

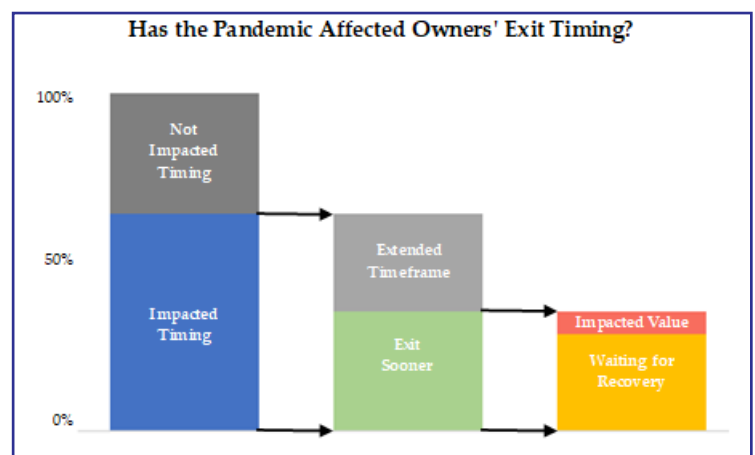
Survey on Business Owners' Priorities for 2021

Dunn Rush & Co. has surveyed its contacts in the Executive Coaching and Consulting professions (collectively, "Consultants") who work closely with the Owners and CEOs of privately held companies, to assess how their clients have responded to the unique challenges presented by COVID-19 over the past 12 months and to summarize their objectives for 2021. The Consultants in our survey average approximately 20 years experience and their responses reflect their work with more than 200 Owners over the past 12 months.

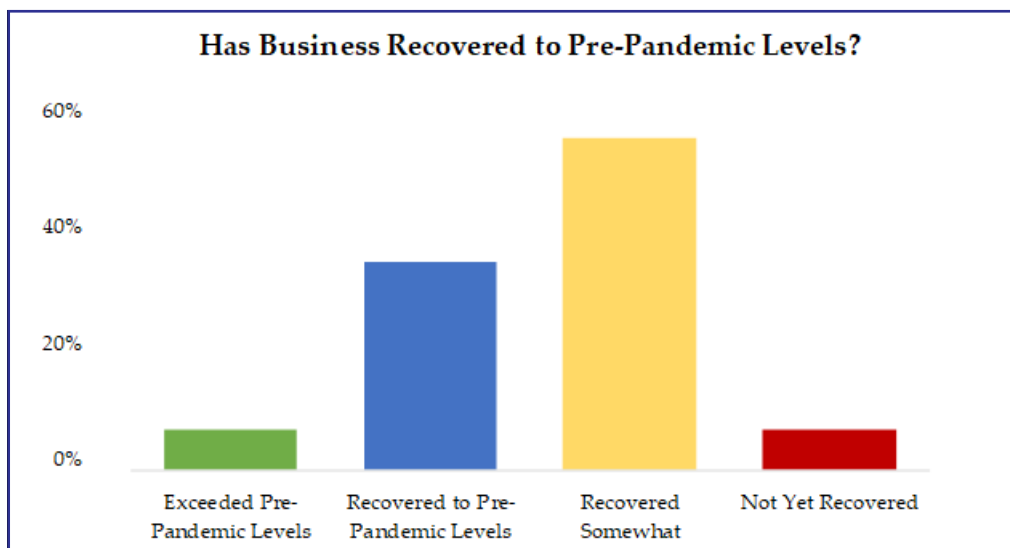
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Consultants to Owners and CEOs of businesses indicate that the pandemic has impacted their clients in many different ways, but one obvious area is on the stress levels they have witnessed due to COVID-19. All indicated their clients' business and personal stress levels increased, and **53% face significantly elevated levels of stress.**

When asked whether this increased stress had impacted the timeframe in which they hoped to exit, nearly two-thirds indicate that the pandemic has changed their exit plans. Of those Owners and CEOs whose timing has been impacted, 60% feel compelled to exit sooner than they had planned. **Most of the Owners considering an earlier exit plan to wait for their business to recover from the financial impact of COVID-19 before pursuing a transaction, but 20% are interested and willing to do so sooner, even at an impaired price or structure.**



More than half of the Owners and CEOs who work with these Consultants do not think that the pandemic has made them more apt to sell right now, but the responses vary widely depending on whether those businesses were impacted favorably (most inclined to continue to build value) or unfavorably (some have been compelled to seek a sale sooner) by the effects of the pandemic. However, **approximately 30% of these Owners and CEOs would like to sell their business in the short term but do not feel they can do so right now** because their company's financial performance has been adversely impacted over the past year.



One encouraging response from the survey is that more than 90% of businesses were considered to have recovered at least somewhat from the impact of the pandemic, and **approximately 40% of businesses have already recovered to pre-pandemic run rates or exceeded pre-pandemic performance**. On average those businesses that have at least recovered somewhat were impacted negatively for 4 to 6 months during 2020. Those who have not yet recovered estimate their businesses will not likely recover to pre-pandemic levels until late-2021 or mid-2022.

Perhaps not surprisingly given the results of the chart above, Owners and CEOs are generally quite bullish on their 2021 outlook. More than 25% believe that 2021 their company will perform very well in 2021 (as good or better than 2019 performance), and 67% believe their company's performance will be generally positive (better than 2020 and trending upward). None categorized their outlook as "negative"; all other Consultants expressed uncertainty about 2021 business performance and the timing of a full recovery.

In our view, perhaps the most alarming information collected in our survey is the apparent lack of awareness Owners and CEOs may have about how a potentially significant increase in capital gains tax rate would impact the net proceeds they would receive from a sale of their business. 67% of Consultants indicated that more than half the Owners they worked with were likely not aware of how a capital gains rate increase will impact them specifically. For those who are aware, Consultants

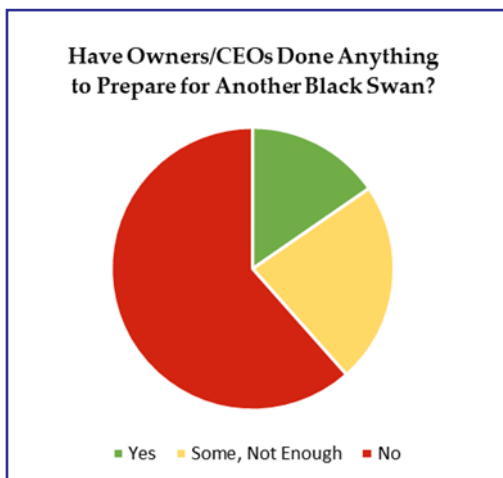
indicate that only about 25% have accelerated their exit timing due to the impact. If nothing else, an Owner or CEO should at a minimum be asking this question of their tax and financial advisors. Dunn Rush estimates that if the capital gains rate doubles from 20% to 39.6% (as proposed by President Biden), an Owner may have to sell their business for a 30% higher price just to achieve the same net proceeds they would receive in a sale today. This is not a small consideration and an Owner or CEO should evaluate their situation carefully. We always advise to never let the “tax tail wag the dog”; however **if an Owner is already thinking about an exit sometime in the next 2 or 3 years, they should consider whether they could execute a favorable transaction in the current tax and M&A market environment.**

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A related question is whether Owners and CEOs are aware of how much time and preparation it typically takes to sell a business, and whether they are adequately prepared to do so if they choose to sell. The answer to this question comes as no surprise, as in our experience even the most prepared Owners and CEOs underestimate what is required and how long it takes to sell a business. Consultants indicated that almost 30% of Owners and CEOs are generally unaware and unprepared, and another 33% are relatively unaware and only reasonably well prepared. Less than 7% they felt were very aware and very well prepared.

The bottom line is that every Owner and CEO should always be familiar with what their business might be worth, how to increase its value, the potential implications of changes to the tax code, and how these things impact their estate planning. But the recent impact of COVID-19, coupled with potentially meaningful tax increases in the near future, makes it a particularly important time to understand these things very clearly.

Regardless of the timing of an Owner’s or CEO’s plans for exiting the business, one might believe that the pandemic would cause them to become more intentional and specific about their succession plans. When asked, Consultants felt that this is an area of weakness – none believe it is



“very common” for Owners and CEOs to have a detailed succession plan. Approximately 40% of Owners and CEOs think they have a plan but it is informal, and the remainder only have a vague idea or have not thought about it at all. Similarly, few believe that enough planning has been done to prepare for the next “Black Swan” event. Perhaps this can be attributed to the focus, time and effort that has been required in dealing with COVID-19, but clearly there is a belief that more needs to be done to develop more detailed contingency plans for the future.

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We asked whether Owners and CEOs would consider a management buyout or ESOP as a potential exit strategy or succession plan, and Consultants felt that only 27% would be likely to do so – and that would heavily rely on the ability to identify an obvious leader going forward. 40% were not likely to consider such a transaction, and 33% were highly unlikely to consider it, primarily due to the assumption that a third-party sale would result in the best price and terms.

Lastly, our survey asked how Owners and CEOs were managing employees through the pandemic, and what requirements they were considering for employee vaccinations prior to returning to the office. One-third of these companies now have a

“significant percentage” of their employees working remotely, and another 60% report at least some employees working remotely. Less than 10% of these continue to operate with most of the workforce on-site. Coincidentally, Consultants also indicated that less than 10% of Owners and CEOs expect to require a vaccination prior to returning to the office. More than half expect to encourage vaccinations for employees as soon as they become available, and surprisingly the remaining 40% have no specific policy in place regarding vaccinations prior to returning to the office.

SUMMARY

In conclusion, Owners and CEOs clearly have a lot on their plate in 2021. The impact that COVID-19 has had on businesses, their employees and the people responsible for managing through these difficult times has been profound. The good news: many businesses have now recovered to levels of performance as good or better than before the pandemic. The bad news: there continue to be many challenges ahead, and with so many critical tasks it can be difficult for an Owner or CEO to focus on their own priorities and the time and preparation required to execute them well and efficiently. If you are an Owner or advise an Owner who is thinking about a potential exit in the next few years, it is important to evaluate whether it may be better to consider a transaction now in a favorable tax and M&A environment. An Owner or CEO always has the ability to decide what they want to do and when they want to do it, but they should always be making those decisions armed with the best information available.