

THE “SILVER TSUNAMI” AND ITS EFFECT ON THE M&A LANDSCAPE

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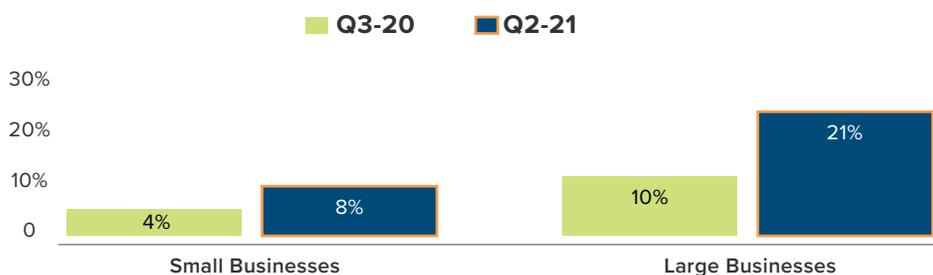
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INTRODUCTION

With record numbers of Baby Boomers seeking to sell their business, many are facing a common problem: their would-be heirs would rather have the proceeds of a sale than take over the family business. This complication has forced many Boomers to retain ownership and delay retirement. The consequences have caused an accumulation of businesses for sale. As a result, a meaningful amount of wealth stands to trade hands in coming decades as retirement-aged business owners leave the workforce.

NUMBER OF BUSINESS OWNERS LOOKING FOR EXIT OPTIONS



Source: U.S. Census Bureau; Federal Reserve; Wilmington Trust Business Owners Outlook: Rush to Retire (Q2 2021)

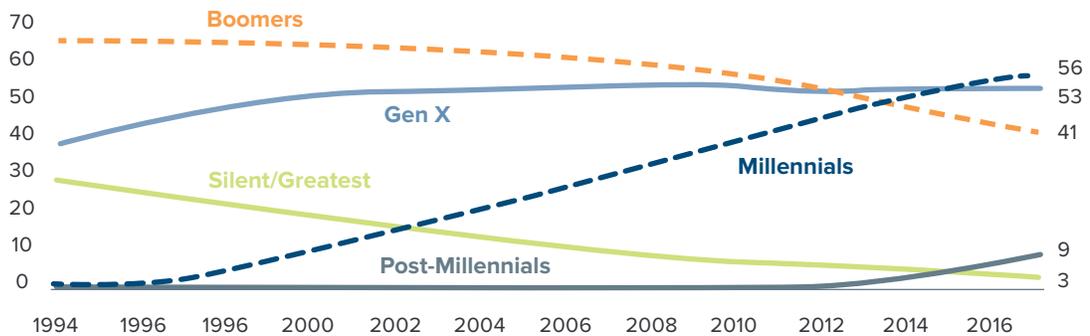
Of the approximately 77 million Baby Boomers in the U.S., an estimated 12 million have ownership in privately held businesses. Roughly 10,000 Baby Boomers reach retirement age every day, meaning all members of this generation will reach age 65 by 2030. As the Baby Boomer retirement era continues and ownership stakes are passed to next generation of leadership, an estimated \$10 trillion worth of business assets is expected to be transferred. Ultimately, the ~\$100 trillion net worth of individuals over age 55 (as of Q4 2021) will be passed on to successors and inheritors. The key result: reduced motivation of inheriting generations to join the workforce.

A Shift in the Labor Force

Since the early 2000s, the economy has witnessed a gradual shift of business ownership into new hands as Baby Boomers retire from the workforce and motivated young professionals take over control. Despite their gradual exit from the workforce, Boomers still account for a considerable portion of U.S. economic activity, representing over half of all privately held businesses in the U.S., with an estimated \$6.5 trillion in revenue generated annually.

We’re living in a world of work created by Boomers, a generation that relied on women and post-WW2 employment to establish financial stability. However, Boomers are no longer the ultimate driver of our economic future: as of 2016, Millennials are the largest segment of the labor force – a group with different attitudes towards employment and business ownership altogether.

U.S. LABOR FORCE (MILLIONS)

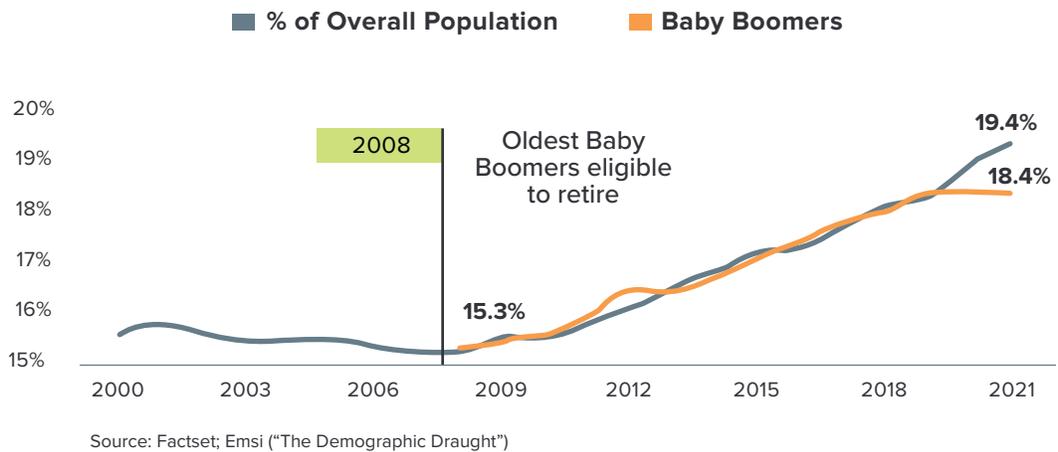


Source: Factset; Emsi (“The Demographic Draught”)

Even though some Boomers opt for a “Phase II” career, working fewer hours for less money, many have preferred to remain in long-term roles past the traditional retirement age and still hold prominent positions in government and business. Today, about 80% of S&P 500 companies have Baby Boomer CEOs and approximately one-third of that group is 65 or older.

Technological advancement and turbulent business conditions have served as accelerants for Baby Boomers leaving leadership roles, persuading the generation out of mainstay positions. Further, Boomers who remained at the helm through the pandemic have begun looking towards retirement as they consider how much longer to remain in control of their company, especially as the post-pandemic economy looks vastly different than the pre-pandemic era.

DEMOGRAPHICS OF ANNUAL U.S. RETIREES

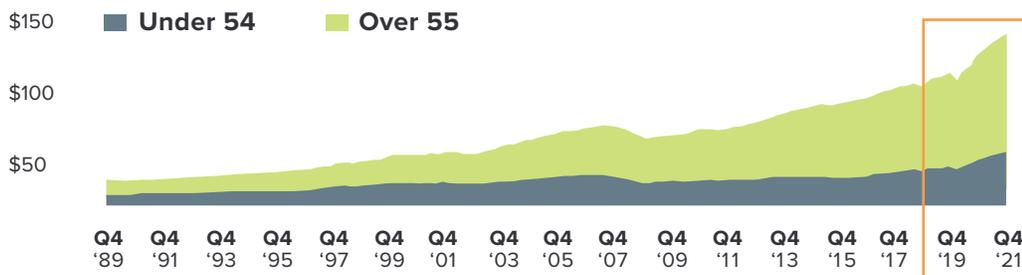


Many Baby Boomers were forced to delay retirement plans and lead businesses through the pandemic, while many, including parents and entrepreneurs, abruptly exited the workforce.

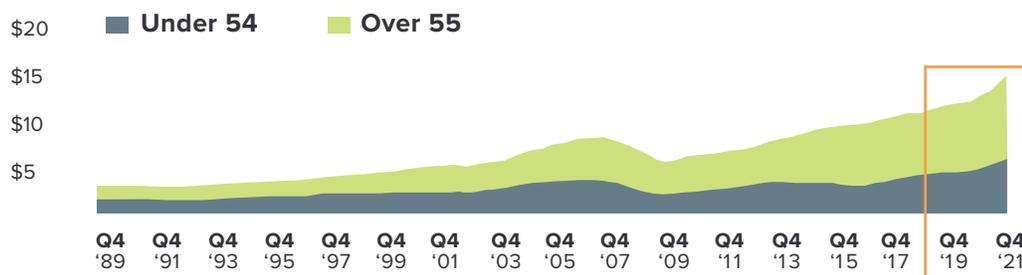
Boomers Face a Number of Challenges with Succession Planning

Pandemic-induced asset appreciation served as a catalyst for wealth among business- and home-owning Boomers who realized significant gains in personal value, further fueling a workforce exodus. From Q4 2019 through Q4 2020, net worth among individuals aged 55-69 jumped 22.8% and while those age 70+ surged 30.6%. This significant value appreciation, combined with a population of Boomers driven to sell their businesses while valuations are at all-time highs, tees up a momentous transfer of the recent gains.

NET WORTH BY AGE COHORT (\$TRILLIONS)



PRIVATE BUSINESS ASSETS BY AGE COHORT (\$TRILLIONS)



Source: Federal Reserve

The problem: Gen Z and Millennials have decreasingly taken interest in working full-time and especially taking on the stress of being a business owner. On top of a 37.5% increase in wealth amongst the cohort ages 54 and below since the pandemic began, many heirs would prefer their inheritance – the cumulative \$100 trillion net worth of those aged 55+ – to be a one-time cash payout.

The youngest Baby Boomers are now reaching their 60s, meaning the window of retirement for the generation is fully open. The large proportion of Baby Boomer business owners reaching retirement suggests a high likelihood of business sales, closures, and transitions in leadership in the coming years.

As retirement-aged business owners have contemplated selling their business, many have faced societal problems that have resulted in few interested and qualified inheritors:

- Generation Z and Millennials are often not inclined to take on the stress of being a business owner
- Family members are often not qualified or interested in taking over a business
- Other possible heirs would often rather have cash than take on the business

These challenges coincide with a lack of effective succession planning. With technologically focused marketplaces accelerating in 2022, the subsequent wave of tech-proficient workers serves to push potentially less tech-savvy Boomer cohorts out of leadership and ownership roles.

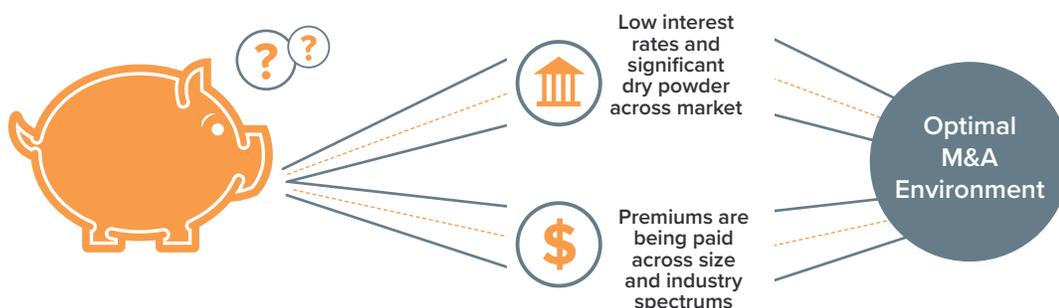
PRIVATE BUSINESS ASSETS BY GENERATION



Source: Federal Reserve

Record Levels of Dry Powder and Record-Low Interest Rates are Fueling M&A Activity

Additionally, with interest rates and capital gains taxes widely anticipated to increase, the urgency of executing a sale is more powerful than ever. Fortunately, the high supply of sellers is being met with record levels of dry powder and record-low interest rates across the economy. Now-or-never motivations, combined with excess liquidity in the marketplace, sets the stage for record deal flow over the next 10+ years.



Favorable market conditions for sellers have led to heightened M&A volume and value over the last few years. Owners and entrepreneurs who were able to survive the economic downturn of 2020 & 2021 have greatly benefitted from lower interest rates, PPP loans, and other government assistance that have helped boost M&A activity. Historically high liquidity in the marketplace has led to significant increases in sale prices for business owners. **The median selling price of a business increased 30% Q1 2021 as compared to Q1 2020.**

U.S. M&A ACTIVITY AND DEAL VALUE (2014-2021) - \$ IN TRILLIONS

Looking ahead, many small business owners are optimistic for better business conditions and increased earnings despite fears of increasing costs of supplies, a labor shortage, and overall effects of the pandemic.



Source: California Association of Business Brokers, NFIB

Finding the Right Buyer for Your Business

As business owners contemplate exit and succession strategies, careful consideration must be made when deciding the appropriate buyer:

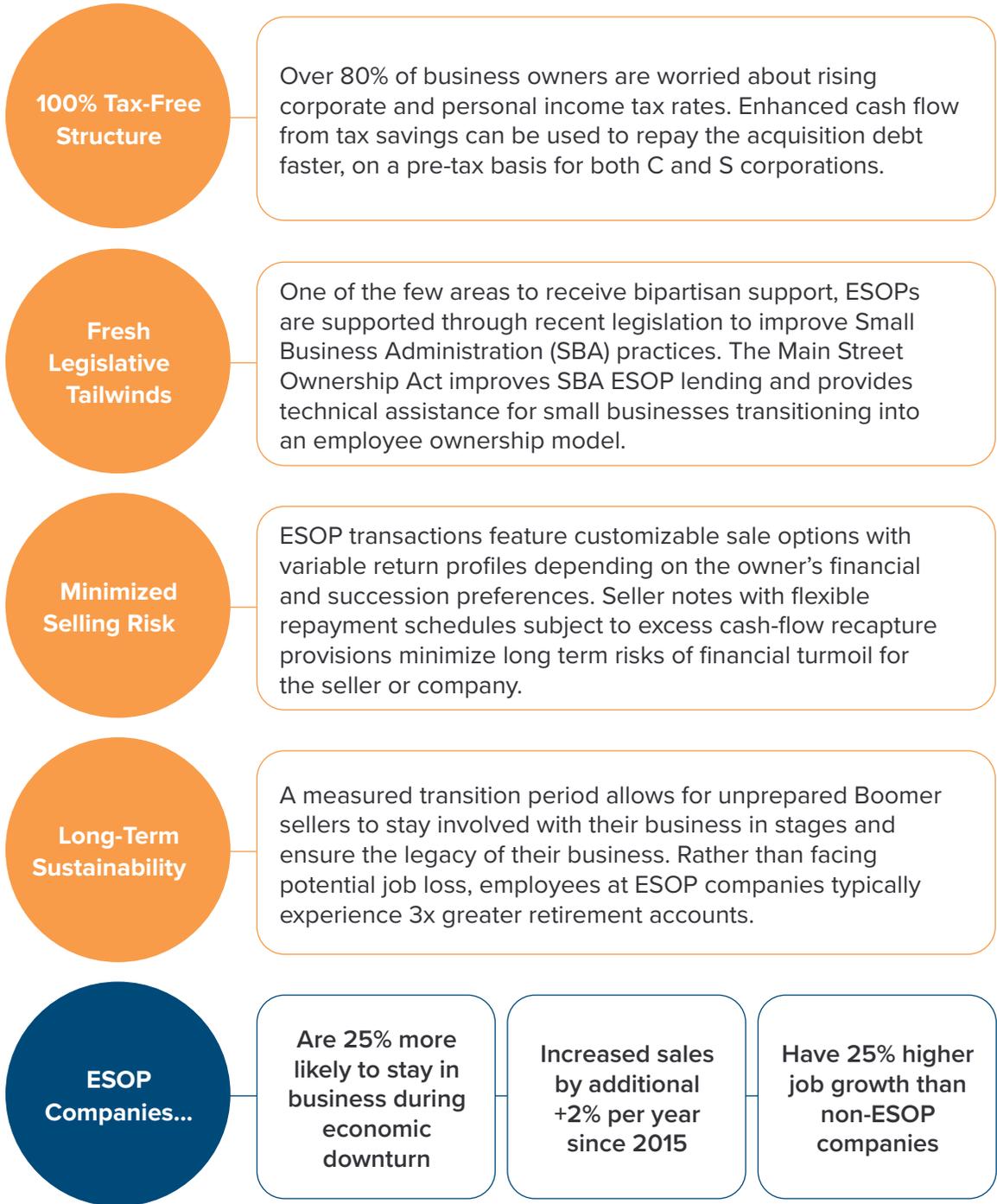
ILLUSTRATIVE BUYER COMPARISON

	Strategic	Financial	ESOP
Primary Objectives	Business Expansion	Return on Investment	Value Creation
Company Legacy	Likely Absorbed	Likely Sustained	Sustained
General Execution Timeline	6-9 Months	6-9 Months	4-6 Months
Advantages	New synergies or enhancement of existing business offering	Possible management equity participation or option incentive plan, allowing participation in Company's future growth	All parties properly incentivized to generate long-term growth for Company

Source: California Association of Business Brokers, NFIB

Most small business owners do not recognize the extent of their options during a sale process. Employee Stock Ownership Plans (ESOPs), for example, provide a customizable sale and limited execution risk, among other incentives. With a possible increase in capital gains tax, a 1042 ESOP tax deferral may become even more meaningful for owners.

ESOPs are an Increasingly Attractive Opportunity



Source: Milwaukee Business Journal, NCEO

Conclusion

When to sell a business is rarely strictly an economic decision. However, economics should enter into the decision-making process. After-tax realization of your life's work is a function of EBITDA growth (business cycle), inflation and interest rates (which business owners cannot control but can anticipate), and taxes (tremendous deficit spending increases the probabilities of higher and higher taxes).

Gauge your decision from an economic perspective by knowing how the value of your business is impacted by higher interest rates, a dynamic tax environment, and a stock market that is no longer trending like it did from 2009 through 2021.

ITR Economics provides business leaders with economic information, insight, analysis, and strategic direction, and has an uncommon understanding of long-term economic trends as well as best practices ahead of changing market conditions.

Our team of economists have cultivated a comprehensive understanding of how economic trends impact business operations and act as trusted advisors who you can lean on for guidance as you manage your business or contemplate an exit.

If You're Considering a Sale

Many different motivations can come into play when deciding to sell your company. If you are primarily interested in maximizing cash proceeds at the time of sale and exiting the business swiftly, then a sale to a strategic or financial buyer may be the best option. However, if you value factors such as the impact of a sale on your local community or the employees who have helped build your company—an ESOP may be a compelling alternative to consider.



Determining the best exit strategy can be a complex and stressful challenge. ButcherJoseph can help owners work through the process and ensure they understand the full range of options available. Before starting an engagement, we provide prospective clients with a [complimentary feasibility analysis](#) to help compare the potential outcomes of selling to an ESOP, a financial buyer or a strategic buyer.

This free service helps sellers learn more about the structure and the results for shareholders as well as the potential outcome for management and employees if an owner were to sell their business to private equity, a strategic buyer, or into an ESOP structure. As owners weigh their options, this complimentary analysis will help them and their team see the benefits associated with each transaction type, as well as our insights into current market dynamics.