Be Prepared Baby Boomers… the Tsunami is Approaching

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As most of us have heard over the last few years that on January 1, 2011 about 8,000 Baby Boomers (people born between 1946 – 1964) turned 65 years of age. Every day for the next 18 years, others will turn 65 at the same rate. A lesser known fact is that, according to the US Census Bureau, 70% of all businesses (with more than 1 person on the payroll) or approximately 4.2 million businesses are owned by people over 53 years old.

It is inevitable, that at some point the business owner will transfer their business to the next generation of ownership. What are the odds of transferring those businesses when the owner is ready? The need to transfer their business will impact us all, as the baby boomer business owners try to capture their wealth they was created over their lifetime, but here is good reason to believe that there is going to be far less than they might expect. In fact, because of human nature, creates the elements of a perfect storm.

If every owner in the over 53 crowd is depending on selling their business to fund the next stage of their life (be it retirement or something else), the amount of capital required to close all those transactions is over $10 trillion dollars. The amount of capital is so astronomical, where is the funding coming from to fund those acquisitions?

In past business cycles there has been a stock market bubble, a housing bubble, a dot-com bubble, but never before have we seen an owner demographic bubble. This “age wave” is coming like a tsunami.

There is currently about $535 billion in funds available (“private equity overhang”) to acquire businesses — nowhere near the amount of equity needed to do even 10% of the transactions that will be up for sale. Even if fresh investment capital becomes available, the amount of supply will drive values down significantly.

There is a Market Transfer Cycle, and every ten years or so there has been a downturn in the economy. Today, we are in a seller’s market, but industry experts predicts that sometime over the next three years down market will repeat itself. When it does, it will become a buyer’s market of major proportion and it is my opinion that only quality companies in market sectors that are trending up that transaction will close at a expected value. There are three major forces at work and together they are impacting the owner's situation exponentially:

- ✓ Many businesses for sale. In addition to those businesses owned by retiring baby boomers, there are over 7,700 companies in inventory that are currently owned by private equity firms that will become available. Furthermore, there are owners less than 65 years old who will be seeking capital for growth initiatives. There will be lots of competition for the retiring business owners and all of it will drive prices down.

- ✓ There are not nearly enough funds to satisfy all the sellers looking to transact. Private equity fundraising won't be able to keep up. Limited funding will make buyers very selective and only the sectors that are trending up will get done and even they will have reduced purchase price multiples.

- ✓ The economy goes in cycles and there is only about another three years left to the current seller's market. Can an owner really afford to wait it out until the market cycles back? It may take significantly longer than any time in the past.

What's the result? Only the best deals — maybe top 10% — will reach the closing table. If owners miss this current cycle they will have to wait at least eight years until the market starts to turn in favor of doing deals again, all the while, the boomers are flooding the market with their companies up for sale.

Therefore, if you are a business owner, with thoughts of selling anytime in the next eight years, how do you achieve getting your company in a very competitive position for a transaction?

First: Establish a sense of urgency and a realistic view of the value of your business today. Look at it the way a buyer would. Remember the value for the buyer is based on what he can get out of it, not what you put into it.

Second: Get a road map developed now to increase value. This can be done without significant growth, dramatic improvement in earnings or even increasing your debt. Hitting the current seller's market window means getting the business ready for a sale process in the next year (it might take another year to find, negotiate, and close on an acceptable transaction).

Third: Create priorities for how you focus your efforts over the next 2-3 years. You've spent a lifetime working "in" the business, now it's time to start working "on" the business. This isn't like selling your house where you can get it market-ready in a month or so.

Finally: Get some assistance from Neri Capital Partners (www.nericap.com) Based on our knowledge of the market there is no doubt that the tsunami is coming, and riding it out without eroding your Company's value will be extremely difficult. Transaction issues here are vast and complex so finding a professional who has a portfolio of clients that have done precisely this is difficult. It is our belief that it is almost impossible to go it alone and expects to be successful. After all, you still have a business to run and other demands on your time. In summary, the ROI to represent an advisor to shepherd you through the exit planning process is a solid investment.

About Author:

Michael Togneri is the co-founder and Managing Partner of Neri Capital Partners, a boutique investment bank and advisory firm based in Atlanta, Ga.

Mike is a successful entrepreneur and corporate executive. In his career he was co-founded of two national companies, and has held key management positions with private and public corporations. As an advisor he has completed over 85 transactions with a cumulative value of over $1.5 billion.