

FOR EXECUTIVES SEEKING TO BUY, SELL, OR RECAPITALIZE BUSINESSES

2008: Exit Planning For The Year Ahead

2007 is over! That is a welcome relief for many business owners. After several years of solid growth, 2007 has been a harsh year for business executives. Empirical evidence suggests that a vast majority of businesses have seen their revenues stagnate or decline in 2007.

For Business owners who were planning to retire or cash out of their business for other reasons, 2007 was tough. Business was soft, long term interest rates were near 5 year highs, credit was hard to come by, and liquidity levels were low. All of these translated into a very negative environment for deal making especially in the housing, construction and retail industries. Business owners who had their businesses on the market saw less than stellar business valuations and, in several cases, found that their deals did not close as planned. Several other business owners who were planning on exiting held back - unwilling to face a reduced valuation and hoping things would be a bit better in the not so distant future.

As we look into 2008, it appears that we have not seen the bottom in the economy. Does this mean business owners should delay their exit/recapitalization decisions until late 2008 or 2009? Not necessarily!

When evaluating the consequences of environmental trends on the business sale/recapitalization process, it is useful to keep in mind that the business sale/recapitalization process for a mid market business can take about 12 months. Most acquirers/investors look carefully at business performance as they navigate through the deal process and positive trends along the way can be helpful in closing a deal and in getting the terms sought by the shareholders.

Here are some key factors business owners need to take into account while planning exit/recapitalization strategies this year:

- **Economy:** While we have not seen the bottom in the economy, some segments of the market are starting to pick up. Most construction related businesses continue to be in the doldrums, but the prognosis for several other business categories is getting positive. Based on the commentary we are hearing from industry sources, it seems likely that most businesses will end 2008 with more positive trends than what they are seeing now. These positive trends can be beneficial to companies and shareholders with near term plans to exit or to recapitalize their businesses.
- **Interest Rates and Liquidity:** Long term interest rates are inching downwards and credit is expected to get better as the year progresses. Twenty out of twenty top economists in a recent national poll forecasted interest rates to go down in the near

