

# Succession counts: baby boomers' dilemma



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Demographics in markets such as the US are changing. This year millennials will reportedly become the largest generation, overtaking baby boomers. Meanwhile the latter continues to move into retirement, many of which are company owners, putting the future of trillions of financial assets into question.

Unfortunately, many of these company owners – particularly in the small to medium-sized company sector – do not have exit plans or readily available means to transfer or sell their businesses. This presents an interesting and growing opportunity for private equity firms and the wider investment community.

In our opinion, private equity is one of the few options for small business owners to generate liquidity and transition their

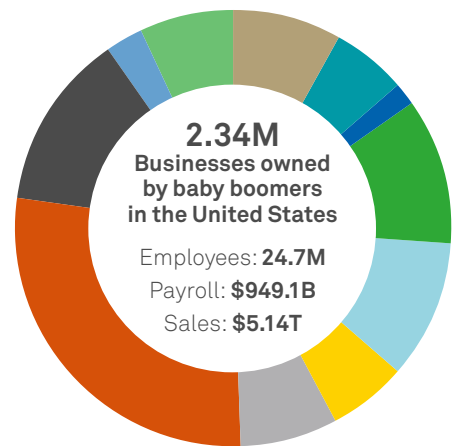
businesses in preparation for retirement. Private equity firms providing capital from dedicated buyout funds can help these owners generate liquidity. Private equity involvement allows business owners to tap into institutional capital often for the first time and facilitate their succession plans.

Private equity buyers can also help professionalise family businesses, for example, by improving business strategy and management. From an investment standpoint, entry and exit multiples in the small business space tend to be more attractive than the larger segment of the buyout market.

While wider macroeconomic concerns over interest rates and inflation are likely to persist in 2019, these should not

worry investors in the small business sector any more than in the larger company space. Corporate balance sheets are currently strong and, while some are predicting a US market or economic downturn after a long period of economic growth, we believe the small business sector, which tends to utilise less leverage, is relatively insulated and could withstand significant shocks or even an economic downturn.

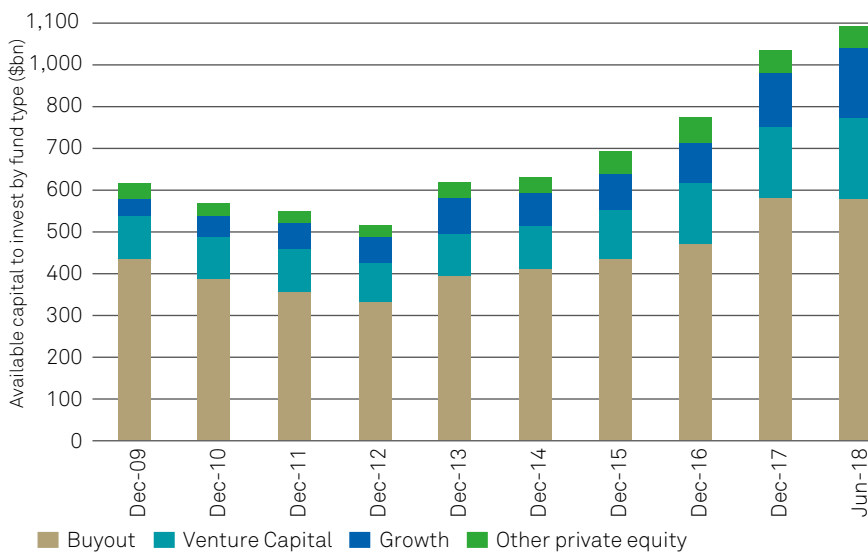
## US SMALL BUSINESS OWNED BY BABY BOOMERS



### Industry

- Accommodation & food services
- Admin & waste management
- Arts & entertainment
- Construction
- Health & social care
- Manufacturing
- Other Industries
- Professional services
- Retail trade
- Transportation & warehousing
- Wholesale trade

## PRIVATE EQUITY: AVAILABLE CAPITAL TO INVEST BY FUND TYPE



Source: Preqin: 'Quarterly update: Private equity and venture capital', Q2 2018.

Source: Multiplier/Project Equity 2018.

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