generation include ambition and entreprenurial spirit, and they earn to spend. Yet they may lack clear direction or focus, often prioritizing earning for immediate spending. They represent 21% of the respondents in the 2023 survey and too young to be represented in the 2013 National State of Owner Readiness Survey.

In the 2013 National State of Owner Readiness Survey there were two key findings:

1. **A lack of planning and overall communication regarding exit strategy**
2. **A total disregard to personal planning for life after exit in the next phases of the business owner’s lives**

Only **9%**

of business owners in 2023 have no plans at all for their exit

Lack of Planning and Overall Communication

In 2013, 83% of the respondents did not have a formal exit plan while 81% of the respondents reported they also had no strategic business plan in place. However, 48% of respondents indicated they wanted to transition in the next 5 years and 76% indicated the next 10 years as their exit target. This statistic remains steady in the 2023 survey as 49% of respondents shared they wanted to exit within the next 5 years and 75% stated a 10-year goal.

Proper planning and communication start with the business owner seeking advice. Though the timeline for exit remains the same, business owners in 2023 are seeking advice and seemingly putting planning into action. In 2013, when the business owners were asked if they had sought outside advice regarding their exit, only 38% of respondents expressed they had.

Today, 68% of respondents shared they had sought outside advice on the exit.

Lack of communication regarding the eventual and inevitable exit continued into the family. 77% of the 2013 respondents declared that they were 100% family-owned, however, only 35% of the respondents said they had communicated any exit or transition plans to their family.

Historically, personal planning has been the most neglected aspect of exit planning and tends to be very emotional in nature. PwC research indicates that 75% of business owners profoundly regret selling their company just one year after selling it. In 2013, the respondents felt similar. 62% of the 2013 business owner respondents said they felt below average emotionally about the eventual exit of their company and transition into the next phase of their life. We believe this emotional response is due to 96% of 2013 respondents having no formal plan for life after their business. In comparison, 41% of the 2023 business owner respondents stated they had a formal, written plan for what they would do after selling their company and 50% said they had an informal plan they had thought through. Leaving only 9% of business owners in 2023 that had no plans at all, which is a complete shift in business owner perspective and planning.

Respondent Demographic Data

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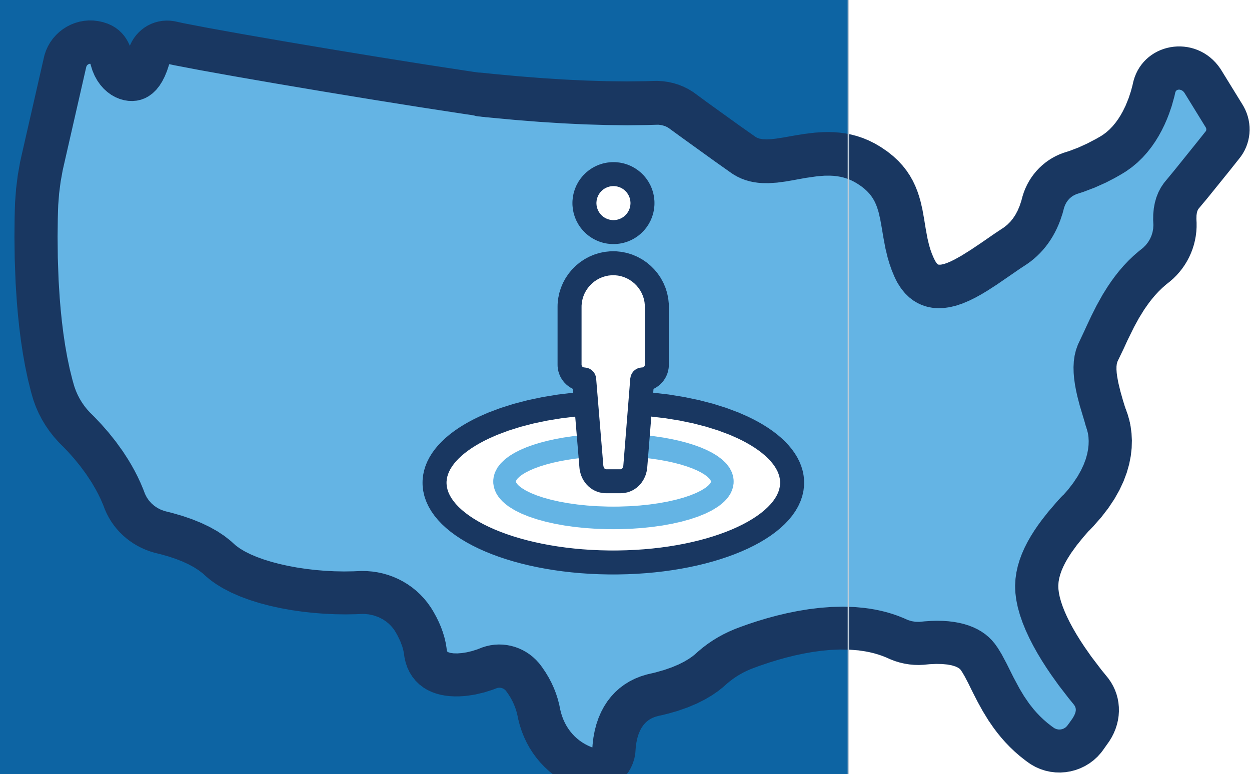
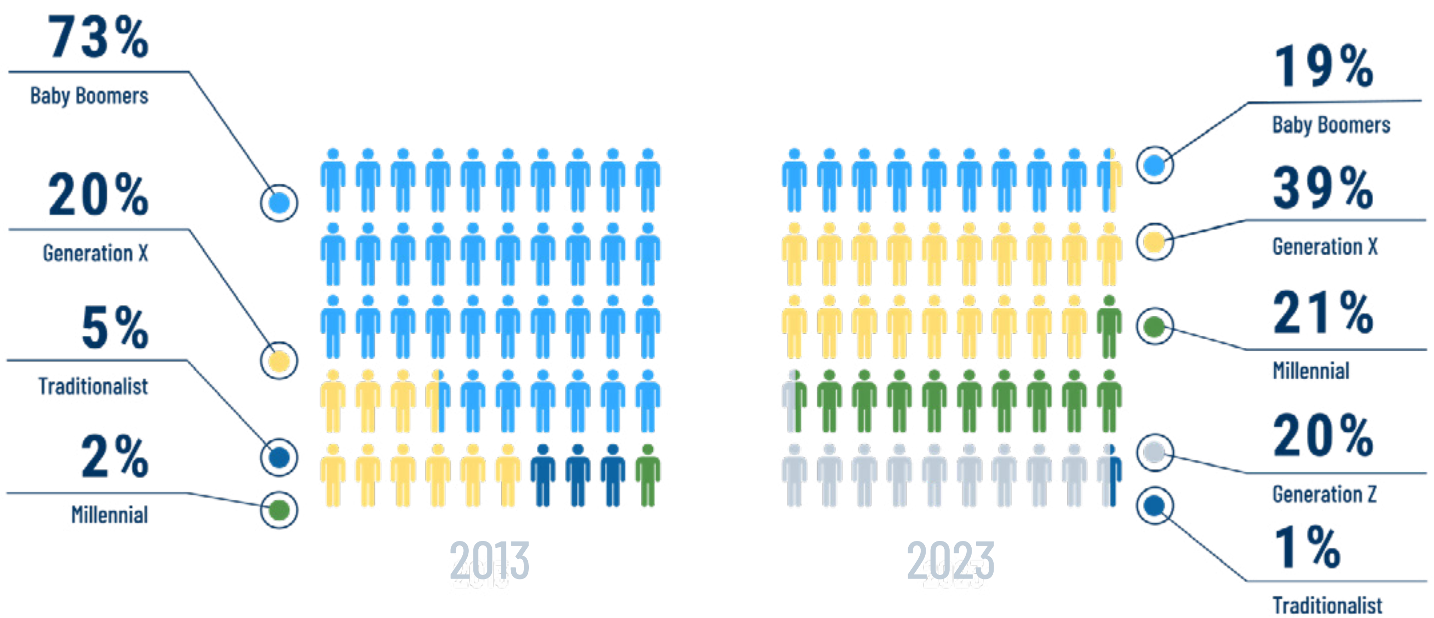
Over 1,162 business owners from across the United States of America were surveyed for this National State of Owner Readiness Report. They represented all generations and each region of the country.





What is your age?

Compared to the 2013 National State of Owner Readiness Survey, significant transformations are evident in the business owner segment, possibly indicating a notable shift in business ownership dynamics within the country. In 2013, merely 22% of the surveyed business owners reported being 50 years old or younger. The largest group, constituting 73% of all business owner respondents, stated they were between the ages of 50 and 70, while 78% indicated they were 50 years old or older.

The response group in the 2023 National State of Owner Readiness Survey was split amongst four generations but 99% were representative of the major four generations we see active in the market today: Generation Z, millennials, Generation X, and baby boomers. 20% of the respondents were younger than 26, representing Generation Z. 21% of respondents were between 27 and 42 years old, representing the millennials, 39% between the ages of 43 and 58 representing Generation X, and 19% were baby boomers between the ages of 59 and 77. The remaining 1% were 77 years old or older.

The response group diverges from United States Census data, which reveals that the population of the United States is approximately 336 million people. Upon further examination of this data, 58% of the population falls under the age of 44. Among them, 20% belong to Generation Z and are less likely to have started their own businesses yet, while 27% belong to the millennial generation. Furthermore, 18% of the population is aged between 45 and 59, representing Generation X, and 17% fall within the age range of 60 and 74, belonging to the baby boomer generation. The median age in United States of America is reported to be 39 years old.

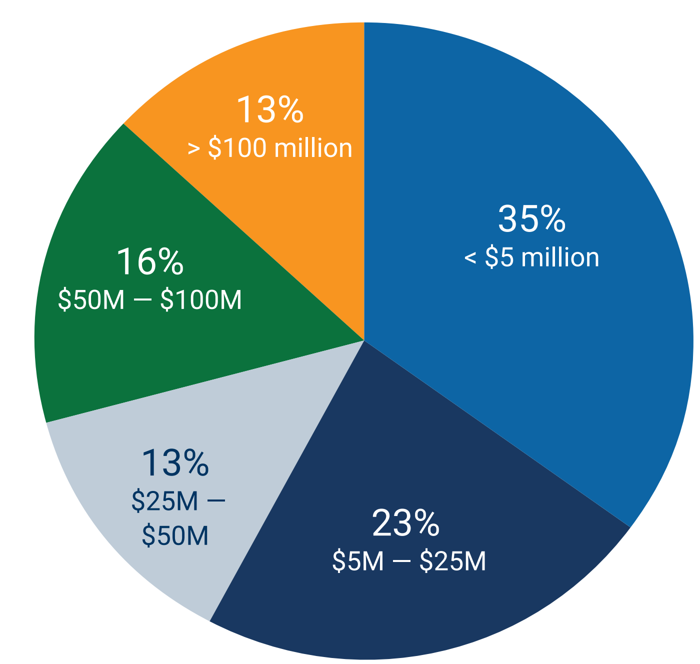
What is your company's annual revenue?

The 2023 survey revealed that 35% of the respondents reported revenue below $5 million, while 23% fell within the $5 to $25 million range. Additionally, 13% indicated revenue between $25 to $50 million, 16% had revenue between $50 to $100 million. Notably, 13% of the respondents stated their annual revenue was over $100 million.

These findings reflect a thriving small business market that has grown since the 2013 National State of Owner Readiness Survey. Our 2013 survey reported 75% of the sample owners owned companies with an annual revenue of less than 25 million: a group that accounts for 58% of businesses surveyed in 2023. In 2013, 35% of owners businesses making less than 5 million annually. 40% made between $5 and $25 million in annual revenue, 15% between $25 and $100 million, and 10% made over $100 million in annual revenue.

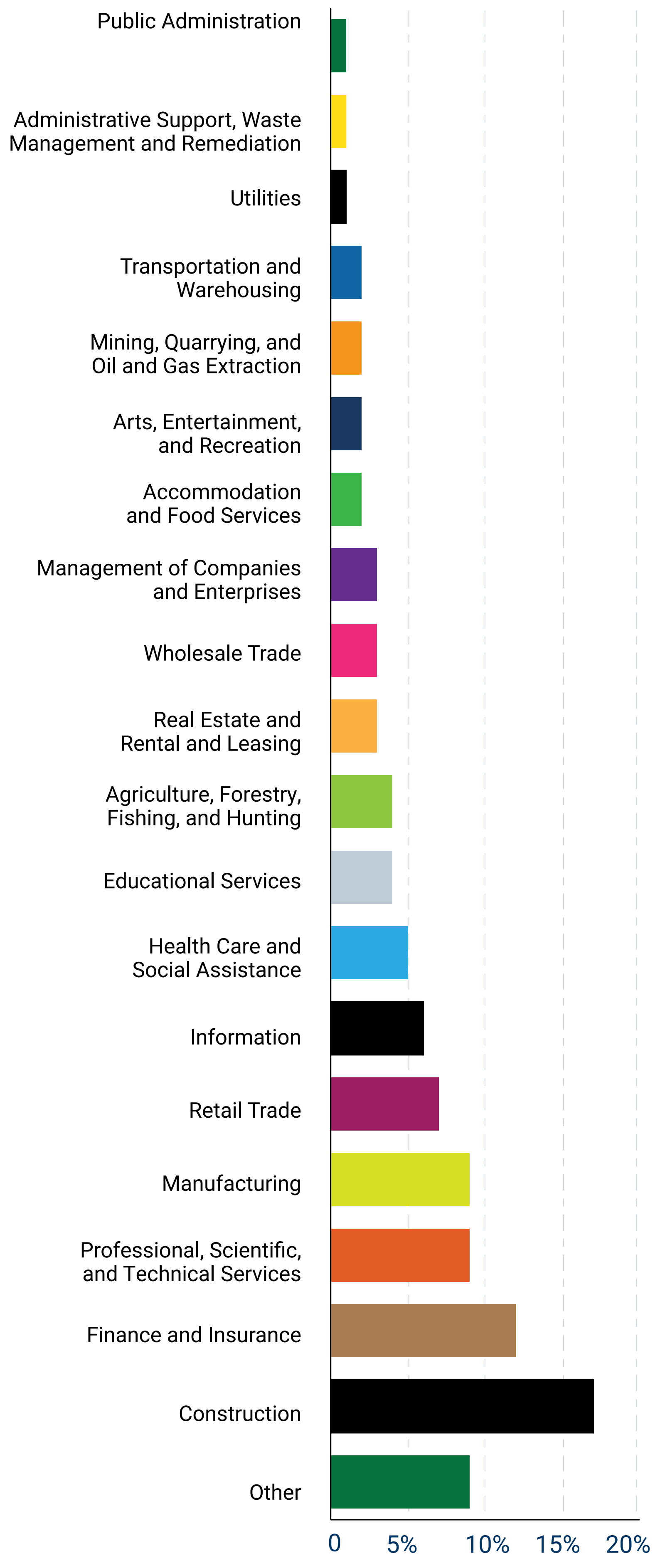
Presently, the United States is home to 32,482,000 small businesses representing over $38.66 trillion in sales. Small businesses employ 62 million Americans, according to the U.S. Small Business Administration.
This is equivalent to nearly 19% of the overall population.

In comparison, data from the US Census shows that 93% of all privately held operating companies achieve $5 million in sales or less, while nearly 6.5% achieve revenue between $5 million and $100 million, and only 0.4% reach revenue levels exceeding $100 million. The response group in this survey presents a unique and potentially robust set of privately held companies generating $100 million or more in revenue, given that past State of Owner Readiness Surveys indicated less than 6% fell into this category.



What Industry Are You In?

The business owners who responded to this national survey represented over 25 different industries. The top three industries reported are: Construction (17%), Finance and Insurance (12%), and Professional, Scientific, and Technical Services (9%).

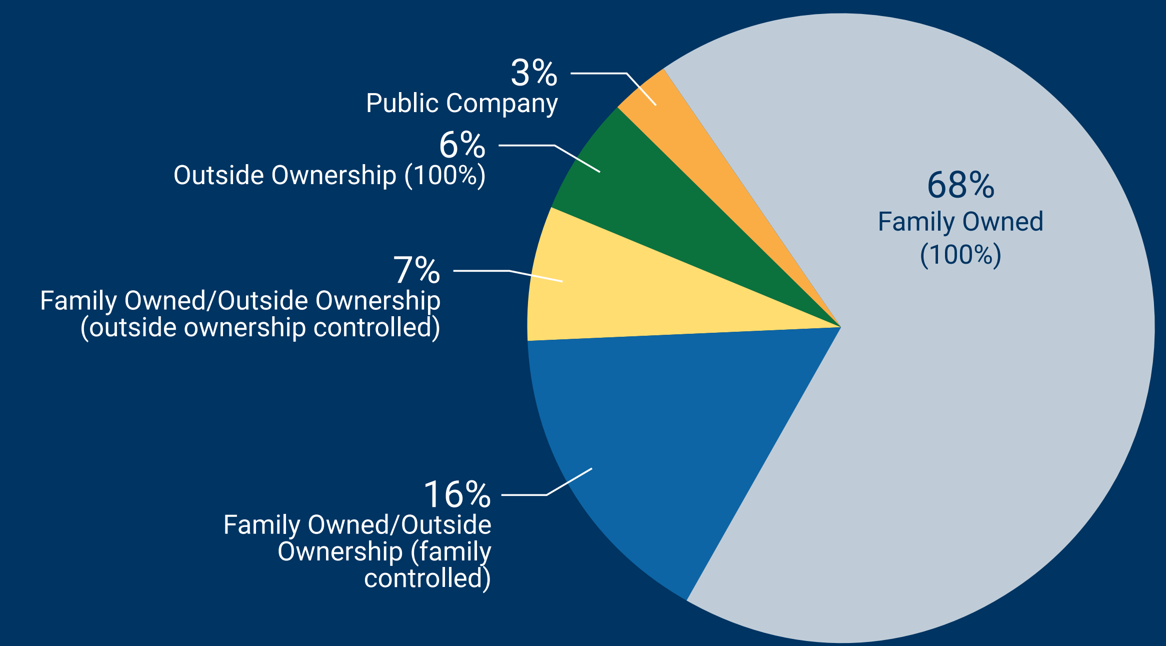


How is Your Business Organized?

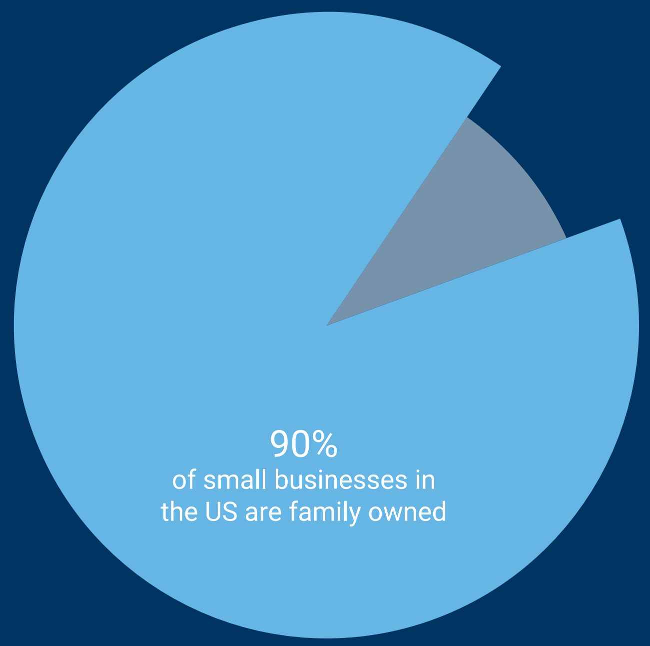
68% of responding business owners' businesses were completely family owned.This is similar to the 2013 National State of Owner Readiness Survey, which showed 77% of respondents' businesses were completely family owned.

US Census Bureau data, indicates that 90% of small businesses in the US are family owned. However, the 2023 State of Owner Readiness survey includes categories like "Family Owned with Outside Ownership" and "Outside Ownership Controlled," indicating 91% of our respondents have some family ownership. Among the respondents, 16% indicated their companies were family-controlled with outside ownership, and 7% reported being family-owned but controlled by outsiders.

Examining the family companies further, 47% were in the 1st generation, 33% in the 2nd generation, and nearly 15% in the 3rd generation. 58% of the respondents from the 2013 National State of Owner Readiness Survey indicated they were 1st generation owners. Furthermore, 61% of these companies were started from scratch rather than being gifted or purchased from family members or third parties.



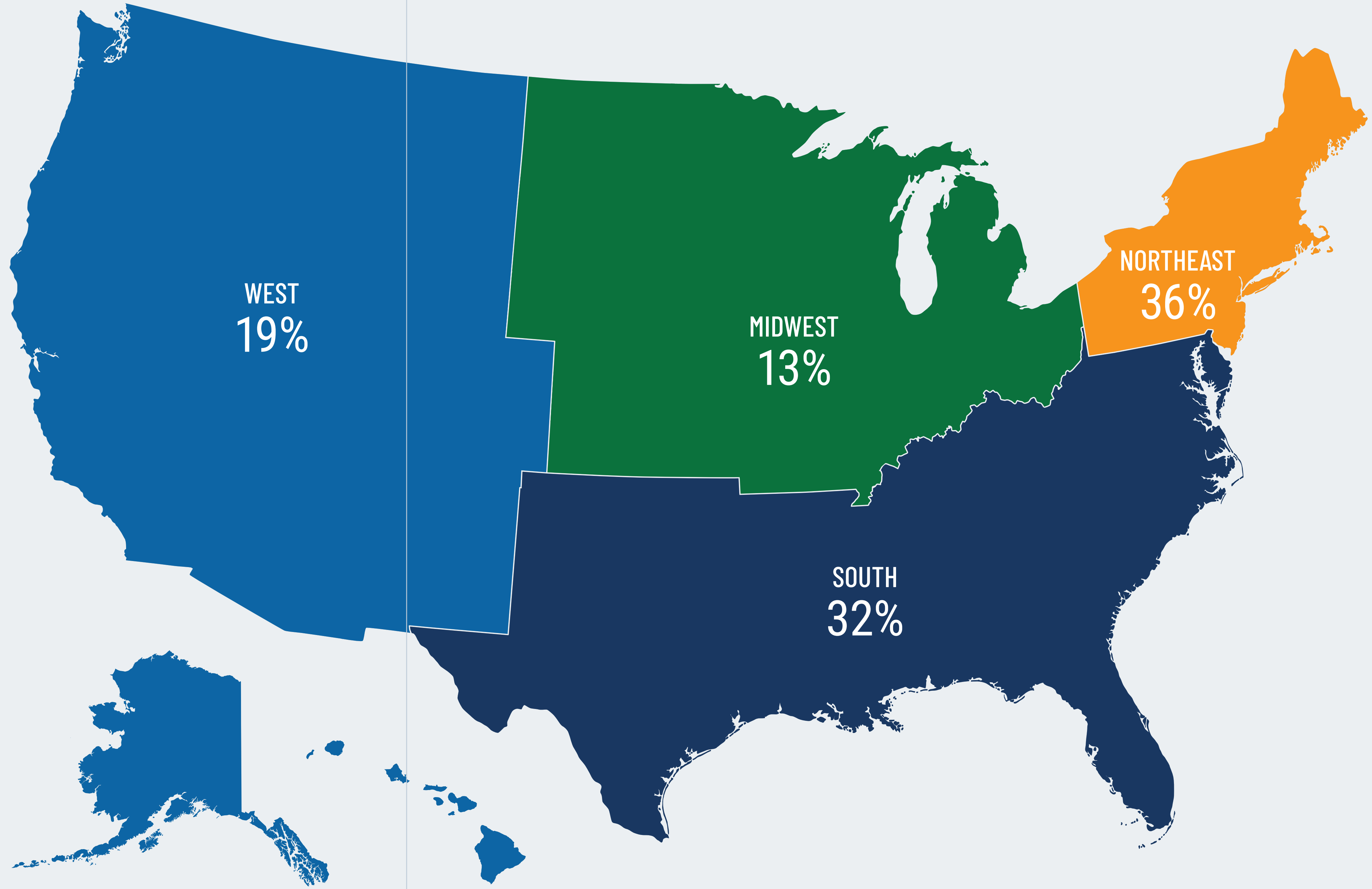
2023 STATE OF OWNER READINESS SURVEY DATA

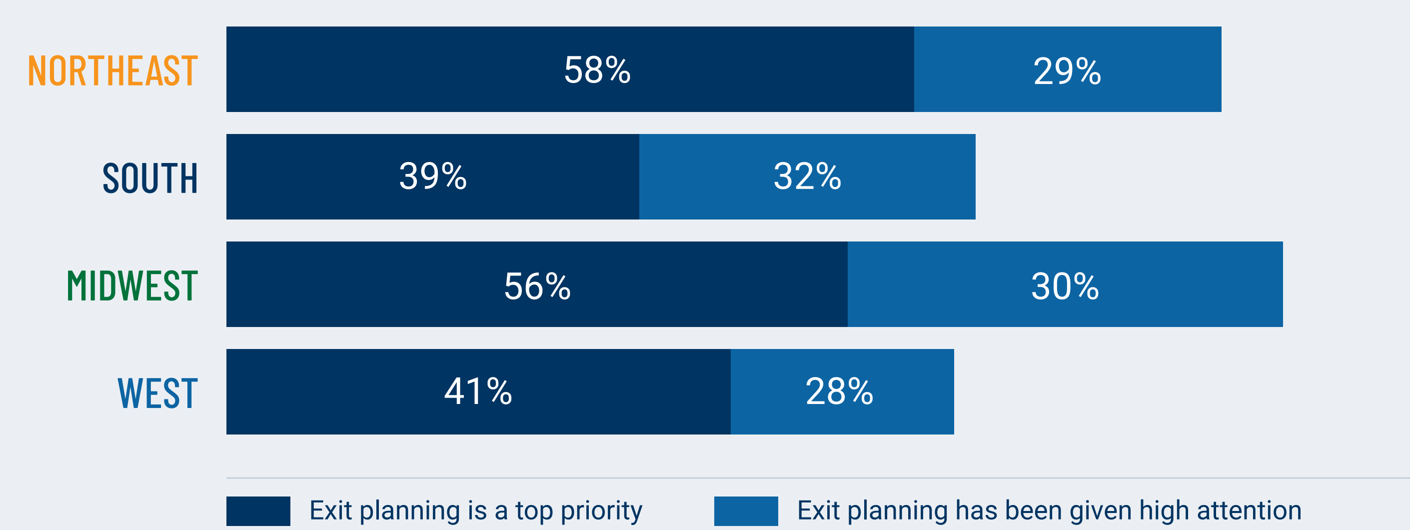


US CENSUS BUREAU DATA

Where Is Your Business Located?

Of the respondents to the 2023 National State of Owner Readiness Survey, each region of the United States is represented. 36% of the respondents hailed from the Northeast, 32% from the Southern region of the United States, 19% from the West, and 13% from the Midwest. As we delve deeper into the data collected through this national report, regional readiness trends become more prominent. For example, when owners were asked, "How would you describe the attention you have given to your exit up to this point?" owners from the Northeast communicated the highest level of attention with 58% stating their exit was their top priority and 29% indicating their exit was given high attention. Those in the South were least focused of the four regions, with only 39% of owners selecting that exit strategy was their top priority and 32% sharing it was given high attention.

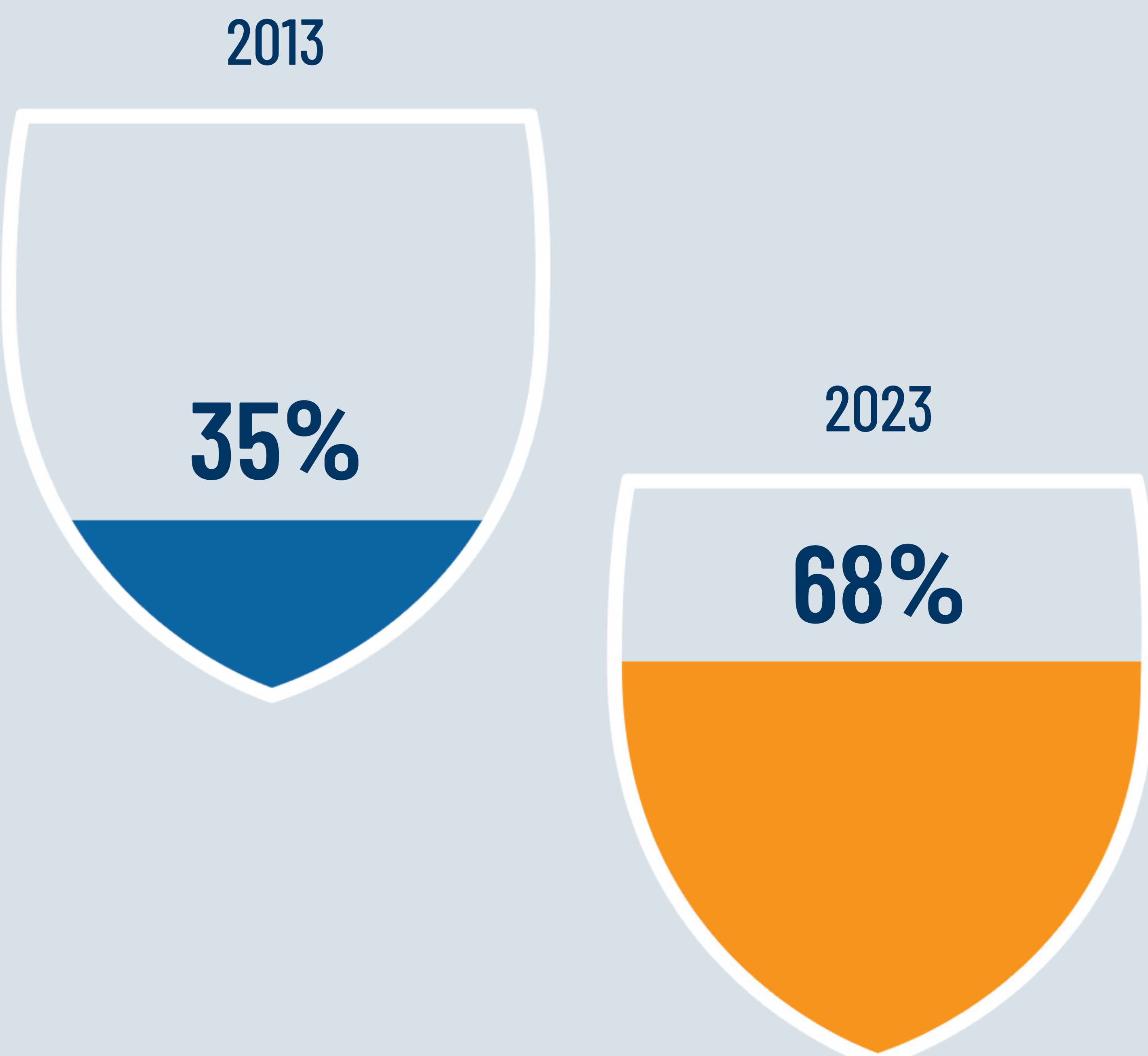




Education & Awareness

3

An educated business owner is more likely to take action than those who are not.



PERCENT OF OWNERS WITH FORMAL EXIT PLANNING EDUCATION

In 10 years, business owners have gone from poor preparation and misinformation about the importance and impact of exit planning to improved readiness.

The first step in exit planning is education about exit strategy. A business owner must understand the concepts, framework, and process before they can act. An educated business owner is a better and more empowered business owner. The 2023 data shows that business owners have more education on all Three Legs of the Stool™ than they did 10 years ago. The Three Legs of the Stool is the organizing principle of exit planning: business, personal, and financial. To have a successful and significant exit, an owner must have all three legs blended and balanced.

In 2023, **68% of business owners indicated they had completed formal education related to exiting their business.** These programs can come through colleges and universities, chambers and owner facing organizations like Entrepreneurs Organization (EO) or Vistage, institutions like Exit Planning Institute, or directly from their advisors through organized platforms such as owner roundtables and owner forums. In 2013, only 35% of business owners revealed they had completed formal education on exit strategy.

Greater Awareness of All Exit Options

By making an intentional effort in education, business owners have become more aware of their exit options. In 2013, 66% of business owners indicated that they did not understand their exit options. Whereas in 2023. **70% of business owner respondents shared they are knowledgeable of all their exit options.** This is a major advancement for business owners, their families, and their professional advisors.

Knowing which options are available to you as a business owner helps to guide exit strategy, keep options open, and help you consider which options are most effective. In addition, it allows for the business owner to execute a hybrid exit model which allows the business owner over time to shift and reinvest into other diversified investments separate from their personal financial plan. This is a crucial aspect of mitigating risk to the overall personal financial portfolio of the business owner long term. When business owners were asked which options they favored, internal transition or external transition, 70% stated they preferred an internal option. In 2013, 53% of respondents preferred external transitions. The top-ranking internal option by 2023 respondents was a family transition. 13% of business owners in 2023 were unsure if their option would be internal or external at the time they completed their survey.

The Most Trusted Advisor for Business Owners is...

Business owners are seeking advice from outside professional advisors and therefore becoming more educated about exit planning. This intentional action has had a deep impact on who the business owner believes is their most trusted advisor. In 2013 the Certified Public Accountant (CPA) was the clear frontrunner. However, in 2023 there has been a significant swing, Financial Advisors are the most trusted advisor.

2013		2023
Accountant	1	Financial Advisor
Peer Group	2	Attorney
Spouse	3	Accountant
Attorney	4	Spouse
Financial Advisor	5	Banker

This shuffle in the top five most trusted advisor rankings is influenced by two major factors. First, both the age range and demographics of the business owners taking the survey. Second, the deep investment into education, training, content building, owner education and engagement, branding, and positioning that the financial advisory profession has made in exit planning over the last six years.

From a demographic perspective. Generation X tends to lean into advice, feedback, and education. Something that the financial advisors have tapped into over the past several years. The Gen Xers tend to be more conversative in their financial planning views, feel concerned about retirement, and seek a more balanced life. All important characteristics in personal and financial planning. The baby boomers, 19% of the total respondents, turn 60 years old in 2024. With the traditional retirement age looming, and the average boomer at 67 years old, they begin to seriously look to financial and estate planning as they consider the exit from their business. Considering that their business is likely 80% or more of their entire net worth and they need the income from their company to fund their current lifestyle.

According to DealWare, Baby Boomer business owners in 2022 who sold their company within this age range indicated health, age, uncertain economic outlook, and high valuations as leading factors in deciding to sell and exit their company. Personal financial planning, mitigating financial risk, appropriate estate planning, managing their Wealth Gap, and personal planning are all factors that would lead to the top two most trusted advisors, the financial advisor and attorney, being this generation's most trusted.

Generation X, the largest group in the 2023 survey, also naturally gravitate towards their financial advisor given their generational characteristics. Widely known as a generation who builds companies to sell; they are savers, understand their personal plans, and likely have long term personal plans built with visions and core values for their life and family.

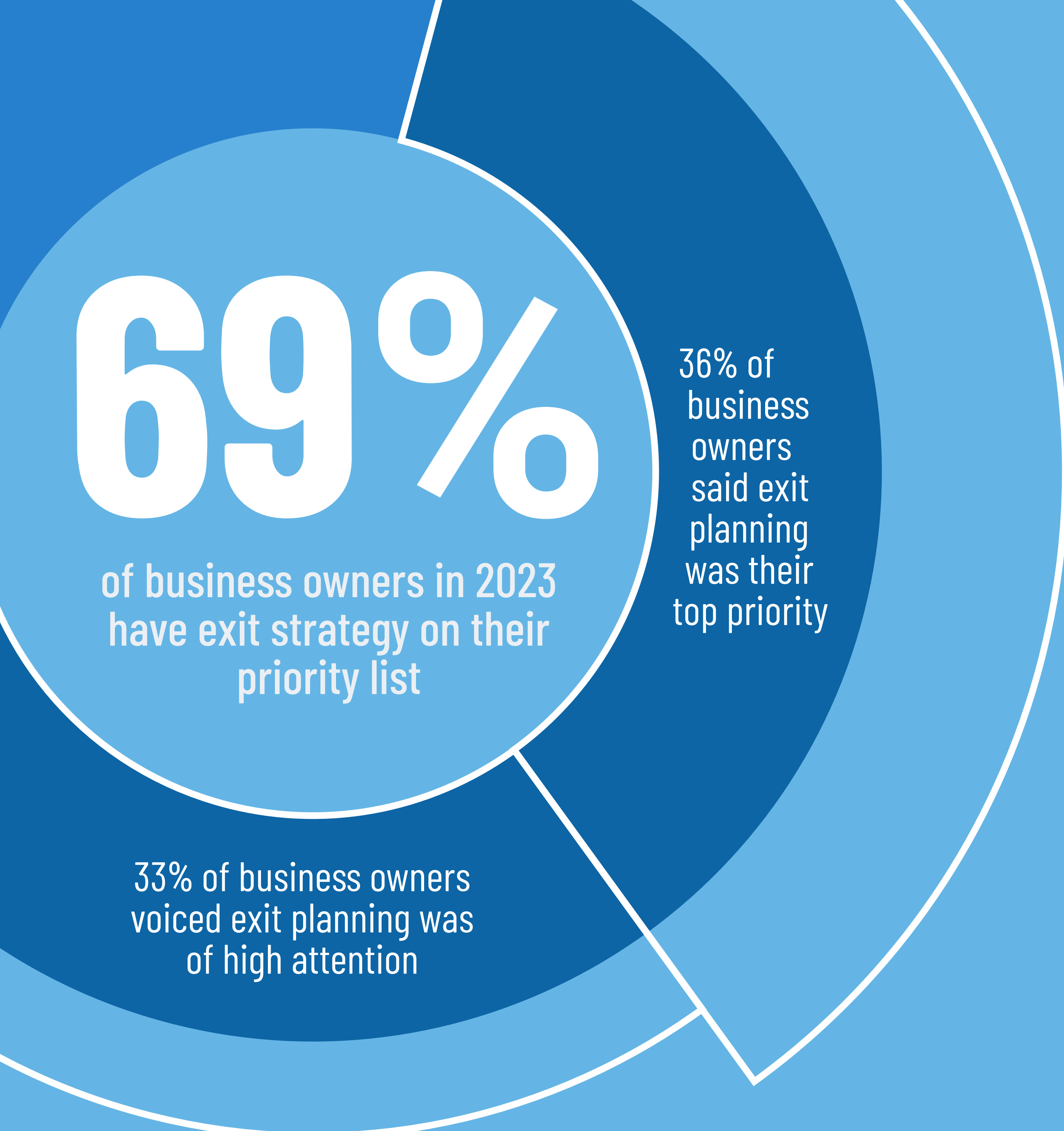
Lastly, one cannot discount the tremendous effort and investment the financial services industry has placed into connecting and engaging with business owners who look to build value and align personal and financial goals. As noted in the introduction, the investment by the financial advisory community has been widely impactful over the last 10 years, likely leading them to become the most trusted advisor in 2023.

It is important to note that the top three most trusted advisors represent three of the four most critical advisors on the owner's core team. The missing advisor is the value growth advisor. The value growth advisor would focus on the business improvement path for the owner. However, this advisor may in fact be the CPA or part of a full-service accounting firm. Overall, with a Financial Advisor, Attorney, and CPA represented, all three legs of stool are covered.

In addition to actively seeking outside advice from professional advisors, more business owners than ever before have also formed advisory boards made up of fellow business owners, executives, advisors, family members, and others who the owner uses as a sounding board. This statistic has changed drastically over the last decade.

In 2013 when business owner respondents were asked if they had a formal outside of board of advisors, 92% of the respondents said no. In the 2023 State of Owner Readiness Survey, that number has decreased by more than half down to 44%. 56% of respondents in this report selected that they have a formal outside board of advisors.

This board of advisors is a present feature in the owner's operations and is utilized frequently. 49% of the respondents indicated they met with their board monthly and 36% stated they met on a quarterly basis.



Since exit planning education and awareness have increased in the last 10 years, it's no surprise that 95% of business owners surveyed in 2023 say having a transition strategy is important to their personal future and the future of their company. Similarly, 36% report that exit planning is their top priority and 33% say it captures "high attention" for them--meaning a majority of business owners surveyed have exit strategy on their priority list.**Yielding 69% of business owners in 2023 who have exit strategy on their priority list.**

National data like this compares reasonably with the Minnesota regional surveys, conducted in 2017 and 2023. Minnesota also saw improvements in prioritizing exit planning--moving from 6% saying it was their top priority in 2017 to 28% in 2023. This is a significant advancement for both professional advisors and business owners as regional and national data shows similar results.

Yet there is still work to be done. There is a difference between the business owner's education and awareness level and their state of readiness and preparedness. The National State of Owner Readiness Survey relies on self-reporting from business owners when it comes to analyzing the readiness and preparedness factors. If business owner were to sit with a certified professional within exit planning, the professional would understand objective facts about the owner's level of personal preparedness and their company's readiness. Readiness must be determined from the buyer's perspective not the current owner's perspective, though the survey certainly uncovers important details about where business owners see themselves in relation to exit planning. The key difference between the National State of Owner Readiness Surveys conducted in 2013 and 2023 is that the owner's education and awareness level is tremendously different. The 2023 survey undoubtedly shows a high level of education and awareness which does play a contributing factor to their overall readiness.

Analysis of the Three Legs of the Stool™

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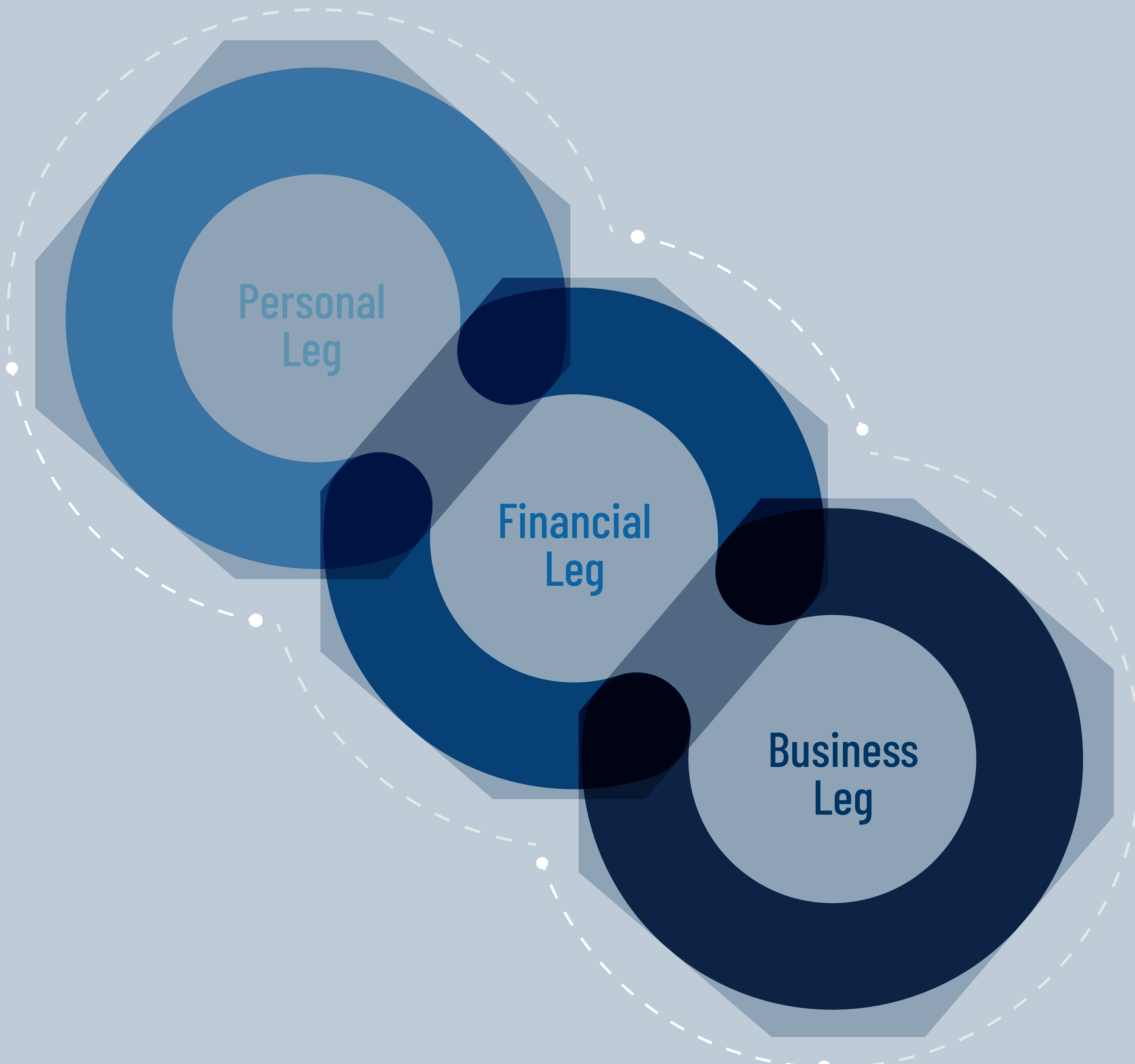
This framework for exit strategy— adopted and integrated by thousands of small to lower middle market companies over the last ten years—has become the standard of the exit planning profession.

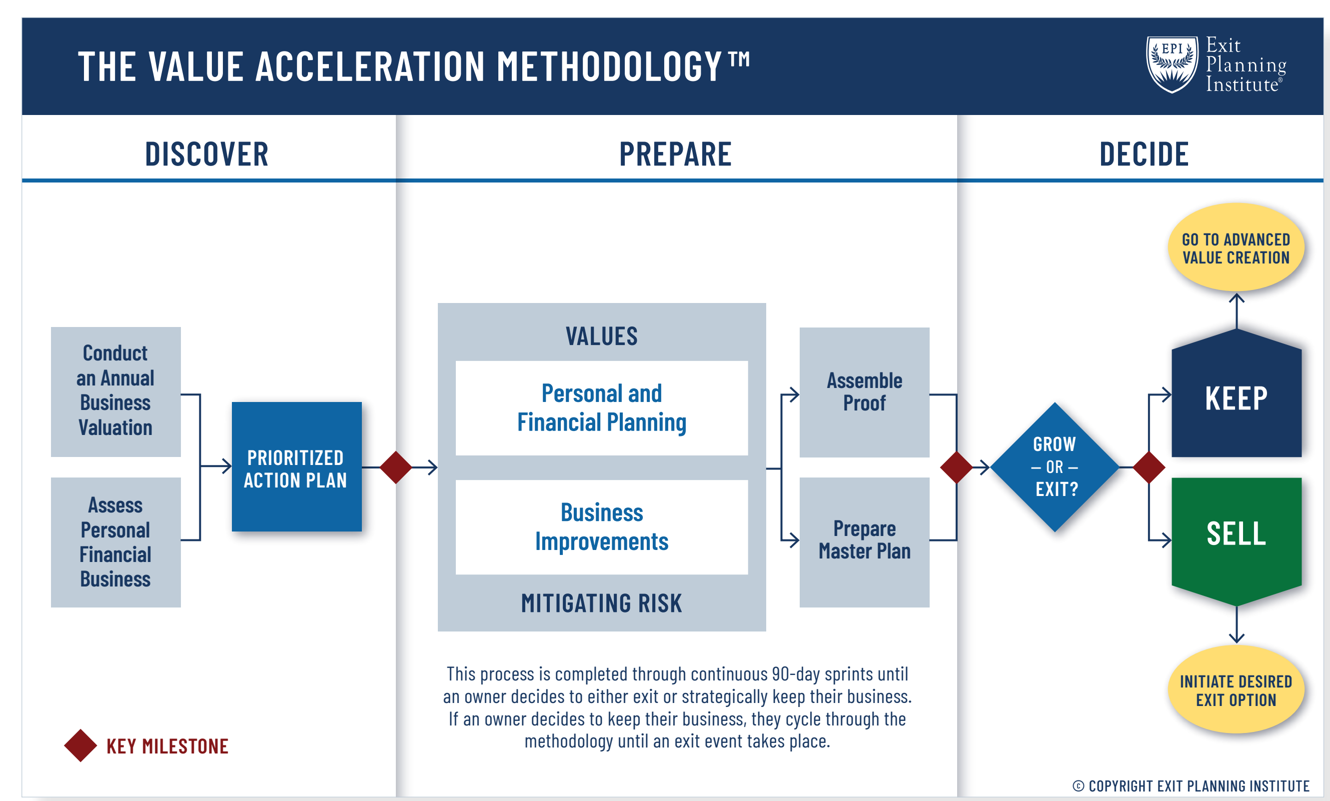


The Three Legs of the Stool: Business, Personal, and Financial, are key elements in defining readiness.

The National State of Owner Readiness Survey analyzes the companies' readiness to transition and the owners' personal preparedness for this transition.

In the 2023 National State of Owner Readiness Survey, we studied business owners from three perspectives: personal, financial, and business readiness to transition. These three elements, referred to as The Three Legs of the Stool, compose the organizing principle of the Value Acceleration Methodology. The Three Legs of the Stool has been adopted and integrated over the last 10 years by thousands of privately held (or micro and middle market) businesses and has become the standard of the exit planning profession.

In 2013, the national survey concluded that micro to middle market business owners were clearly not doing enough to successfully manage the transition. The survey made clear that owners and their advisors needed to do better at defining best practices and executing an exit strategy.



The Personal Leg

Most advisors and business owners believe that exit strategy begins with the business. It's easy to think so, since the business is on average 80% of the owner's net worth and often the largest asset in the owner's personal financial portfolio. It is critically important that the owner mitigates risks and accelerates the value of this asset.

However, exit strategy begins with a two-part personal question.

1. **Who are you outside of your business?**
2. **And what are your goals in life?**

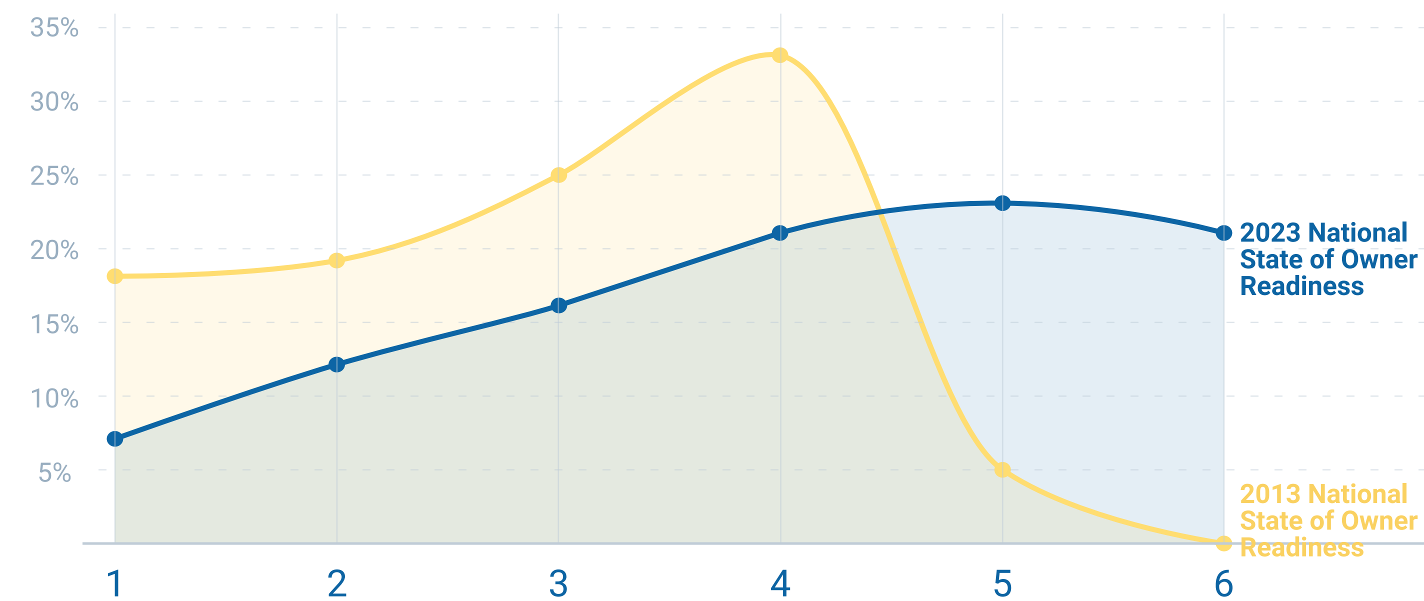
Answering the two-part personal question allows the business owner and their advisory team to understand the Wealth Goal for the business owner. From there, the team can understand the owner's Wealth Gap. The Wealth Gap, as defined in *Walking to Destiny: 11 Actions an Owner Must Take to Rapidly Grow Value and Unlock Wealth*, is your Wealth Goal minus your current net worth, not including your business value. The gap is closed with the value of their largest asset, their business. This begs the question:, "How much is my business worth?"

Starting with those personal questions in mind, in the 2023 National State of Owner Readiness Survey respondents were asked to use a scale of 1 to 6. They were asked then to apply this scale to the following question, "Rate yourself on how ready you consider yourself to be personally to exit your business." Six being completely ready and one being not ready at all. Business owner respondents believed themselves to be ready for this monumental event with **65% of them indicating they were above average when it came to personal readiness. Many believed they were extremely ready, and 21% gave themselves a "6" rating and 23% selected a "5" rating.** This places 44% of the owner respondents in the range of best-in-class to perfect.

However, when personal readiness scores from regional surveys were averaged, 36% of business owners indicated an above average personal readiness level, with 5% giving themselves a "6" rating, and only 13% gave themselves a rating of "5." When comparing best-in-class or better, **this is a 26-point difference from 18% national average to 44% in the 2023 National State of Owner Readiness Survey.**

Exit Strategy begins with a two-part personal question

Personal Readiness to Exit



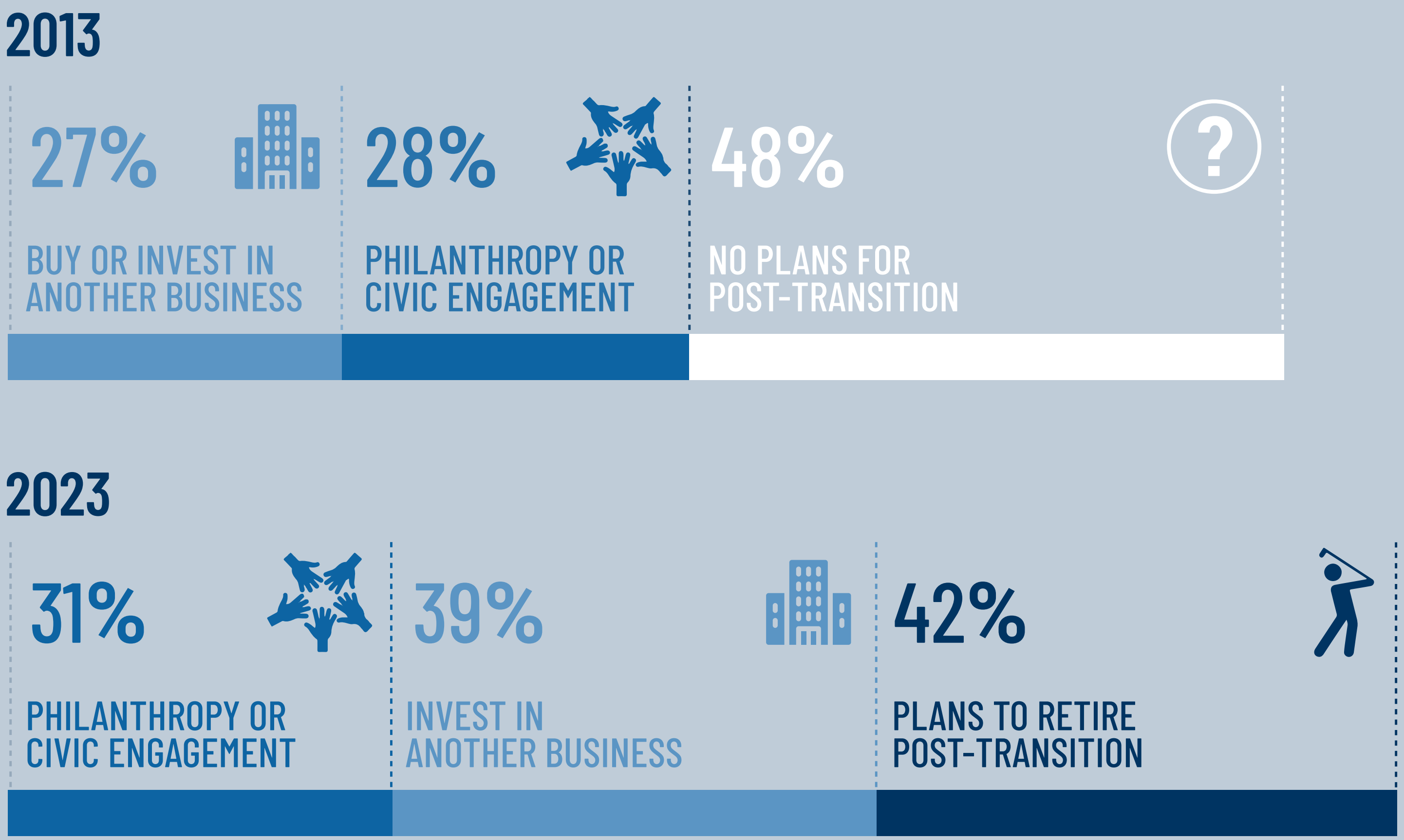
Significant personal readiness should be supported by positive scores on deeper questions regarding personal readiness. The effectiveness of structuring written plans makes it more likely that owners will consider all relevant factors on the way to success, and it is commonly accepted worldwide that written plans are more likely to be implemented than those not formally documented. However, in the 2013 National State of Owner Readiness Survey only 7% of respondents indicated they had a written formal plan for their personal strategy. This data point has followed true across all regional surveys. Only 8% of business owners on average stated they had a written formal personal plan. **Ten years later, 41% of respondents shared they had a written formal personal plan of what they wanted to do next after they exit their company.** A remarkable 91% of owner respondents indicated they had some form of plan in mind. That means 9% of respondents said they had not at all thought about the next phases of their life. **Business owners are not only more educated, but they have written plans that prepare them for transition.**

The Exit Planning Institute, understanding there are many elements of a successful written personal plan, advocates that at minimum eight key elements should be embraced.

1. **Written Goals and Objectives**
2. **Written Action Plan to achieve those Goals and Objectives**
3. **Written Personal Purpose and Core Values**
4. **Personal Readiness Assessment**
5. **Personal Risk Assessment**
6. **Documented and Updated Personal Financial Strategy**
7. **Written Estate Plan**
8. **Written and Updated Will**

Out of these eight elements, the 2023 respondents were asked to check all that applied to their personal written plans. The top three elements included:

1. **Written Goals and Objectives, with 49% of respondents selecting this was within their plan**
2. **Written Action Plan, with 40% of respondents listing this within their plan**
3. **Personal Readiness Assessment, with 35% of respondents including this component in their personal plan**



The 2023 business owner respondents were asked, "what do you plan to do post-transition?" Though the passion for entrepreneurship, and perhaps shaping better companies, is dominant for the 2023 business owner respondents, full retirement was the number one answer for what this group will do next, with 42% of owners responding this was in their plans.

This was followed by 31% of owners who plan to be active in their community through philanthropy or civic work. This is similar to the national data from the 2013 National State of Owner Readiness Survey with 48% of owner respondents indicating they would retire, 28% stating they would be active in their communities, and 27% indicating they wanted to buy another company.

Significant interest in continued entrepreneurship is not surprising given the influence of both baby boomer and Millennial owners who make up 40% the 2023 respondent group. The 39% of owners fall within Generation X are widely known to have "boomerang" exits. Generation X has a mentality that every 10-15 years they would build, grow, and sell their company to start or buy another.

In analyzing the entrepreneurial-oriented options our respondents stated the following post-transition plans:

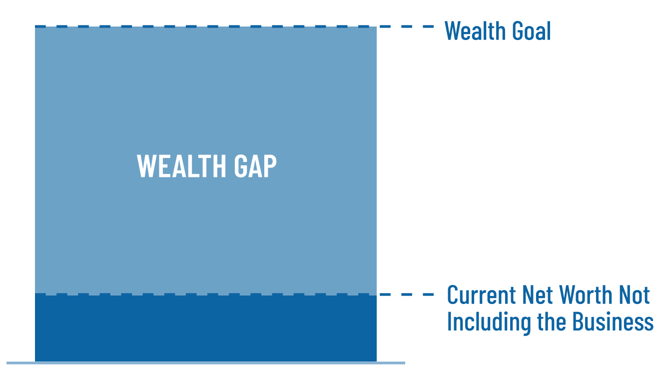
1. **39% planned to invest in another business**
2. **30% planned to start a consulting practice**
3. **27% planned to buy another business**
4. **27% planned to serve a board for another business**

Family plays a role in personal planning for the owner. In the 2023 survey, 68% of owners said their company was 100% family owned, while 16% indicated it was partly owned by family and outside ownership, but family controlled. When the 2023 business owner respondents were asked, "what best describes the level of family awareness of the managerial and owner plans for transition?", 53% of them stated both groups were aware of their plans. The owner respondents also reported they held regular family meetings. 51% of them specified they host these meetings more than once per year.

Lastly, planning for unplanned events can drastically affect an owner's preparedness. It is estimated 50% of the exits in the United States today are due to unplanned events, such as what EPI calls the "5Ds": divorce, death, disability, distress, and disagreement. In the 2013 National State of Owner Readiness Survey, one of the better reporting statistics from owners is that at minimum they had some contingency plans in place to combat these "5Ds". **In 2013, 40% of owner respondents said they had written contingency plans. This statistic is up in 2023 as 59% of owners report they have written contingency plans.** In addition, 22% of 2023 respondents said they have plans but they are not formally documented.

The Financial Leg

After establishing what a business owner wants to do in the next phase of their life outside of their business, one can begin to understand the Wealth Gap equation. The Wealth Gap, as taught by the Exit Planning Institute, is the business owner's Wealth Goal minus their current net worth not including the business.



The Wealth Gap usually can only be closed by harvesting the value of their company. To better understand if this goal and gap is realistic, one must wrap a personal financial strategy around the owner's overall personal and financial goals and objectives while taking into account what they believe the business may be worth.

When 2023 business owner respondents were asked if they were financially ready for exit from their company, **68% of the owners responded with an above average rating. 23% gave themselves a "6" and 24% gave themselves a "5."** This means 47% of owners felt they were best-in-class or better when it came to their personal financial strategy.

Further, 58% of respondents reported a written personal financial plan prepared by a third-party professional financial advisor, with another 21% reporting a plan that was not reviewed by a financial advisor.

Since the financial advisor has become the owner's most trusted advisor in 2023, it is not surprising that 58% of owners have a written strategy that was completed or reviewed by a financial advisor. However, that still leaves nearly 42% of the survey group that have no plans or plans that have not been reviewed by an expert. Additionally, 70% of owners indicated they have no formal estate plan. These numbers are in contrast to the 68% of respondents who indicated they were above average when it came to their personal financial readiness as an estate plan is a critical element of a personal financial strategy, and it would certainly challenge the 47% that shared they felt they were best-in-class or better. If respondents indicated they had a financial plan, but it was not reviewed or completed by a professional, at best the business owner would rank a "4," or slightly above average. A score of "5" would mean that the plan is written and endorsed by a financial advisor, and a "6" would mean the plan is actively reviewed, updated, and deployed.

Understanding the business owner's personal financial portfolio is a critical path for a significant exit as well as financial health and security. 70% of owners in 2023 indicated they needed to harvest the value of their business to support their lifestyle post-exit. It is unsurprising since 75% of owners in the 2023 survey also stated they have determined how much they need, not want, to net after taxes from the transition of their company. Though, still a piece of data to challenge, given the above nearly 40% of owners indicated they did not have a plan or did not have their plans reviewed by a financial advisor, and 70% stated they did not have an updated estate plan.

54% of owners indicated that it was critical that their company remain profitable to effectively execute their exit, and 30% said while not critical, it would help if the company remained profitable for a successful transition and secure financial future.

The owner's business is in most cases the largest and most valuable asset they have. 54% of owners in our 2023 survey said that their exit was incorporated into their personal financial and estate plan.

Having a written and updated estate plan is a critical element to the business owner's financial and personal plans as seen in the last two sub sections. **Only 30% of the business owner respondents indicated they had a written estate plan and only 24% had a written and updated will–**two elements critically important to both personal and financial elements to protect wealth for a significant exit and a fulfilling life for the business owner post-exit. **60% of respondents indicated they have had their business formally valued within the last two years, a significant increase from the 18% of owners who indicated the same in the 2013 National State of Owner Readiness Survey.** Out of those business owners who have had a formal valuation in 2023, 26% specified the valuation was specifically for estate planning purposes while another 17% indicated it was for tax planning purposes. This shows active planning. While they may have demonstrated improvements in financial planning, they have not shown a growth in estate planning. 21% report that the exit was incorporated in their financial plan only, and 6% indicated that the exit was incorporated in their estate plan only, with 19% saying they had not included the exit into either plan.

The Business Leg

Harvesting the value from the owner's company is critical to the overall master plan, which embraces personal, financial, and business goals to act as a life plan for the owner. The business typically equates to 80% or more of the owner's total net worth. The value of their company will close their Wealth Gap thus allowing the owner to live the master plan created by the blend of the personal, financial, and business elements described in this report.

In 2023, respondents believe they are ready to transition to a potential buyer. **67% believe they are above average, with 23% giving themselves a 5 on a 1-6 scale and 22% giving them a 6, or "perfectly ready." These combine to show 45% believe themselves best in class or better when it comes to their business's readiness to transition to a potential buyer.**

These statistics show a drastic 10-year swing. In the 2013 National State of Owner Readiness Survey, 62% of business owner respondents said they were below average, while only 38% reported they were above average. In comparison to the 67% we see today. Of those reporting above average, only 5% of owners surveyed said they were a "5," best-in-class, and 0% of owner respondents said they were a "6," perfectly ready. The regional survey trend follows with the first regional survey conducted in San Diego, California in 2017 where 23% of the business owner respondents said they were above average in terms of business readiness. This trend from 2017 to 2022 remained low but trending up to the most recent 2022 Colorado statewide survey which indicated 41% of the business owners felt they were above average in terms of business readiness. Business readiness was up 18% over that five-year period.

The year 2023 yielded even better results. Two regional surveys were conducted in Los Angeles County and Minnesota. When the business owner respondents were asked to utilize the same scale and answer the same business readiness question, 69% of owners in Los Angeles County said they felt they were above average, and 76% of owners in Minnesota felt the same. The change is significant and followed suit with the national survey conducted in 2023 which again stated 67% of owner respondents felt they were above average in terms of business readiness.

This is a notable one-year swing from the regional 2022 Colorado survey which was similar to surveys of the past, to those surveys conducted in 2023 where the data shows a 35% swing in a positive direction in terms of business readiness. 41% above average in Colorado, to 76% above average in Minnesota, and now 67% in the national 2023 survey.

Our theory is that as micro and middle market business owners were affected by the 2020 COVID-19 pandemic, they became more interested in mitigating risks, contingency planning, and bouncing back through value and income growth initiatives. Typically, an effective strategy will need a minimum of three years to see a more strategic impact. Given the national survey was conducted in the last quarter of 2023, perhaps more owners are feeling readier than ever before. They spent 2020 navigating the pandemic, then in 2021 became value growth-oriented, and in quarter four of 2023 they would have three years of impact, which could alter their opinion on how ready they feel they are.

In the 2023 survey, **31% of respondents stated they had spent some to little attention on their exit from their company.** Those within that 31% were then asked, "What is the primary reason you have not given your exit strategy attention?" The number one answer, with 32% of respondents, stated they were "too busy growing their company." Another 20% of respondents chose not indicated "I am still young and personally have some time before I begin thinking of exit." These two responses support our theory regarding value and income growth initiatives.

Though the 2023 business owner respondent group indicated a high level of business readiness, only 42% of the respondents indicated they had a written and formal transition plan for their company. This is a critical statistic to note since:

1. **49% of business owner respondents want to exit within 5 years.**
2. **54% believe it is critical their company remains profitable to exit their company.**
3. **70% indicate they need the income from their business to support their lifestyle.**

There are many elements of a successful written business transition plan, and Exit Planning Institute suggests at least 11 key elements:

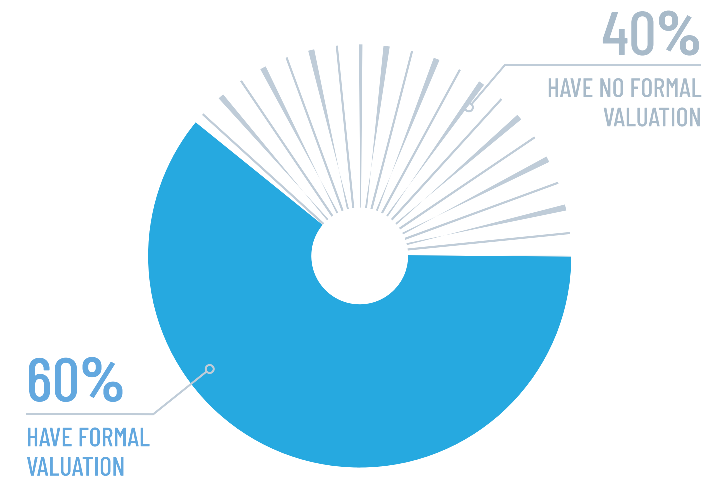
1. **Written Goals and Objectives**
2. **Written Action Plan to achieve those goals and objectives**
3. **Market Attractiveness Assessment**
4. **Business Readiness Assessment**
5. **Business Risk Assessment**
6. **Recasted Financial Statements**
7. **Business Valuation**
8. **Value Gap Analysis with value growth targets and goals**
9. **Value Enhancement Plan**
10. **Value Growth Budget**
11. **Exit Option Analysis**

Percent of owners having completed a formal pre-transition value enhancement or due diligence project

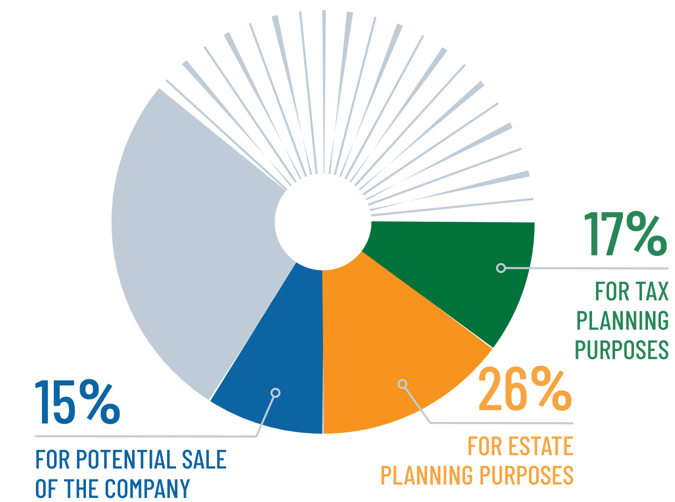
2013 **14%**

2023 **62%**

PERCENT OF OWNERS WITH FORMAL VALUATION COMPLETED SINCE 2021



OF THOSE WITH A FORMAL VALUATION THEIR TOP REASONS WERE:



Out of these 11 elements, the 2023 respondents who had a written business transition plan were asked to check all that applied to the plan. The top 3 elements included:

1. **Written Goals and Objectives, with 44% of owner respondents indicating this was within the plan**
2. **Written Action Plan to achieve the goals and objectives, with 38% of owner respondents selecting this component**
3. **Business Readiness Assessment, with 30% of owner respondents stating this was in their business transition plan**

Business valuation ranked a close fourth, with 29% of the business owner respondents indicating this was a part of their formal business transition plan. Whether the business owner respondents shared they had a formal written plan or not, 60% of business owners in the 2023 survey indicated they had performed a formal business valuation within the last two years. This valuation did not seem to be for value enhancement or an immediate transaction and exit. When the business owners were asked, "for what purpose was the formal business valuation conducted?", the number one answer, at 26% of the respondents, was for estate planning purposes. This was followed by 17% of the respondents indicating it was for tax planning purposes. Only 15% of the respondents indicated it was for a potential sale of the company. Thes numbers could suggest that business owner respondents do not truly understand the fair market value, or the price at which the company would trade in a competitive auction to the third party, of their company.

The Exit Planning Institute suggest business owners to understand the value of the company from multiple perspectives and understand the multiple exit options that exist for them.

62% of respondents in 2023 have completed a formal pre-transition value enhancement project or preliminary due diligence project in the last two years. One would assume if these owners had conducted one of these projects, a fair market value business valuation should have been performed. Still, these numbers show a dramatic increase from the 2013 National State of Owner Readiness Survey when only 14% of owners stated they had conducted one of these types of business readiness projects. Meaning, 86% of owners in 2013 had not. The percentage of business owners saying they wanted to exit their company in 5 years has stayed steady between the 2013 and 2023 study--moving only from 48% to 49%. However, the data shows that owners are much more prepared for the transition today.

What does it mean to be "ready" to transition a business? How does a business owner provide proof that they and the business are "ready" to transition?

Observations

5

One of the things that make business ownership attractive is the income generated by the business and for its owners. In addition, income is in fact a key factor in determining business value.

However, just because the business is generating income, perhaps even above average income for its industry, it does not mean that a business has value. The value of a business is determined by both its attractiveness to a potential buyer and its readiness to transition. For the owner to unlock and harvest the wealth trapped in the business, the business not only needs to be attractive, but it and the owner need to be "ready" to transition it to unlock the wealth it holds. Attractiveness and readiness are equally important.

The value of a business is established from the buyer's perspective, not its current owner. The current owner needs to take steps to provide proof to the new owner that the business will continue to operate as well or perhaps even better once the new owner takes over. An owner cannot just say they are ready. Proof of this is required to establish business value. Readiness (vs attractiveness) correlates directly to the strength of these proof points.

So, what does it mean to be "ready" to transition a business? How does a business owner provide proof that they and the business are "ready" to transition?

The Exit Planning Institute has developed a quick self-check to help business owners in the micro and middle markets determine what they need to accomplish to be ready for the eventual exit from their company. Though business owners in the 2023 National State of Owner Readiness Survey have shown a deeper level of education and awareness on what "ready" means, proof is needed to determine the state of readiness across the United States.

Attractiveness and readiness are equally important.

These ten actions demonstrate proof.

1. **The business owner spent time and money getting educated on the process of how to transition their business. They have discussed this transition plan with loved ones.**
   - 68% of owner respondents said they have formal exit planning education
   - 68% have sought outside advice on exit planning
   - 53% say their family is aware of both ownership and management transition plans
   - 71% host regular family meetings

2. **The business owner's personal, financial, and business goals are aligned meaning they are defined, co-dependent, and linked.**
   - 67% of owner respondents indicated an above average business readiness score
   - 68% chose an above average financial readiness score
   - 65% selected an above average personal readiness score

3. **The business owner has created a formal exit planning advisory team including at minimum an attorney, CPA, financial advisor, and value growth consultant.**
   - 78% of owner respondents indicated they had not formed a formal team

4. **The business owner has created a contingency plan which also addressed a buy-sell agreement and appropriate insurance. This plan has also been prepared by and reviewed by their trusted advisors.**
   - 59% of owner respondents stated they had a written and documented contingency plan
   - 68% have a written buy-sell agreement while 51% indicated it was updated within the last three years
   - 75% expressed it was funded with some type of life or disability insurance

5. **The business owner has completed a strategic analysis, business valuation, and readiness assessments within the last year.**
   - 60% of owner respondents indicated they had a formal business valuation within the last two years
   - 33% stated readiness assessments were part of their written exit plans

6. **The business owner has considered all their exit options and optimum deal structure.**
   - 70% of owner respondents indicated they were familiar with all of their exit options

7. **The business owner's transition plan is written and well documented, including key elements of effective exit plans listed in this report.**
   - 41% of owner respondents indicated they had a formal written personal plan
   - 42% have a written formal business transition plan
   - 58% have a written personal financial plan reviewed by a financial advisor

8. **The business owner has designed a life-after business plan. This plan is linked to their personal financial plan.**
   - 41% of business owner respondents have a written formal personal plan
   - 29% have an informal plan
   - 21% indicated they have an idea of what they want to do next

9. **The business owner has active pre-transition value enhancement and preliminary due diligence projects. Family transitions should be treated no differently than other options.**
   - 62% business owner respondents specified they had a formal value enhancement or preliminary due diligence project underway

10. **The business owner's management team is aware of all the above planning elements and is prepared to operate the company after the exit of the owner.**
    - 50% of business owner respondents indicated they regularly track business value
    - 57% indicated they were "very comfortable" with their management team taking over the business

Observation #1

Investment in Education is a Critical Path to Success

Education, awareness, and readiness have vastly improved over the last 10 years since the first National State of Owner Readiness Survey.

Business owners in the 2023 State of Owner Readiness Survey seem to be not only aware but much more ready for their eventual exit. (However, see Observation #2 for generational differences.)

Readiness scores across business, personal, and financial elements all show a good sense of readiness. It is critical to note that readiness in this survey is based on self-reporting and must be investigated deeper with a professional advisor certified within exit planning.

The real challenge is in the proof of being best-in-class or better. Scores of "5" or best-in-class, and "6" or perfect, are rare. However, 45% of business owners in 2023 gave themselves a score of best-in-class or better.

- On average 85% of the owners who shared they were best-in-class or better indicated they were formally educated and 84% had sought outside advice.
- 72% had a formally established board of advisors, 69% had formal written plans, and 81% had formal business valuation.
- 82% of these owners stated they had a value enhancement or preliminary due diligence project underway and 80% had formal written contingency plans in place.
- 65% indicated their management team regularly track business value, while 77% felt "very comfortable" with their management running their company.
- 34% had a formal transition advisory team in place. Though this statistic is low, it is the highest among all other owners who listed themselves as a 1-4 in terms of readiness.

It is without surprise that financial readiness amongst all business owner respondents to the 2023 National State of Owner Readiness Survey ranks the highest. However, even though owners are more prepared in some aspects of financial readiness, the percentage of owners with an estate plan has remained consistently lower than other aspects over all regional and national surveys. As noted in Section 1 of this report, the financial services industry has made incredible investments in resources, tools, and education for financial advisors over the last ten years. This has not only put the financial advisor in the most trusted advisor role but has also helped to prepare business owners from a personal and personal financial standpoint. The challenge will be for the management consulting and accounting professions to amplify their investment into this space to seek similar results from business owners.

We have learned from the 2023 national data collected that education and awareness drive action and results. The Exit Planning Institute, in the study of business owners over the last 10 years, has created a formula for action rooted in education. For the business owner to act, one must intrigue and empower the business owner first. For advisors, the critical investment needed for action is time spent patiently educating the business owner and their teams. If done diligently and correctly, business owners are more inclined to act on and execute their eventual exit. The efforts make exit planning present tense, not something done when "ready" to sell a company. Exit planning takes companies from year-over-year success to long term significance creating high value and legacy. The data in this 2023 report would prove that this formula and approach is accurate.

In previous State of Owner Readiness Survey research, nearly 99% of business owners surveyed said they believed that having a transition strategy was important to their future and the future of their companies. Yet many business owners remained ill-prepared. When these owners were studied further, we found that business owners were unaware of the benefits of exit planning and in some cases did not understand its meaning and were misinformed. Not knowing "how' to do exit planning was the number one reason owners said they did not do it. For some who recognized the importance, they felt it was not urgent, so they pushed planning off for years to come. Today, we find an audience who is much more educated. This awareness level has resulted in action by business owners and has driven positive readiness results for these business owners and their companies.

Observation #2

Exit Strategy is a Priority for Younger Business Owners

Younger generations have scored better across all readiness factors. They are more inclined to have written and formal plans, are more educated on exit planning, and have formed formal exit advisory teams. Exit strategy is a priority for them and their businesses.

One would assume that given the baby boomer generation is closer to the traditional "retirement" age they would be much more prepared than younger owners..

Baby boomers range in age from 59-77 years old with the average baby boomer 68 years old. They were the oldest generation studied in the 2023 National State of Owner Readiness Survey, but the worst prepared.

77% of baby boomer business owners said they would like to exit within 10 years, with 57% stating they want to exit within 5 years. Only 14% of baby boomers consider exit strategy their top priority, while 33% say they have given exit strategy high attention, and 39% stated that at least some attention has been given. Only 22% of baby boomers indicated they have taken on a value enhancement or preliminary due diligence project. When analyzing the 78% of boomers who did not take on a project like this, the number one answer was because they felt they had no time, followed by them feeling it was not needed.

Baby boomer business owners scored significantly lower on written plans compared to other generations. Only 13% of boomers indicated they had a written personal plan, 15% voiced they had a written company transition plan, and 35% shared they had a written personal financial plan.

The three younger generations studied, Gen Z, millenials, and Gen X, reported that 49% had written personal plans, 50% had written company plans, and 63% had written personal financial plans.

The best overall was the millennial generation which indicated 56% had written personal plans, 55% had written company plans, and 68% had written personal financial plans. Only 30% of baby boomer owners communicated that they had a formal written contingency plan that addresses the 5Ds (Death, Distress, Divorce, Disability, Disagreement).

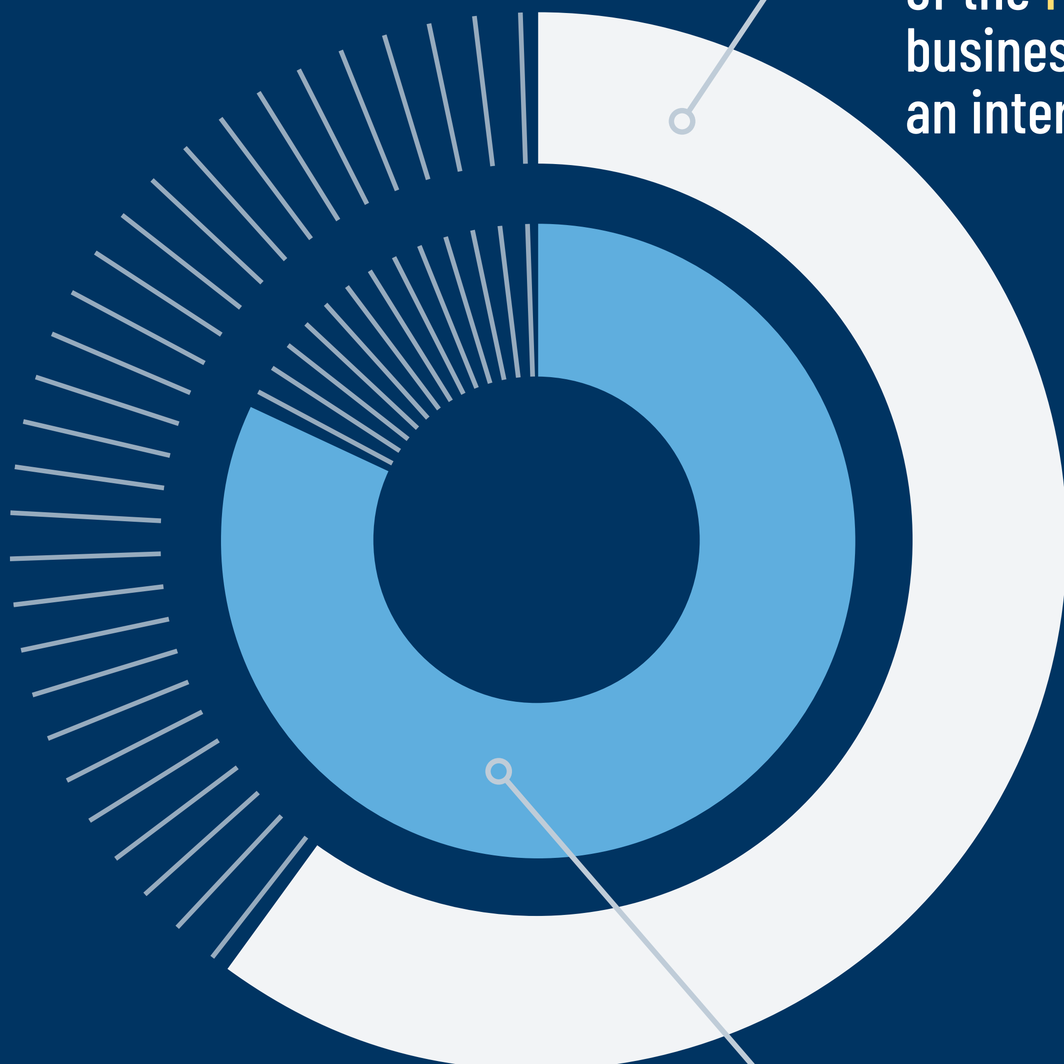
A built to sell mentality has emerged when studying the younger three generations who responded to the 2023 National State of Owner Readiness Survey. This matches much of the national research across the US which would indicate that younger owners will likely have "boomerang" exits. Meaning, they will sell one company and go on to another business, ultimately having multiple exits across their business owner career. This is specifically accurate for the millennials (ages 27 to 42) and Generation Z (ages 11 to 26). 52% of millennials indicated they would invest in another business after exiting their current company. While people under the age of 57 years old state 32% on average that they would buy a business and 46% would invest in another business.

48% of millennials indicated they wanted to exit their company within the next 5 years and 59% of Gen Z owners stated the same. 68% of millennials, tbelieve transition strategy is important to their future and the future of their company, the highest of all generations. 52% of millennials said exit planning was their top priority, again highest of all generations despite studying two generations older than millennials. In comparison, 40% of Gen Z listed exit planning as a "top priority," 36% of Gen X indicated as such, and only 14% of baby boomers shared they felt exit planning was their "top priority."

Given these statistics, there is a notably high level of apparent readiness amongst younger owners. Millennials have the largest education rate with 86% of people within this generation indicating they have had formal education in exit planning. Gen X can only claim 70% and baby boomers can only claim 42%. More millennials have also formed teams as 32% stated they have established a formal exit advisory team compared to only 11% of Gen X and 5% of baby boomers. Millennials are also more likely to have written formal plans ranking the best across all three categories. When millennials were asked if they had formal written plans for personal, financial, and business elements they communicated the following: 56% had written personal plans, 55% had written business plans, and 68% had written financial plans that were prepared or reviewed by a financial advisor. Compared to the next largest generation represented in the survey, baby boomers, who indicated 13% had written personal plans, 15% had written business plans, and 35% had written financial plans.

In addition, 74% of millennials indicated they have value enhancement or preliminary due diligence projects underway compared to only 22% of their baby boomer counterparts. **This led to overall the highest readiness scores for the millennial business owners with 4.4 out of 6, above average and approaching best-in-class across all three major elements of readiness. Gen Z follows with a score of 4.2, with Gen X earning a 4.0, and baby boomers scoring lowest at 3.6.**

These data points on generations collected from the 2023 State of Owner Readiness Survey mirror the commonly accepted general statistics across the US. Millennials and Gen Xers tend to build to sell, value their time, want to work smarter not harder, and enjoy change in career yet want freedom. Baby boomers tend to hold their business close. They are passionate entrepreneurs with many starting their business out of their garages, sheds, and homes. They have spent decades building their company and navigating national and global crises like the Great Recession and the COVID-19. Though they have the unique ability to navigate challenges, with an average age of 68 requires that they investigate the next phase of their lives. Their focus on their business has prevented them from focusing holistically when it comes to their exit. Their identity has become tied to their business, and they lack a balance in their personal lives. They have focused on growing a successful company, not a significant one. Their readiness and general acceptance scores from the 2023 national survey reflect this mindset.



60% of the first-generation business owners favored an internal exit

Whereas **82%** of the second-generation business owners favored an internal exit

Observation #3

A Significant Shift in Family Business Transitions

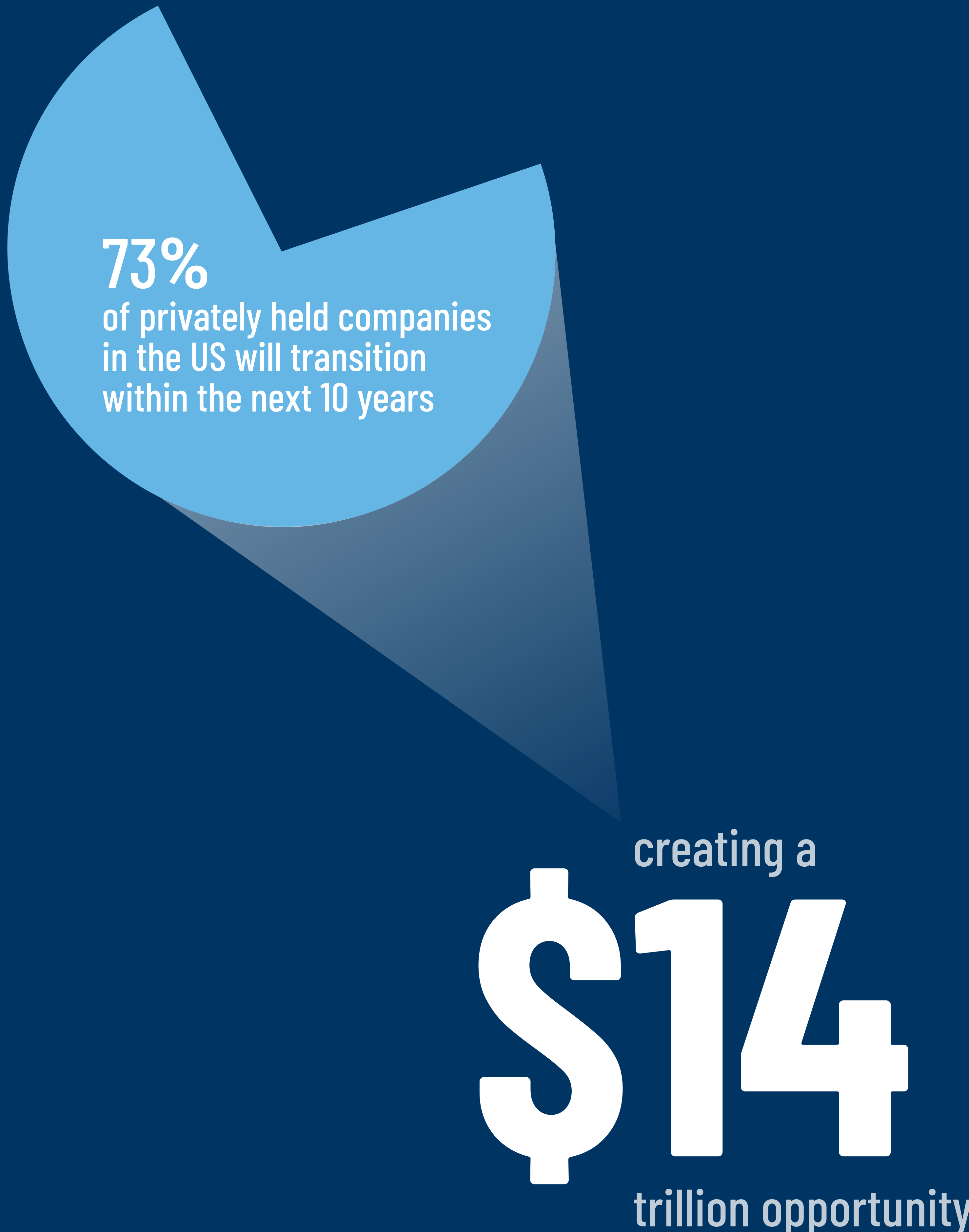
68% of business owner respondents to the 2023 State of Owner Readiness Survey indicated they were 100% family owned while another 16% specified they were family controlled with some outside ownership participation. Therefore, 84% of owners surveyed have businesses that are family-controlled in some form. According to Familybusiness.org and Fortune Magazine, 87% of all US privately held companies are family owned or controlled. Within the family owned or controlled companies 47% are in the first generation while 33% are in the second generation. Statistics reported by Businessweek and Cornell University state that only 40% of US family-owned companies survive into the second generation while only 13% are passed to third. 15% of the family businesses reported in the 2023 Survey are third generation family-owned companies.

Business owners within the second generation seem to be slightly more ready to exit than those in the first. Generational characteristics play a role here, as readiness to exit is improving among younger generations. 45% of second-generation family business owners are between the ages of 43 and 58 years old. These second-generation family business owners follow similar education, awareness, and readiness scores of their non-family business owner counterparts in the 2023 National State of Owner Readiness Survey.

However, perhaps surprisingly, these owners favor internal exit options more than the family business owners within the first generation. 82% of second-generation business owners favor an internal exit option while 60% of the first-generation business owners favored this option. 46% of the second-generation business owners favor a family transition, followed by 19% who favor a sale to their employees. Only 8% of the first-generation business owners selected a sale to their employees as the top option.

Communication of transition regardless of generation seems to be important to both first and second generation owners. Nearly 90% of both generations reported that their family is aware of their management and ownership transition plans. Conversely, in the 2013 National State of Owner Readiness Survey, 35% of owner respondents shared their family was not aware of their management and ownership transition plans. 66% of first-generation business owners voiced they have regular family meetings at least one time per year while 78% of second-generation owners explained their meetings are held at least one time per year, and 55% meet more than once per year.

According to many family business experts naturally the second and third generations are more inclined to consider internal options. First, the employee-owned option is a growing trend across the US with the Employee Stock Ownership Plan (ESOP) and other forms of employee buy-ins. Second, once the first generation has transferred the business successfully, there is a sense of legacy that comes into the second and then third generation. This legacy holds weight. These generations at times feel they were given a great opportunity, they become stewards of the family business. Especially if the business is financially performing and successful.



Observation #4

The $10 Trillion Opportunity is Now a $14 Trillion Opportunity.

73% of privately held companies in the US would like to transition within the next 10 years equating to a $14 trillion opportunity.

In 2005, founders of the Exit Planning Institute, Peter Christman and Rich Jackim, wrote a book called The *$10 Trillion Opportunity*, which described the "silver tsunami": the largest wealth transfer in history fueled by privately owned baby boomer companies. The largest wealth transfer in world history. We saw this again in the 2013 National State of Owner Readiness Survey. However, in 2023 this opportunity has grown from $10 trillion to $14 trillion.

Today the total estimated value of privately held companies in the US is $18.7 trillion using a reasonable estimate of business value being 50% of total sales. There are six million employer companies in the US that generate $37.4 trillion in annual sales. The US privately held business market shifted due to the "Age Wave" and was accelerated during the global pandemic. The "Age Wave" represents the natural and eventual transition of ownership over the last ten years as baby boomers and Gen X owners have aged. Today, 51% of US privately held companies are owned by baby boomers and 43% are owned by those in Gen X. Between the two generations they control 94% of the privately held companies or $17.6 trillion in value.

Business owners' exits have accelerated and are expected to keep doing so. With the baby boomers at traditional retirement age, they have been influenced recently by the market, uncertain economic outlook, age, and health. Generation X, more so than ever, are also accelerating their exit.

Using the 2023 State of Owner Readiness Survey data, 77% of baby boomers and 69% of Gen X indicated they wanted to exit their company within the next 10 years. More immediately, 57% of baby boomers and 38% of Generation X said they wanted to exit within the next 5 years. Combined, 73% of owners over the age of 43 want to exit their business within the next 10 years, resulting in an estimated $14 trillion wealth transfer. T48% of these owners want to exit within 5 years, meaning the next five years could see $9 trillion of the $14 trillion of estimated wealth transfer.

Conclusion & Recommendations

6

The results of the 2023 National State of Owner Readiness Report highlight vast improvements in readiness, the impact of education on exit planning, and the strength of an exit planning team.

Considerations and Actions for Business Owners

Owners of privately held companies must increase their proactivity to improve transition rates and harvest their most significant financial asset: their business. Success rates are not likely to improve if business owners view exit planning as something they do down the road when they are "ready" to transition. Rather, exit planning needs to become an imperative strategy that is integrated into the way they currently operate their company.

Exit planning is present tense. An effective exit strategy is a business tool that will create more income today, empower management teams or the next generation to take the business to the next level, create owner independence, and potentially increase the owner's wealth by 400-500%. In other words, exit strategy is simply good business strategy.

Owners can begin by integrating the actions of a successful transition strategy into the way they run their business every day. They can accomplish this by identifying what they have now and taking risk-mitigating actions to protect their value and their wealth. By strategically building value over time, they position the business to have multiple exit options and perhaps, multiple exit events over time. Owners must always actively and holistically manage their wealth including the business before, during, and after the exit event.

The first step to an effective exit strategy begins with understanding the value of your company. Management systems must be adapted to give the owner strategy and feedback on the value of intangible assets including human, structural, customer, and social capital on a regular basis. These are called the "4Cs" and account for up to 80% of a company's value. 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.

Business planning should be integrated with personal and financial planning to ensure a meaningful and fulfilling exit for the owner. Identifying personal purpose, vision, and goals is essential for success in the next phase of the business owner's life, considering that 70% of owners deeply regretted selling their company.

Furthermore, business owners must recognize and address their wealth gap, which exists for nearly all owners to some extent. To do so, owners need to envision their desired next act in life and collaborate with a professional financial advisor to create a strategy that aligns with their goals.

This holistic and focused approach is called aligning the "Three Legs of the Stool," or the formal integration of personal and financial goals and plans with business planning that ultimately prepares the business owner for all possible events while creating rapid growth and wealth for the business owner.

Lastly, business owners must remember that 50% of all exits are forced, that is, they do not occur on the owner's terms or timeline. These exits are the result of what is referred to as the "5Ds." These are death, disability, distress, disagreement, and divorce.

In summary, if the business owners surveyed in this report want to rapidly grow the value of their company while creating significant wealth for themselves and their families they must:

1. **Continue to Immerse Yourself in Education.**

   68% of respondents said they had completed formal education in value acceleration while 66% had sought advice. There are resources nationally through the Exit Planning Institute to educate business owners. Continue to understand new strategies, lean into your exit planning advisory teams, and join the many educational forums provided by groups within your region. Attend local events produced by the Chapters of the Exit Planning Institute.

2. **Identify and Understand the Value of Your Company**

   The business owner must understand their Profit Gap and Value Gap at any given time regardless of which business cycle they are in. The path to a higher valuation starts with knowing where you are today. Understanding the value of your company today will drive results such as happier employees, more net profit, and more new revenue in the short term, while building strategic value in the future.

3. **Concentrate on Value and Income Generation**

   Many business owners today are concentrated on income generation. Just because the business generates good income does not mean the company has a high valuation. Integrating exit strategy and value enhancement into your daily business operations will allow the business owner and their teams to focus on both value and income.

4. **Identify Personal Purpose**

   According to a study from the Proceedings of the National Academy of Sciences (PNAS), nearly 75% of Americans indicated they had no clear sense of purpose or meaning in their life. Understanding personal purpose will allow the business owner to understand their vision for the next phases of their life. An owner's personal purpose is crucial to understanding their Wealth Gap and implementing their personal financial strategy.

5. **Establish a Team**

   It takes a village to raise a child. And, it takes a team to create value for a business. Growing value while aligning the business owners personal and financial goals and objective is complex and something not executed alone. Ensure that at least one of these advisors is certified in this process. These advisors are called Certified Exit Planning Advisors®, and hold the training, resources, and network to help the owner create the appropriate strategies to rapidly grow value and unlock wealth.

By consistently executing these actions and following the overall exit planning process, business owners can protect, build, and harvest business value, positioning themselves to unlock wealth in their business effectively, regardless of the economic climate.

The professional advisor community can help business owners change their outcome.

Considerations and Actions for Advisors

The exit advisory community is growing. It is an evolving cross-functional profession including core and functional advisors across multiple disciplines and with varying expertise. This profession is driven by the rapidly approaching baby boomer generation that is more immediately in search of harvesting the value of their company and is followed by the multiple generations of entrepreneurs who continue to build and grow their companies with an eventual, hopefully planned, and significant, exit in mind. The professional advisor community can help business owners change their outcome.

An effective exit strategy is holistic in its approach and takes 3 to 5 years to appropriately execute. Professionals who can help grow value, unlock wealth, align personal goals, and position the business and the owner for transition success are needed. The owners surveyed within this report have shown they are willing and able to learn and grow while integrating key elements of successful exit strategy into their business and lives. Exit planning education and awareness should be driven by the most trusted advisors and supported by the functional key advisors to this overall strategy.

Learning from this data, the professional advisor community should take and focus on three immediate actions.

1. **Educate**

   Clearly, from this sample group, education on effective exit strategy is welcomed. Creating content and programs that business owners could interact with and attend would help professional advisors connect and educate the business owner community within your region. Creating educational programs that allow them to not only learn from the expert professional advisor, but also to share these insights amongst each other is likely one of the most effective educational platforms advisors can build. Remember the third most trusted advisors to these respondents were the owners' peer groups.

2. **Collaborate**

   Undoubtedly exit planning is a team sport. Through this State of Owner Readiness research, we can begin to see the many facets an effective exit strategy involves. An exit planning team features a core team and advisors with elements of financial advisory, accounting, legal, and value growth to the family. This team also includes advisors to manage potential exit options that would include private equity and investment bankers or business brokers. In addition, the more traditional professional advisors are surrounded by more functional specialists that allow the business to grow with value in mind or allow a business owner to develop their personal goals and objectives. These advisors could be people like life coaches, executive coaches, marketing consultants, IT or cyber security professionals, or human resources and leadership professionals. All these advisors drive both income and value to the company or business owner. As such, each advisor should take a value, not just income, approach to their advisory practice.

3. **Adopt a Common Framework**

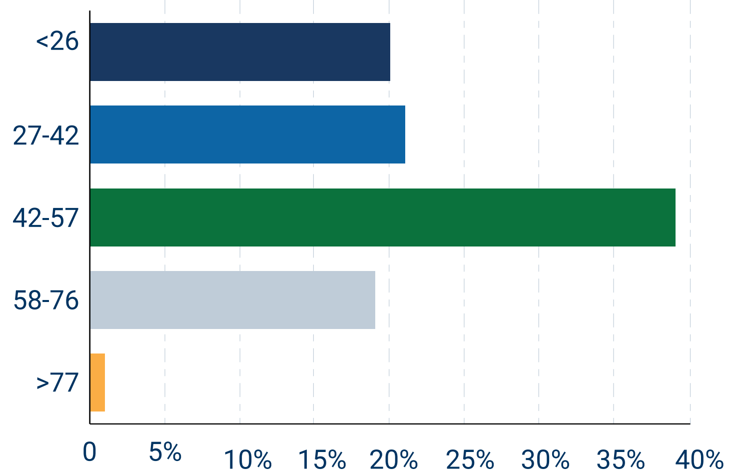
   The community and market overall need to adopt a common framework to operate within. This framework or process will allow the advisory community and business owners to share a similar language, process, format, organizing principles, concepts, and goals. At the Exit Planning Institute, that framework is called the Value Acceleration Methodology, a proven and award-winning process that is addressed in the book *Walking to Destiny: 11 Actions an Owner Must Take to Rapidly Grow Value and Unlock Wealth* written by Exit Planning Institute CEO, Christopher Snider.

Appendix

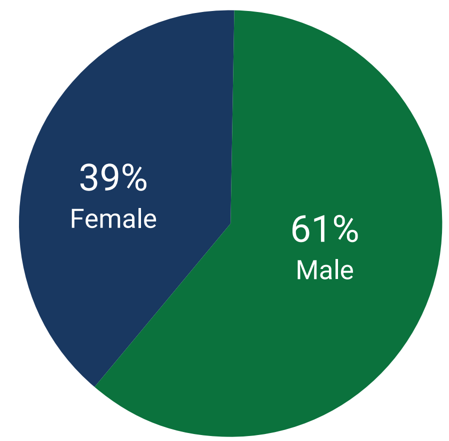
7

01 Demographics

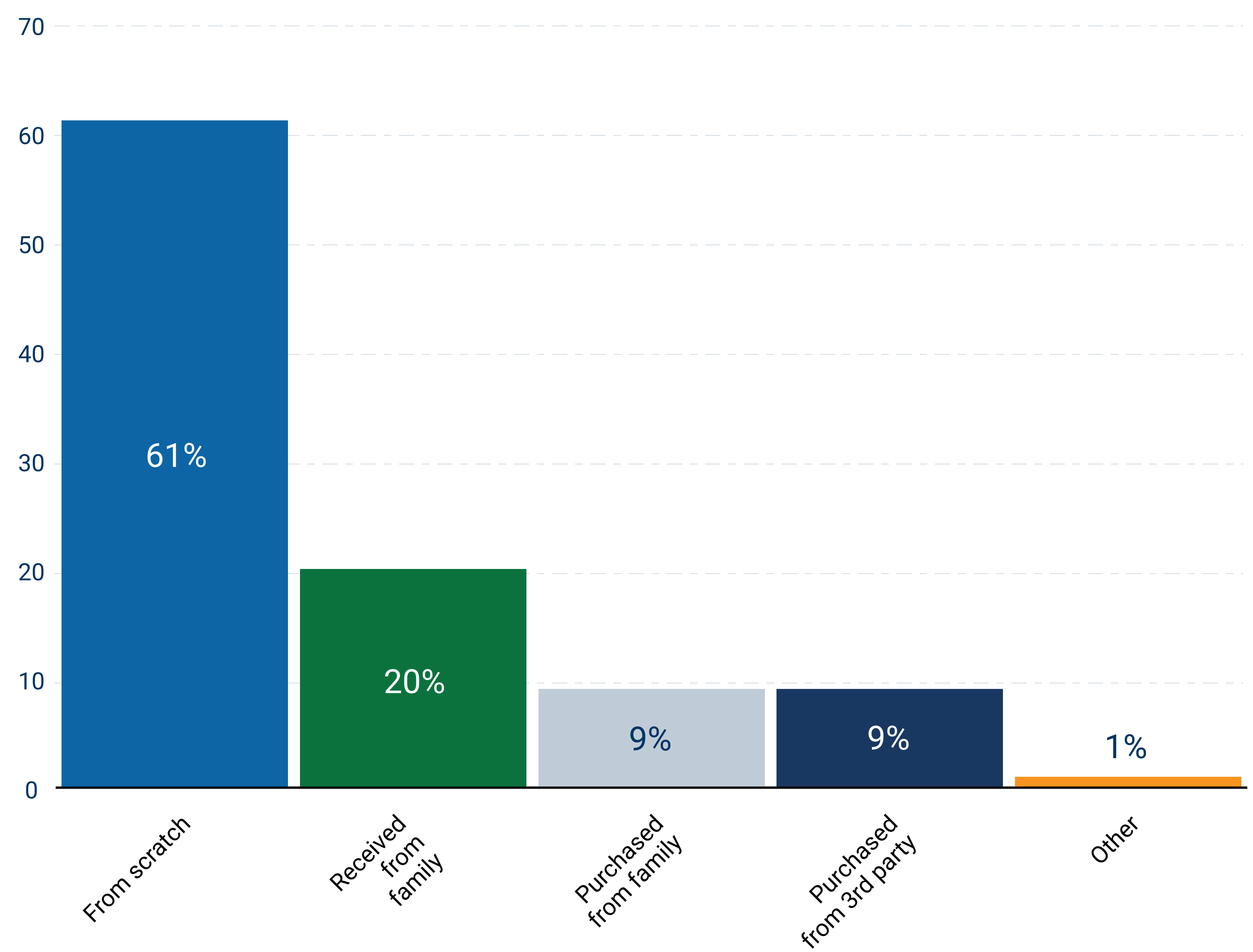
What is your current age?



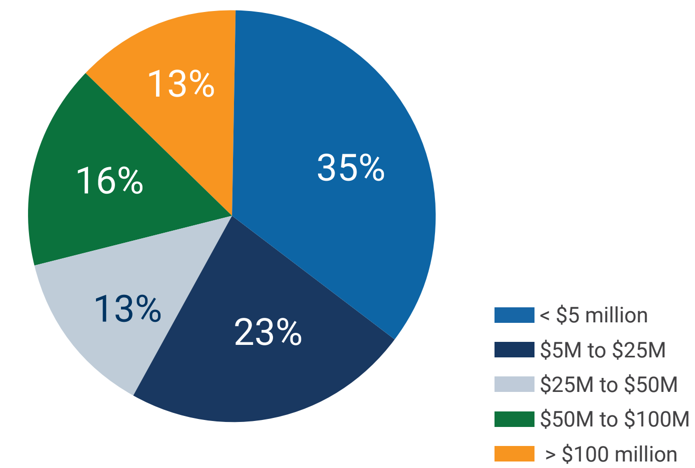
Are you:



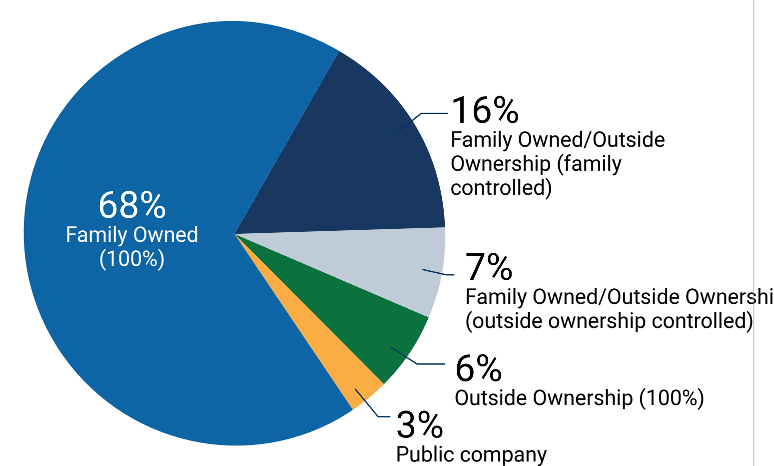
How was your business started?



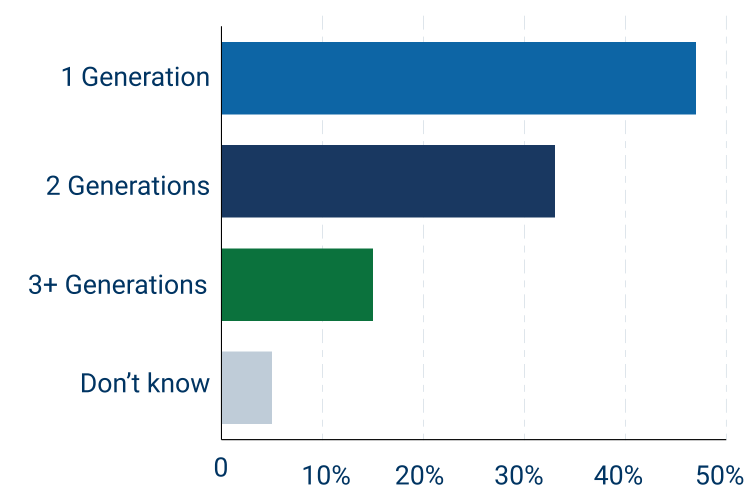
What is your company's annual revenue?



What is the ownership structure?



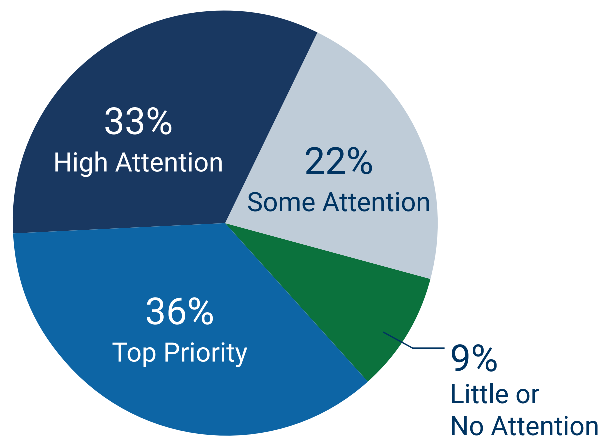
If family owned, how long has your company been owned by the family?



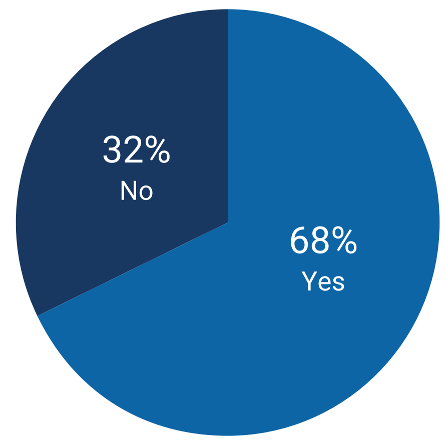
What industry are you in?

02 Readiness

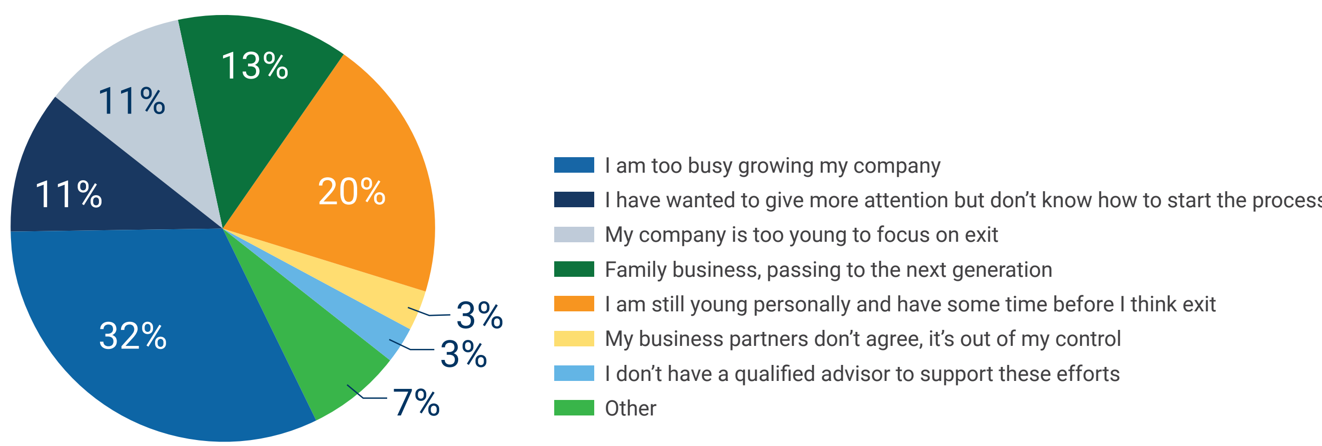
How would you describe the attention you have given to your exit up to this point?



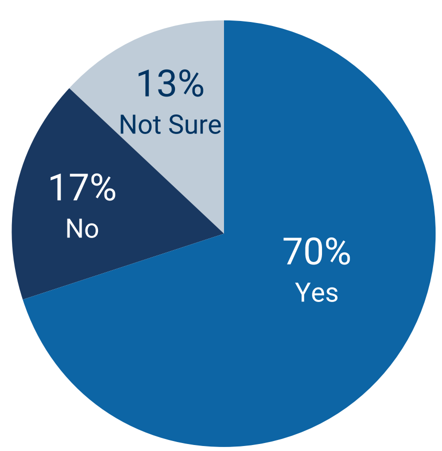
Have you completed any formal education related to transitioning a business?



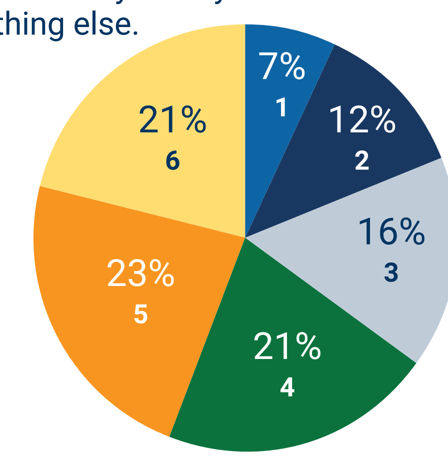
If you selected some attention or little attention above, what is the primary reason you have given only little to some attention to your exit from your business?



Are you familiar with all your transition options?

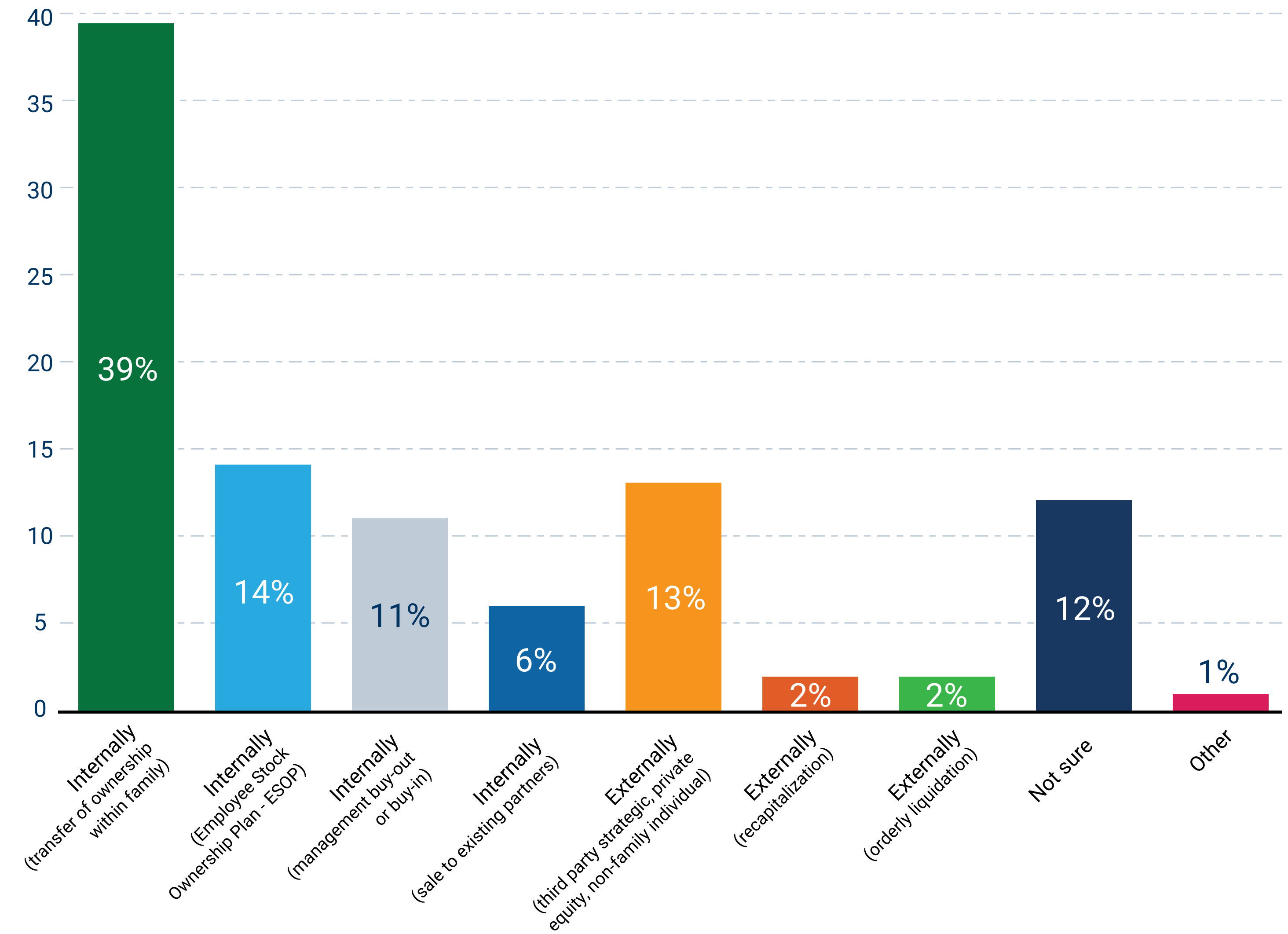


Using the following scale, please rate how "ready" you consider yourself personally to transition away from your business and do something else.

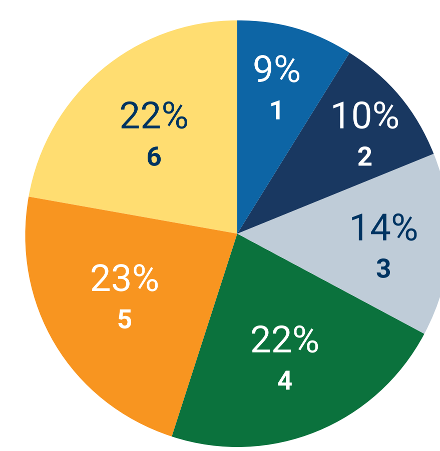


1 = not ready at all; 6 = completely ready

What best describes how you are planning on transitioning?

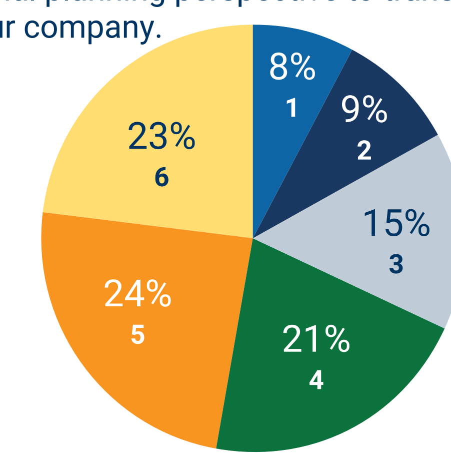


Using the following scale, please rate how "ready" you think your business is to transfer to a new owner.



1 = not ready at all; 6 = completely ready

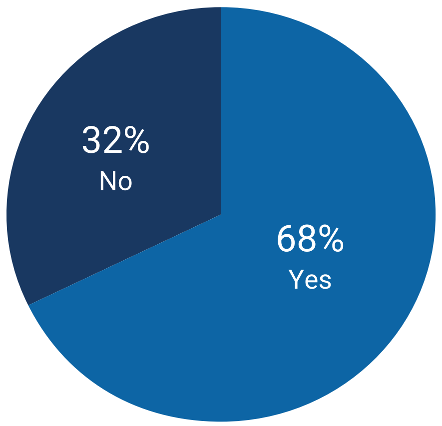
Using the following scale, please rate how "ready" you think you are from a personal financial planning perspective to transition out of your company.



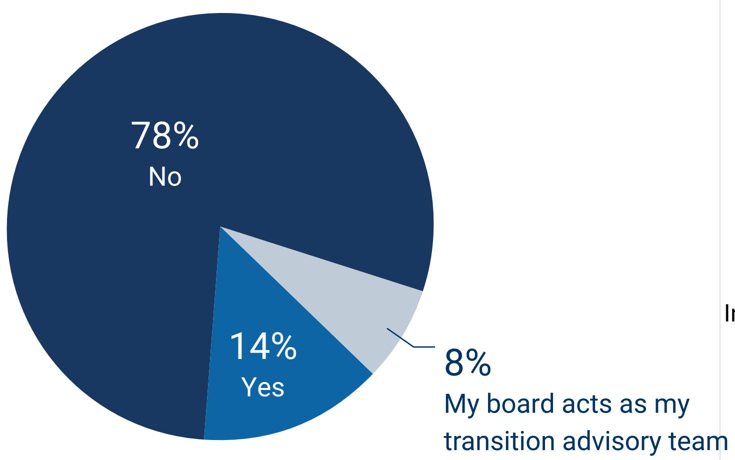
1 = not ready at all; 6 = completely ready

03 Transition Team

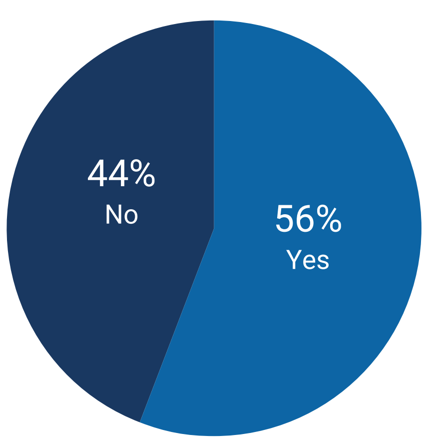
Have you sought outside advice regarding your transition plan?



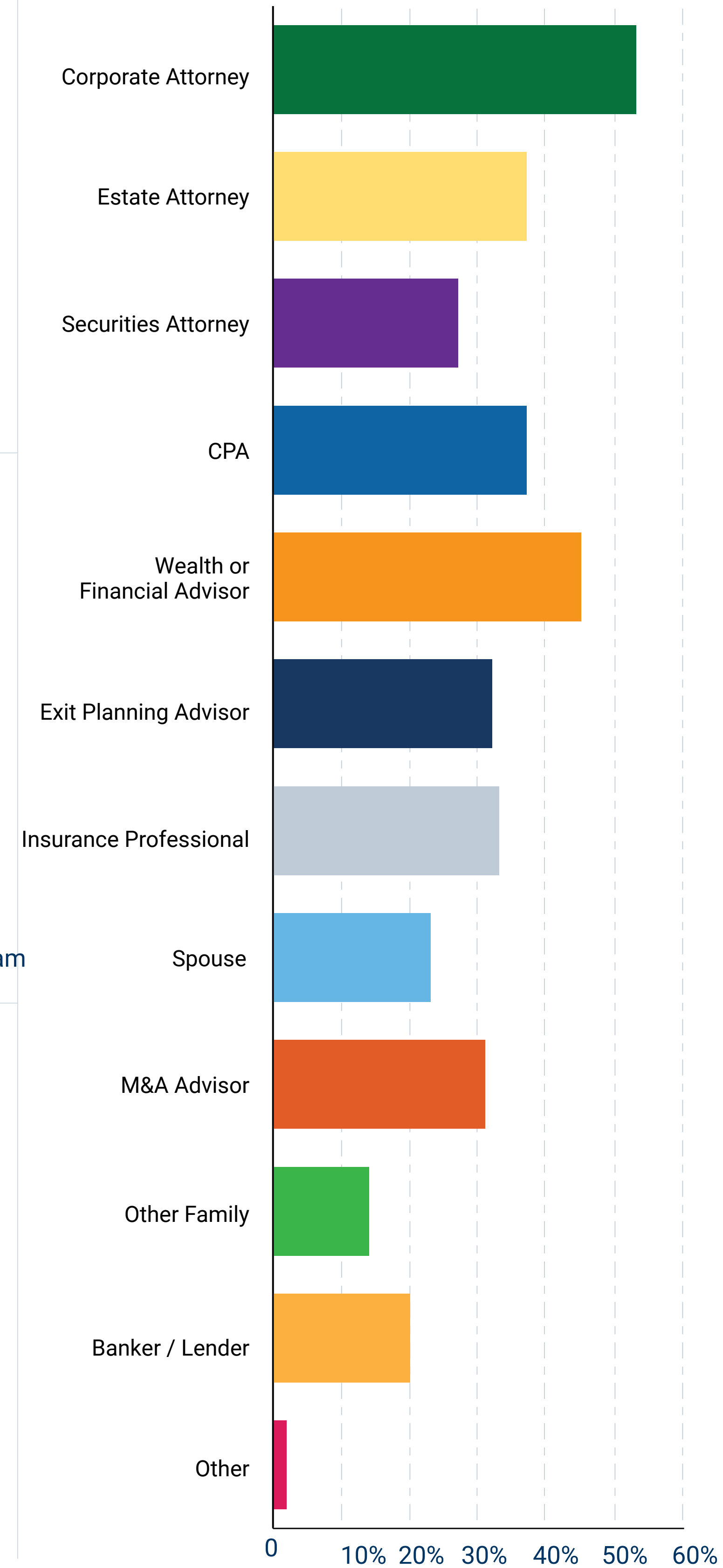
Have you established a formal transition advisory team?



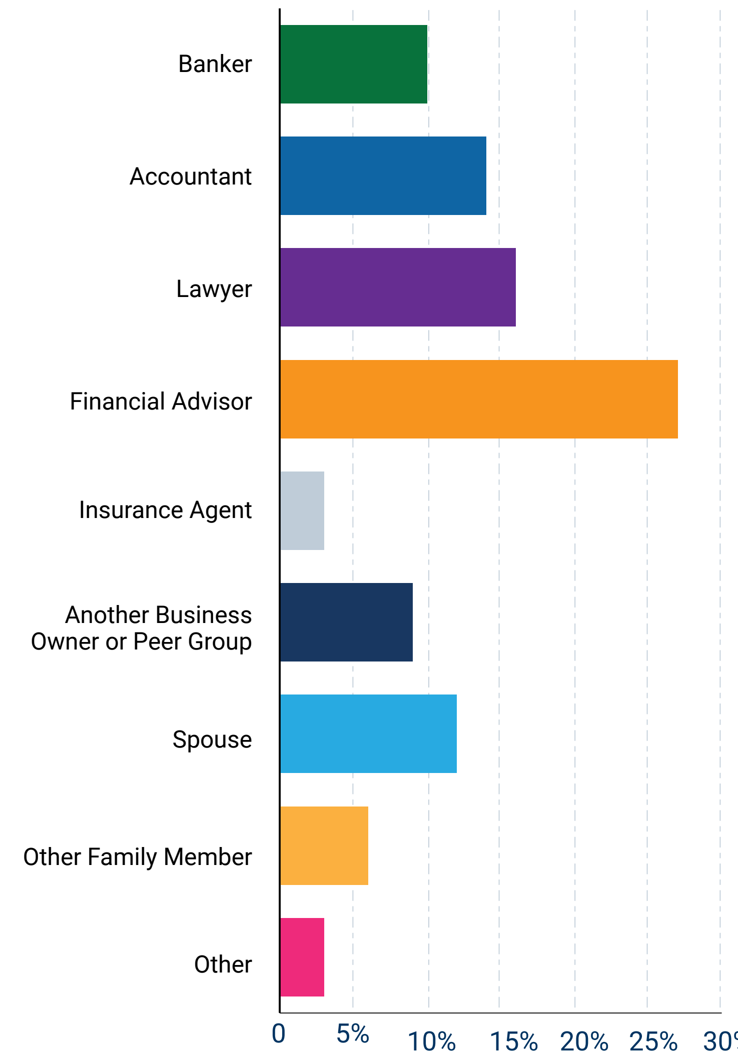
Do you have formal outside board of advisors?



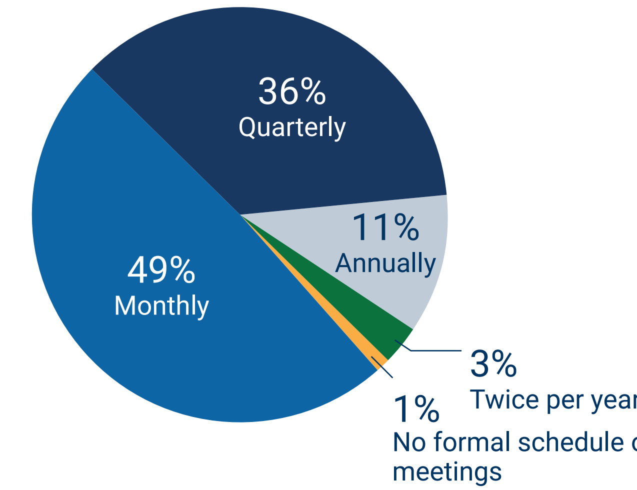
Please check all advisors that are on your transition team:



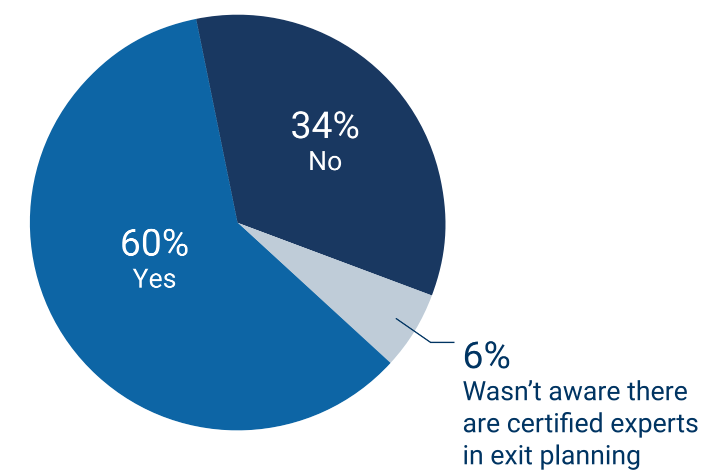
Who do you see as your most trusted Advisor?



How often does your board formally meet?

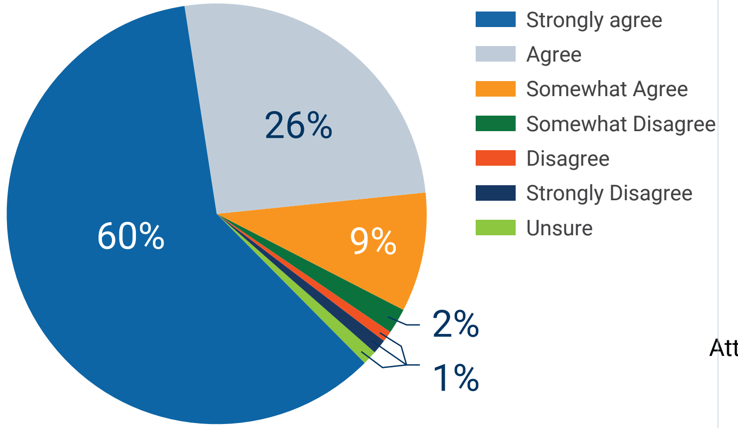


Have you worked with a certified professional in exit planning?

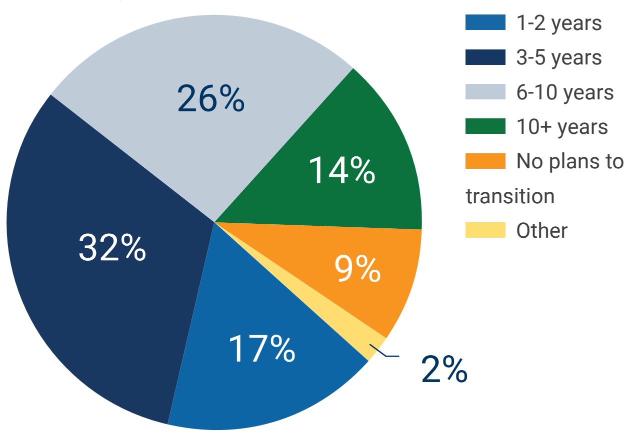


04 Importance of Transition Planning

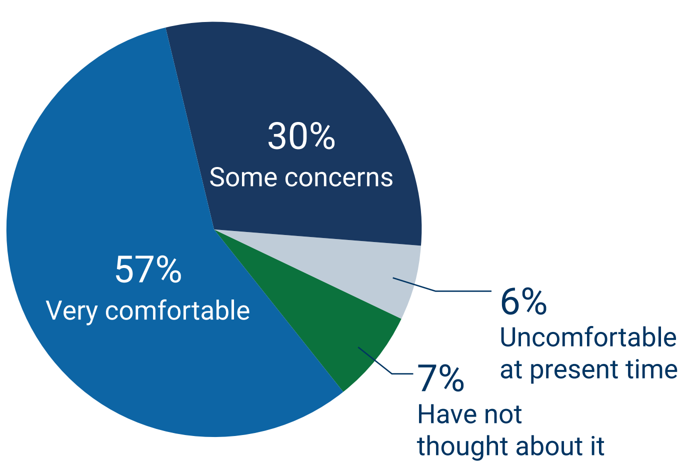
How much do you agree with the following statement? Having a transition strategy is important for my future as well as the future of my business.



When are you planning to transition the company?

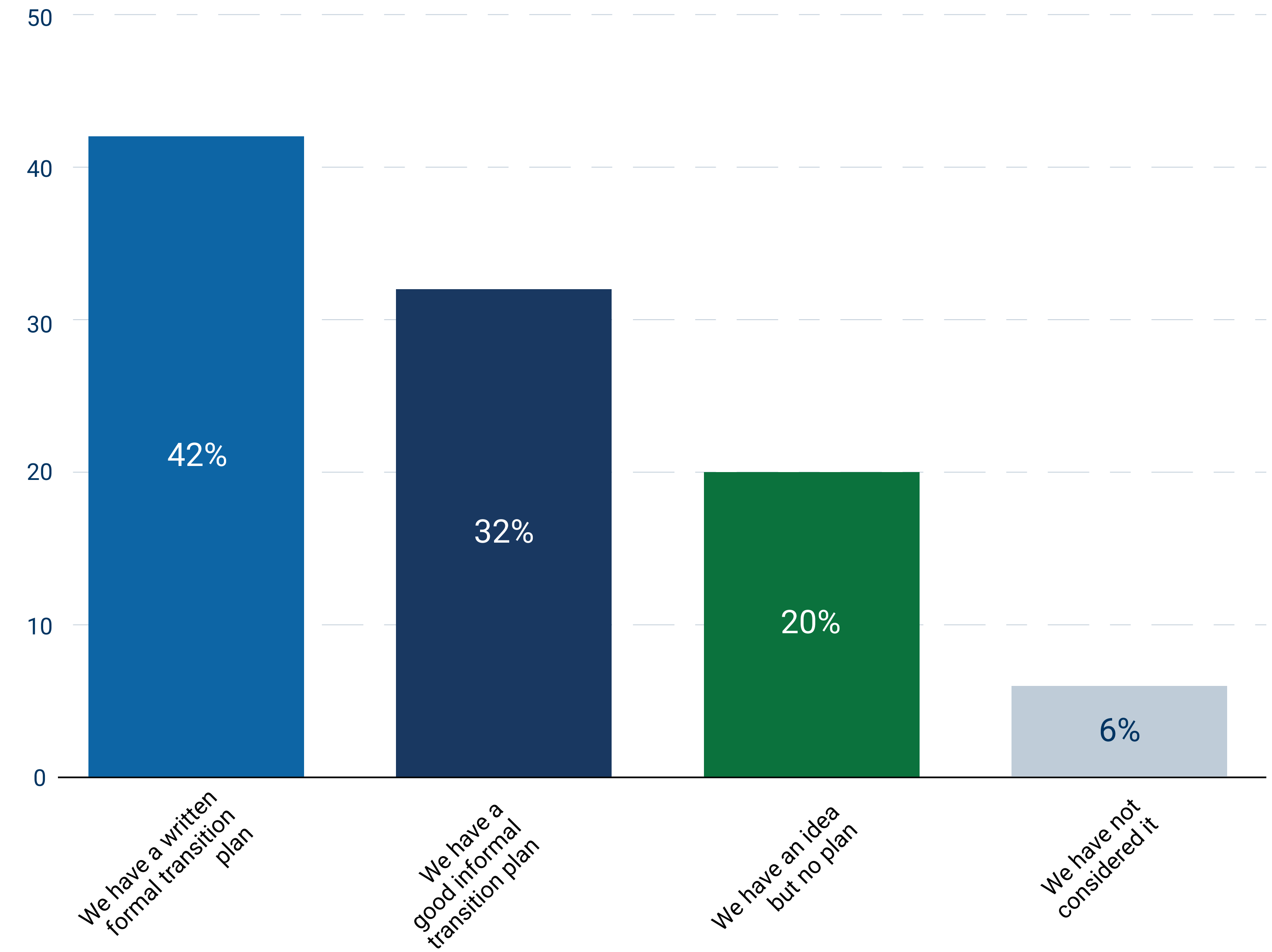


How comfortable are you that your management team will be successful with new ownership when your business transitions?

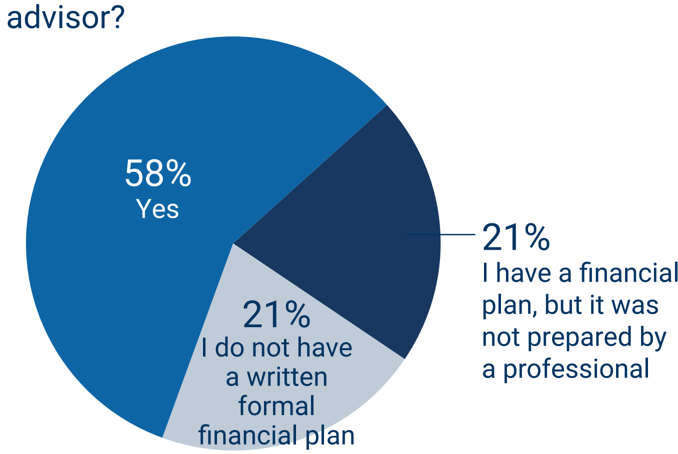


If you have a company transition plan, please check all that your plan encompasses (Select all that apply)

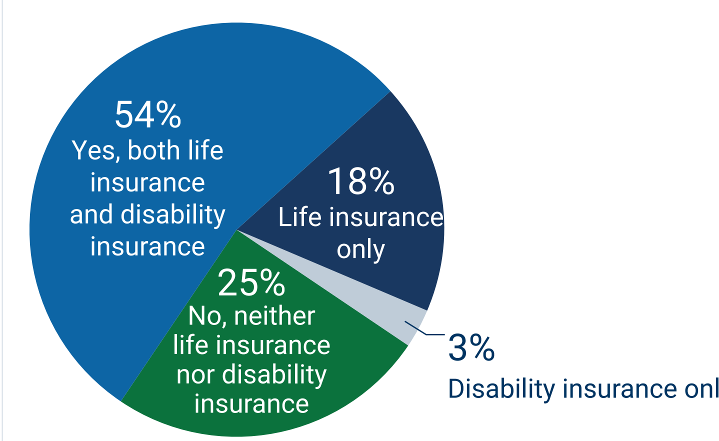
What best describes your company's transition plan?



Do you have a written personal financial plan prepared by a third party professional financial advisor?

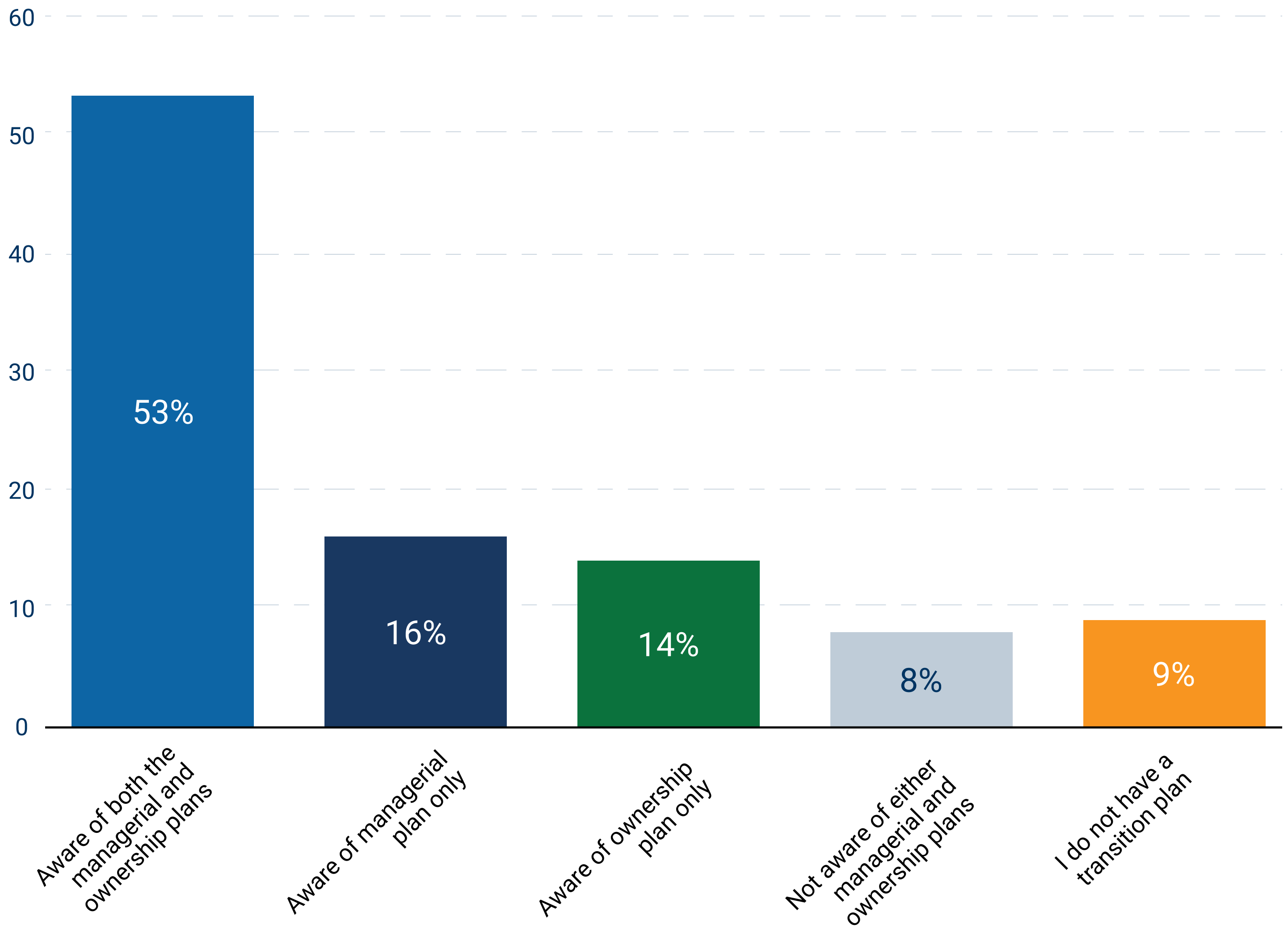


Is your buy-sell agreement funded by life insurance and/or disability policies?

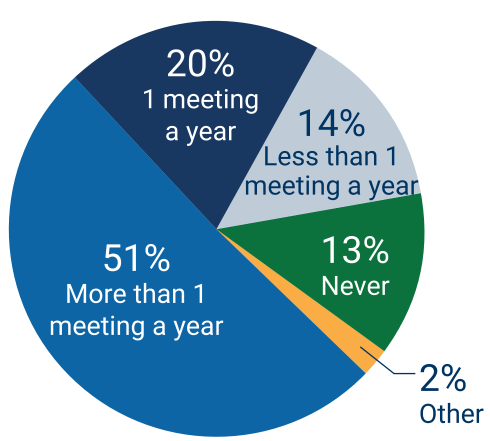


04 Importance of Transition Planning, continued

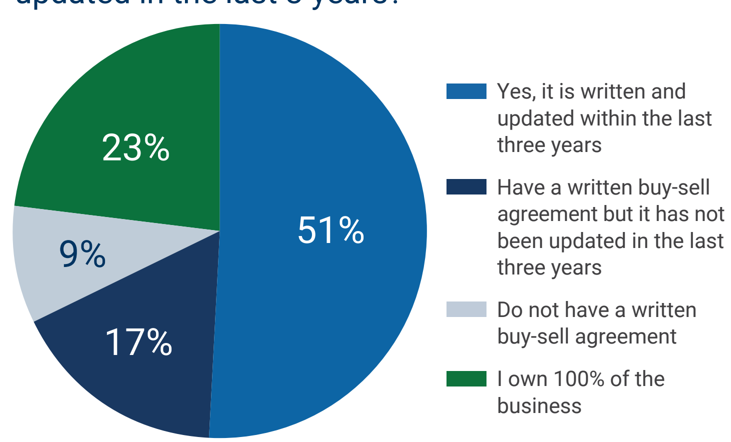
What best describes the level of family awareness of the managerial and ownership transition plans?



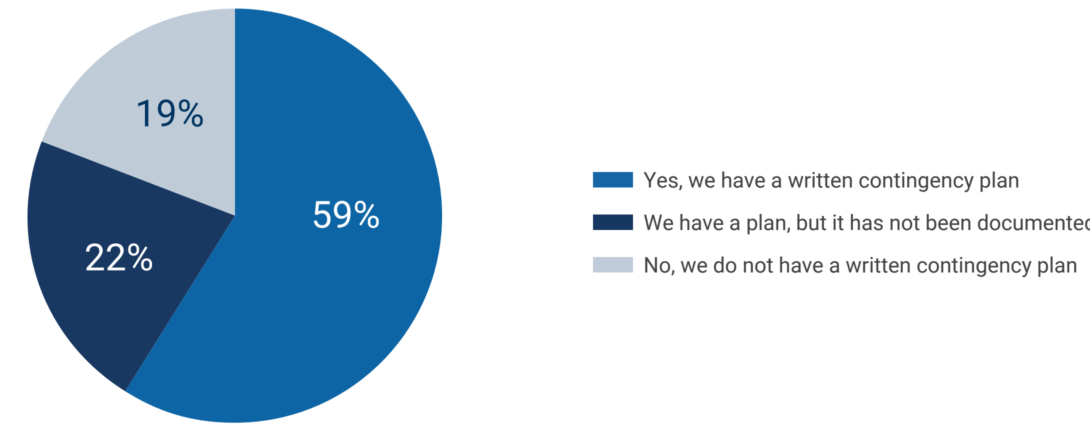
How often do you have formal family meetings regarding the business?



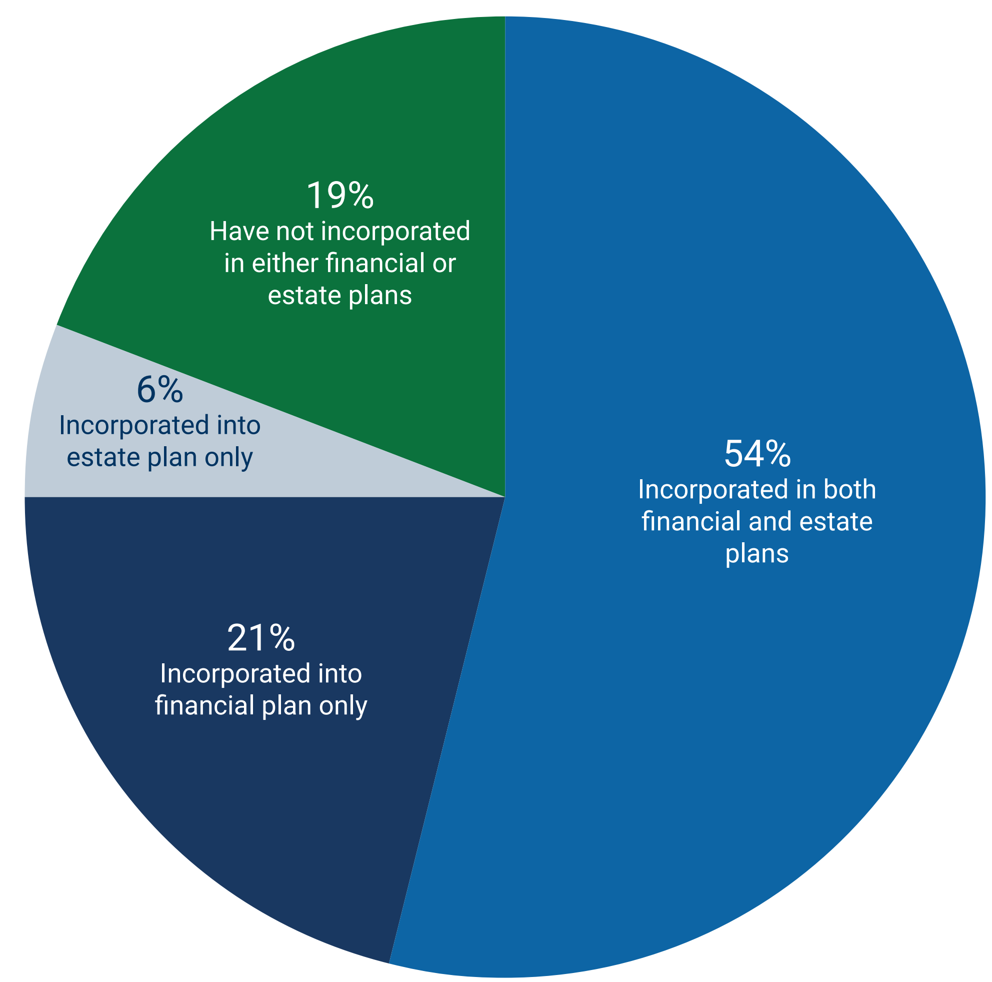
If there are multiple owners/partners in your business, do you have a written buy-sell agreement and has it been reviewed and updated in the last 3 years?



Do you have documented contingency plan in place for the business which addresses the possibility of a forced transition caused by death, divorce, or disability?

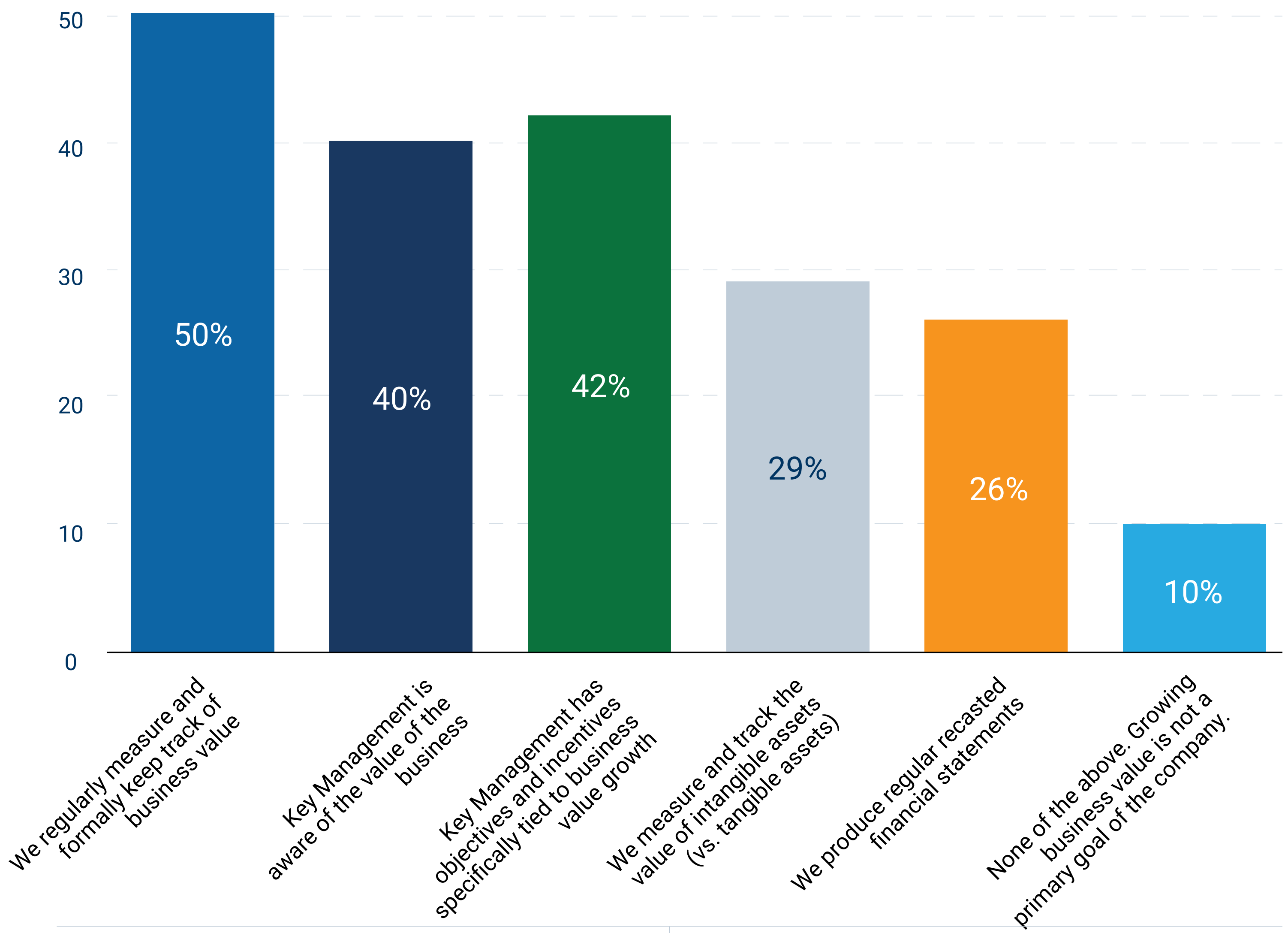


How would you best describe the level to which you have incorporated the transition of your business into your personal financial and estate plan?

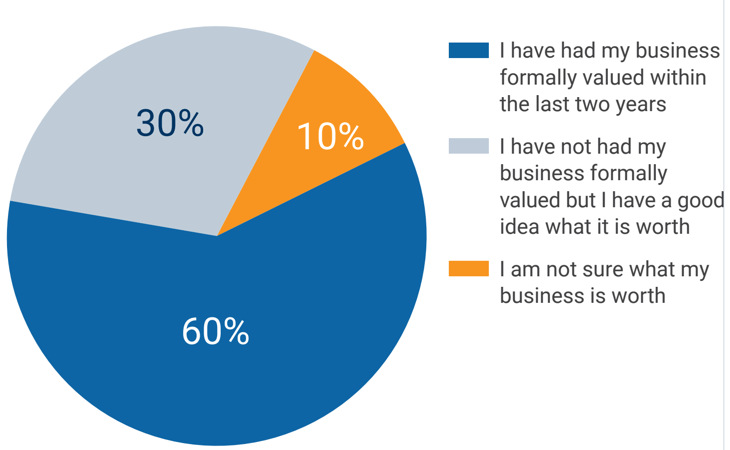


05 Business Value

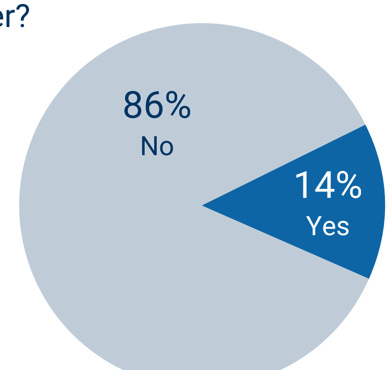
How focused are you and your management team on growing the value of your business? (Select all that apply)



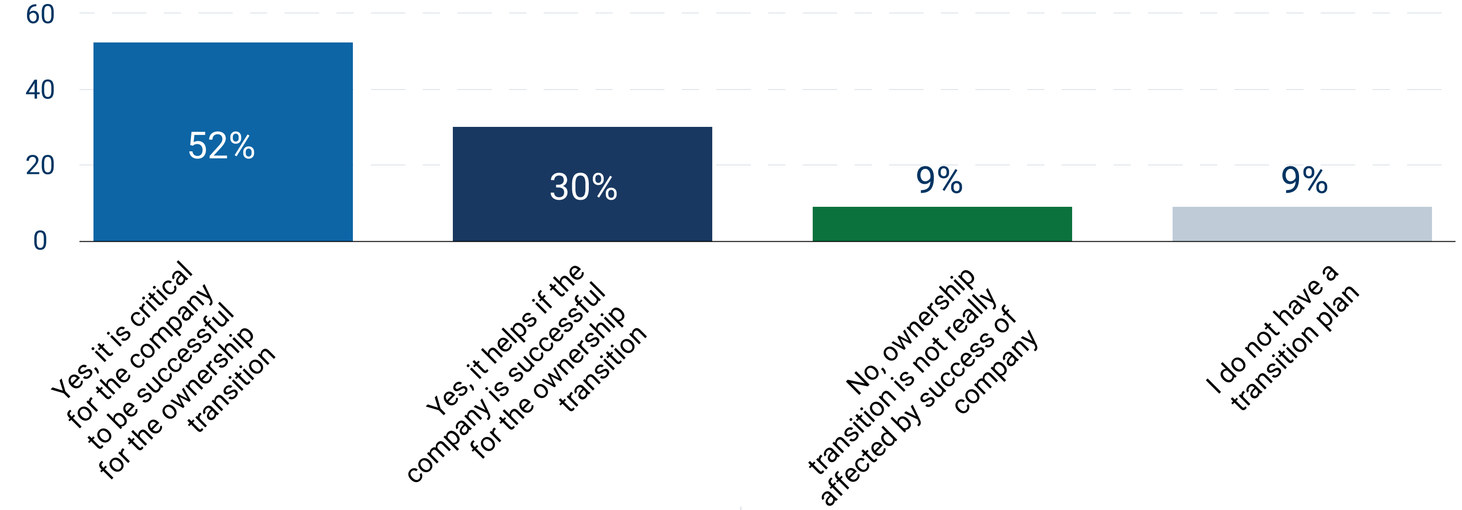
Which of the following best represents your current understanding of the value of your company?



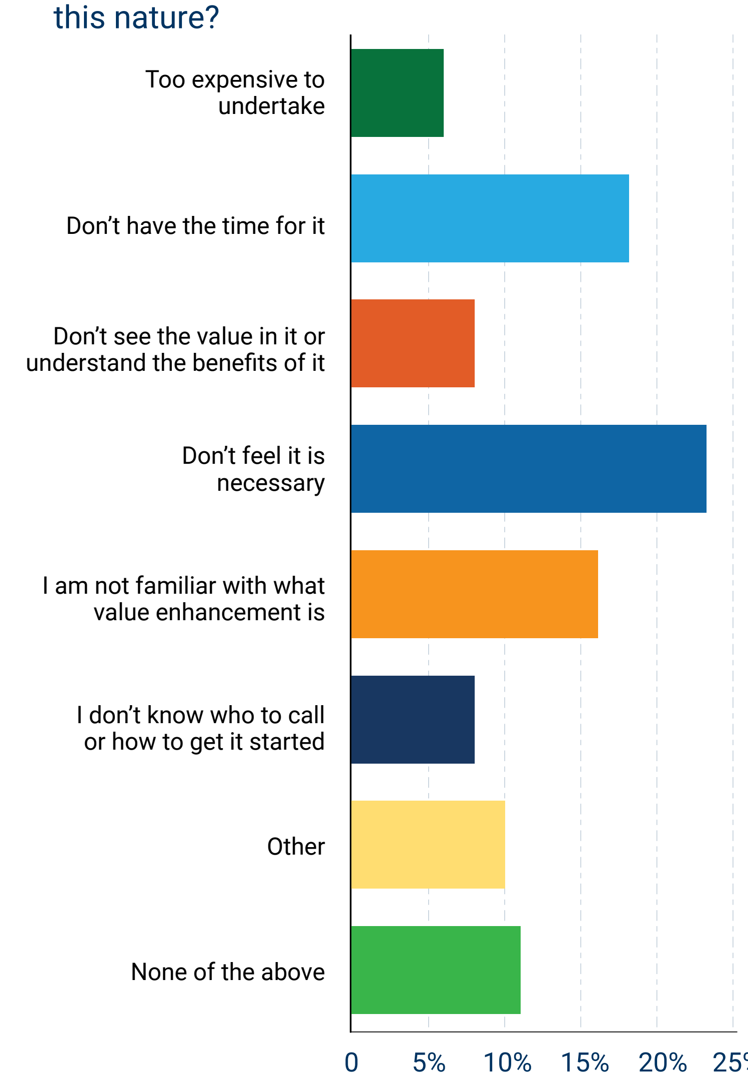
In the last two years, have you completed a formal, pre-transition value enhancement/preliminary due diligence project to de-risk the business, maximize its value, and position it to successfully transfer to a new owner?



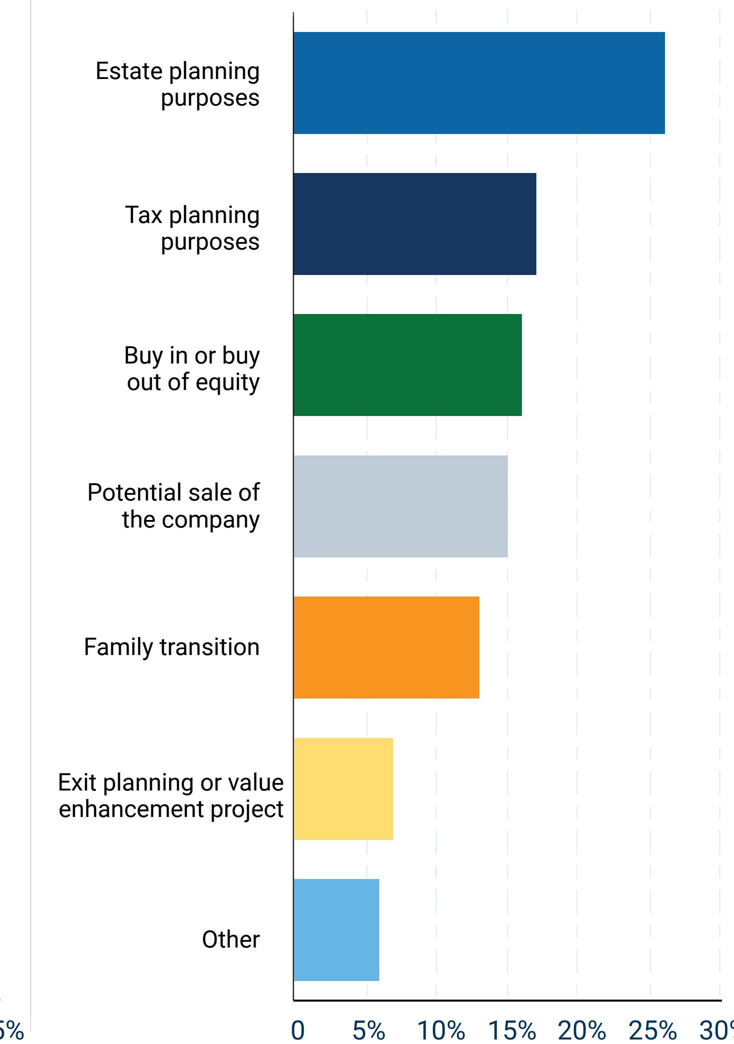
Does your transition plan require the company remain profitable for your plan to be properly executed?



If you've not had a formal pre-transition due diligence project, what is the primary reason you are not working on or have completed a project of this nature?

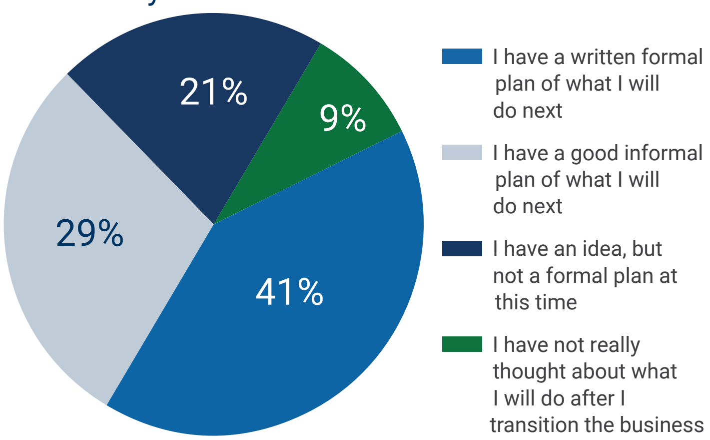


If you have had a formal valuation completed on your company, what was the primary reason for the valuation?

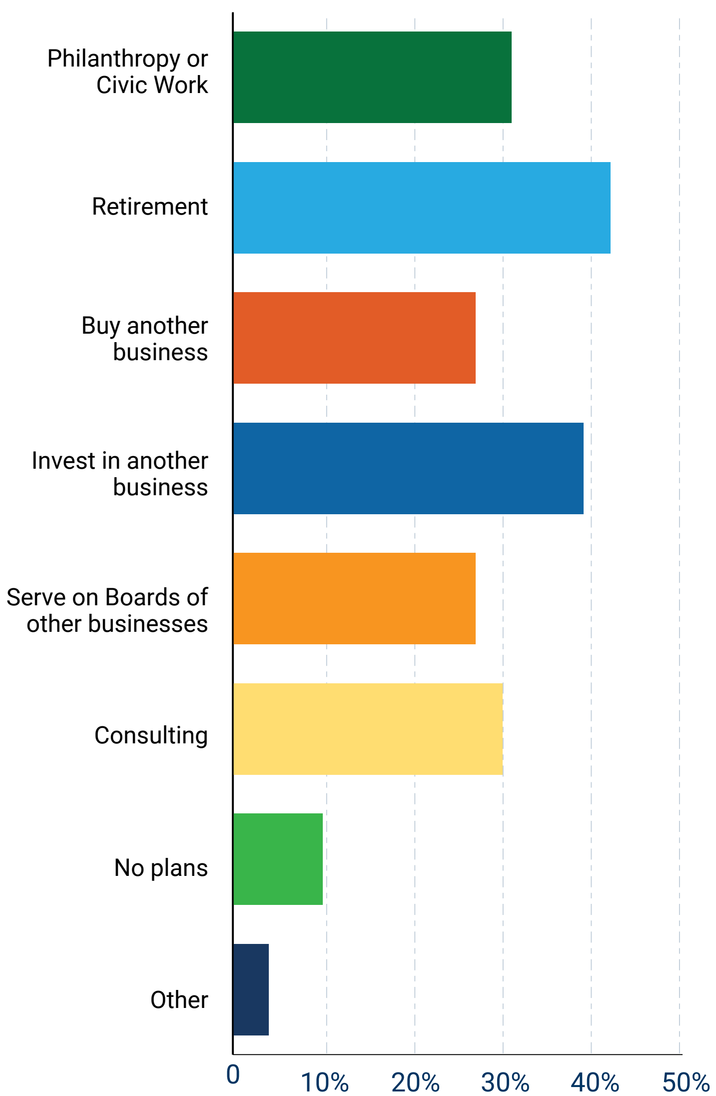


06 Post Transition Plan

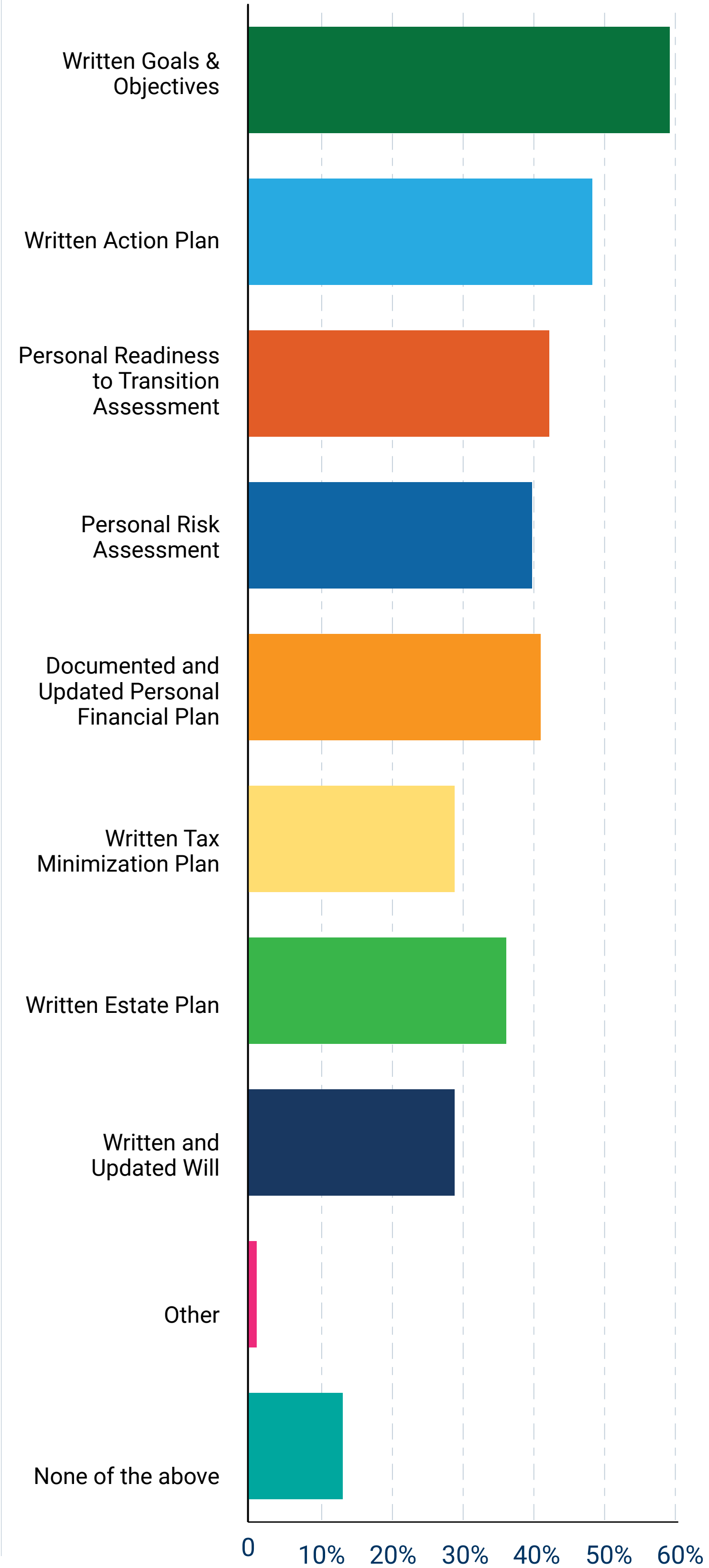
Which statement best describes your post-transition plan for what you will do after you transition your business?



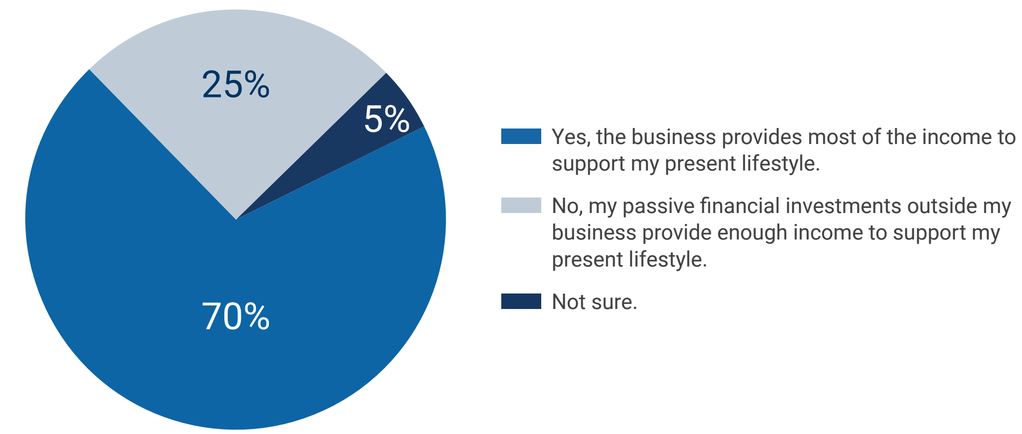
What do you plan to do post-transition? (Select all that apply)



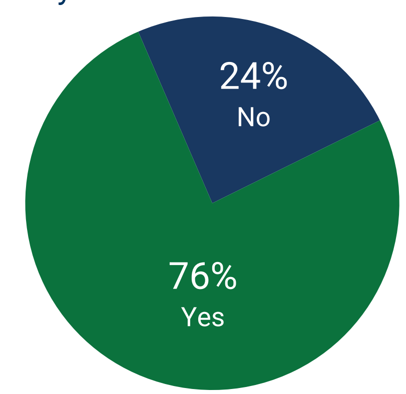
If you have a personal transition plan indicated in previous question, please check all that your plan encompasses. (Select all that apply)



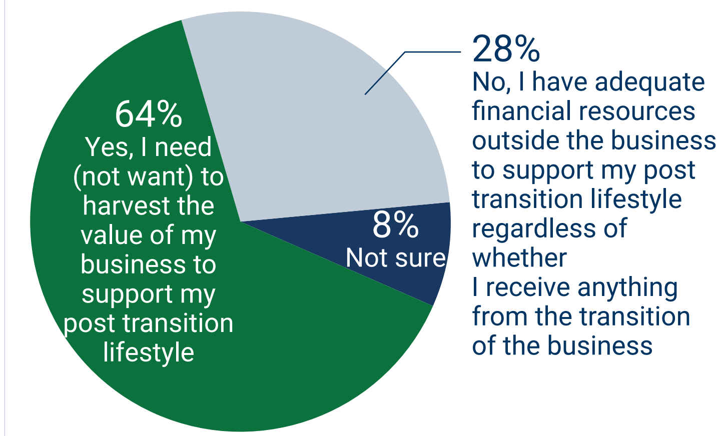
Do you need the income produced by the business to support your lifestyle?



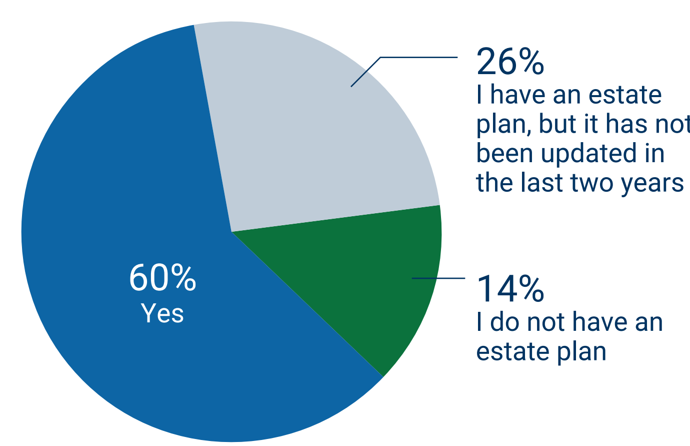
Have you determined how much you NEED (not want) to net after taxes from the transition of your company to fund your retirement, future goals, and future spending needs without income from your business?



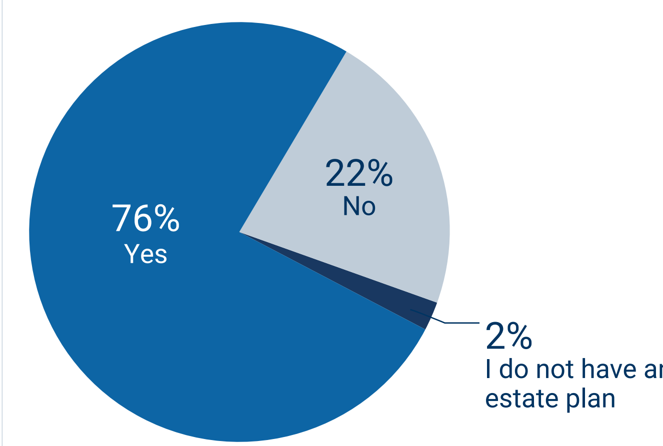
Do you need the proceeds from the transition of your business to support your lifestyle post transition?



Has your estate plan been updated within the last two years?



Do your estate and financial plans account for the sale of your business?



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