THE NORTHERN TRUST INSTITUTE

BEYOND THE BUSINESS

2022 BUSINESS OWNER BENCHMARK

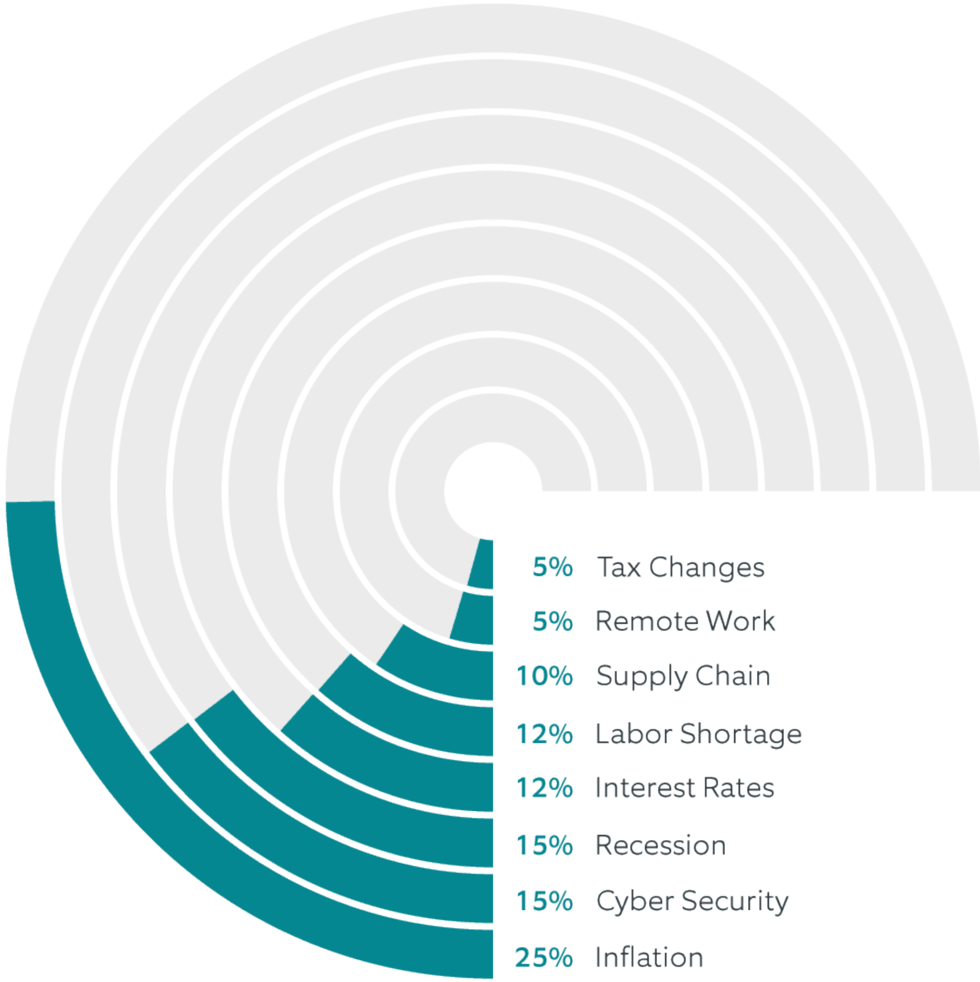
INTRODUCTION

From navigating an ever-changing business landscape to pursuing interests beyond your company, business owners are busier than ever.

In The Northern Trust Institute's second annual Business Owner Benchmark, we surveyed a wide range of business owners and entrepreneurs for an inside view on how they are building and deploying their wealth and what drives them as they look to the future.

In the resulting report, we explore four themes and provide insights for addressing common challenges — all based on data and our experience working with thousands of business owners across the country.

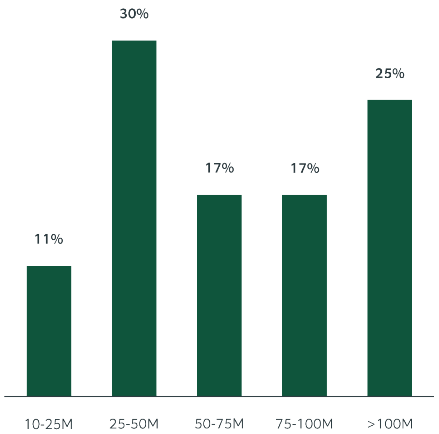
BUSINESS OWNERS' TOP CONCERNS



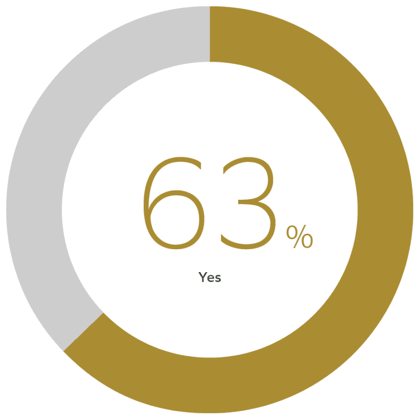
Survey Respondents Breakdown

Survey of more than 150 business owners by The Northern Trust Institute during Q3 2022.

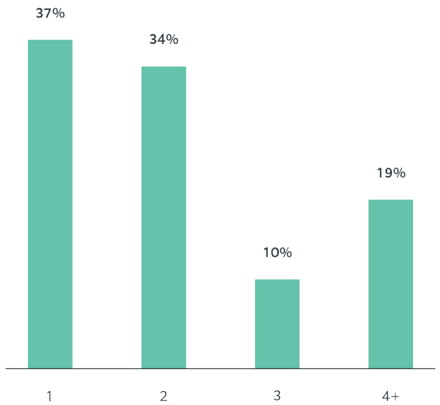
ANNUAL BUSINESS REVENUE



FAMILY WORKING IN THE BUSINESS?



NUMBER OF BUSINESSES OWNED



NUMBER OF FULL-TIME EMPLOYEES

251-500

Median Number of Full-Time Employees

AGE BREAKDOWN

42

Median Age of Respondents

THE “NEW” RETIREMENT

Business owners who “put their wealth to work” in a methodical way are more successful in preserving their wealth, fostering family unity and enjoying their success over the long term.

While many business owners may be looking forward to downshifting as they approach retirement age, more than half of respondents indicated that they:

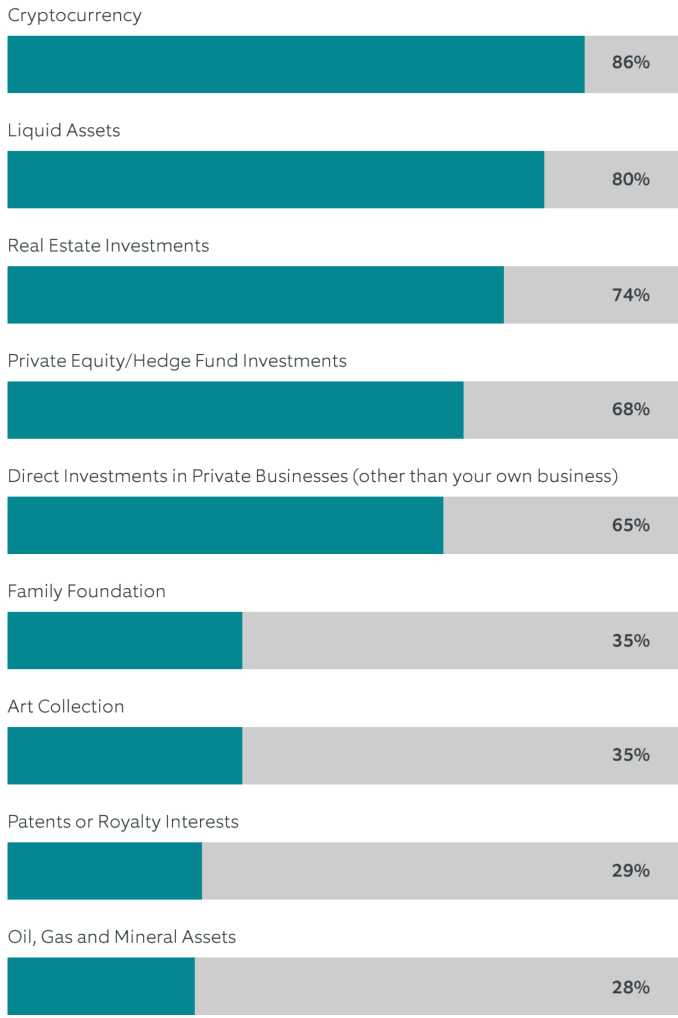
32% Are not interested in retiring and plan to be actively involved in their current business as long as they can.

19% Do not plan to retire at all and instead intend to work just as hard starting something new.

The desire to remain engaged in later years, often long after achieving success, is frequently driven by an overall sense of purpose that extends beyond any one business or endeavor. When asked what drives business owners to create wealth, in addition to providing basic financial security for their family, many respondents viewed wealth as a means to help them make an impact on the world.

A look at business owners' balances sheet provides a window into how they are using their wealth to achieve their broader goals. While most respondents not surprisingly own passive investments such as liquid assets (80%), a large number of respondents also own assets that require more active engagement, including direct investments in private businesses (65%), commercial real estate (74%) and family foundations (35%).

PERCENTAGE OF SURVEY RESPONDENTS WHO CURRENTLY OWN THE FOLLOWING ASSETS:



In our experience, business owners who “put their wealth to work” in a methodical way based on a comprehensive strategy that addresses personal, family and financial considerations are more successful in preserving their wealth, fostering family unity and enjoying their success over the long-term. Consider the following insights that have proven helpful for the business owners we have worked with:

1. Have a plan for evaluating direct investment opportunities

Develop a systematic approach to evaluating and pursuing opportunities to invest directly in other private businesses, including:

- Define specific criteria for what you will and will not invest in (industries, required return on capital, investment time horizon, etc.).
- Educate yourself on the spectrum of alternatives available to you for investing in private businesses (angel investing, private equity funds, etc.) and how those investments are structured.
- Anticipate the income and estate tax implications of any proposed investments and model how that investment will impact your overall wealth plan and financial goals.
- Tap one of your peer groups or perhaps put together a more formal “advisory board” of trusted advisors and friends who can help you review specific investment opportunities.

2. Prepare your heirs to inherit and manage unique assets

Depending on your estate plan, your assets will someday pass to your heirs. Investments that you enjoy managing today may, without proper planning, become a burden to those who inherit your wealth. This is especially true for unique assets you intend to hold over the long term. For instance:

- Articulate why it is important to you to invest directly in these assets, and gauge family members’ level of interest in learning from you or even participating in these investments with you.
- Consider various family governance strategies to help facilitate these conversations, such as adopting a cornerstone statement or holding formal, periodic family meetings.

- If you own cryptocurrency, NFTs or other digital assets that exist solely on a blockchain, ensure you have maintained detailed records of these assets, the digital wallets in which they are stored, and the crypto key that your heirs or their trustee will need to access, secure, value, and liquidate or transfer those assets pursuant to your estate plan.

- If you own real estate investments, consider what your heirs will be willing to and capable of overseeing. Secure a reputable property manager, educate heirs early on the basics of real estate investing and oversight, and consider empowering your trustee to reevaluate and potentially simplify your real estate portfolio when those assets are transferred to your heirs.

3. Line up capital to fund your big ideas

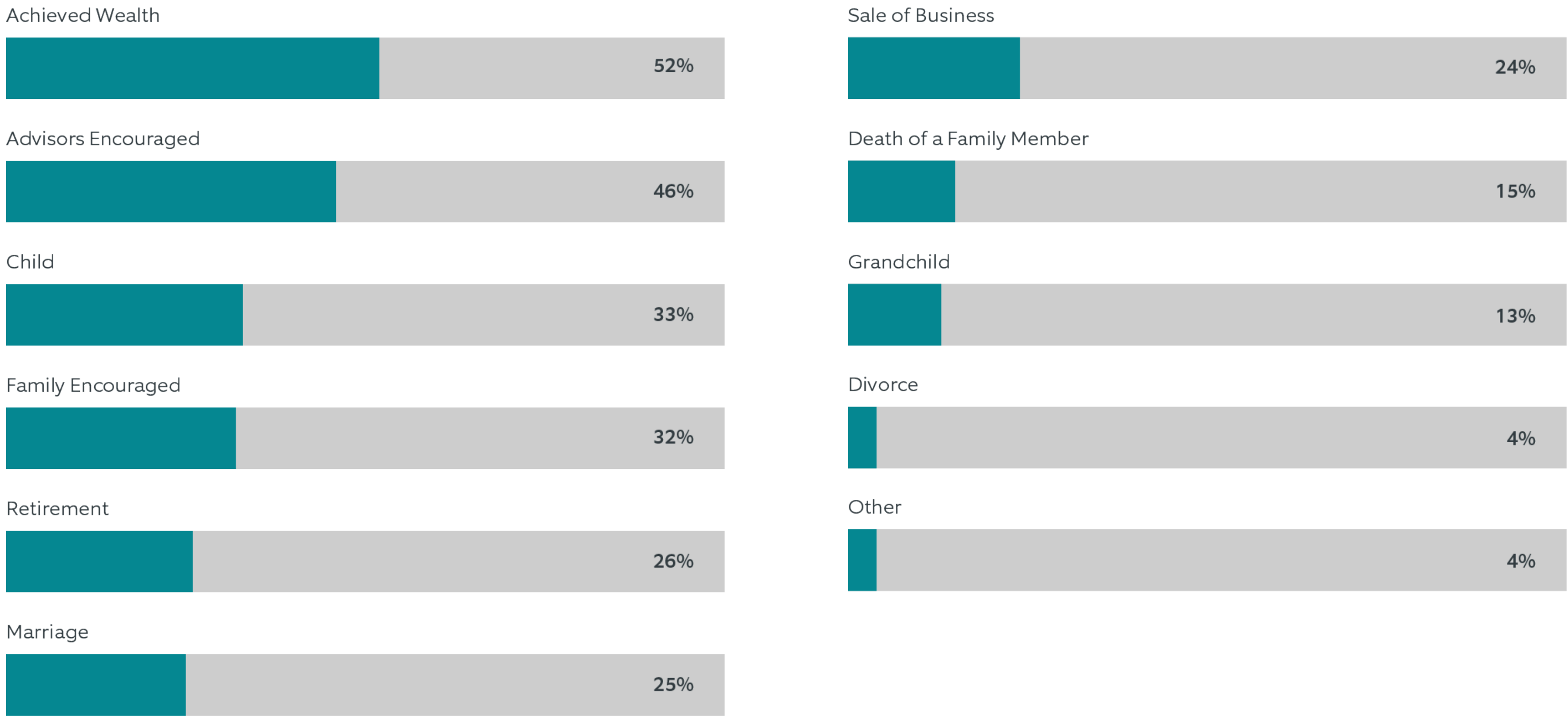
You may need additional funds beyond your liquid wealth to pursue the investment opportunities that are important to you. It is important to have a consistent framework for vetting these capital needs, taking into account the various sources of capital that may be available to you. These may include putting debt on your business, leveraging real estate investments, collateralizing liquid assets, or fundraising through private investors and "friends and family." Once you have identified your capital alternatives, work with your advisors to compare them across key attributes such as complexity, timing to fund, loan terms, where the loan will be held (for example, within or outside of your estate) and personal tax implications.

INHERITANCE: WHO GETS WHAT, AND WHY?

The need for proactive and comprehensive planning is even more important when that wealth includes complex assets, such as a private business.

Although more than 90% of survey respondents indicated they have some sort of estate plan in place, 33% have not updated their estate plan over the past year and 11% have not updated their estate plan in at least three years. Often, a specific life event is the catalyst for motivating business owners to make estate planning a priority, such as achieving a certain level of wealth, the birth of a child or the sale of their business. A review of an estate plan should be based on a change of circumstances — first and foremost births, deaths, children attaining adulthood, receipt of an inheritance, sale of a business or changes in assets. Absent a change of circumstances, estate plans should be reviewed every couple of years at a minimum to confirm fiduciaries and guardians who are nominated.

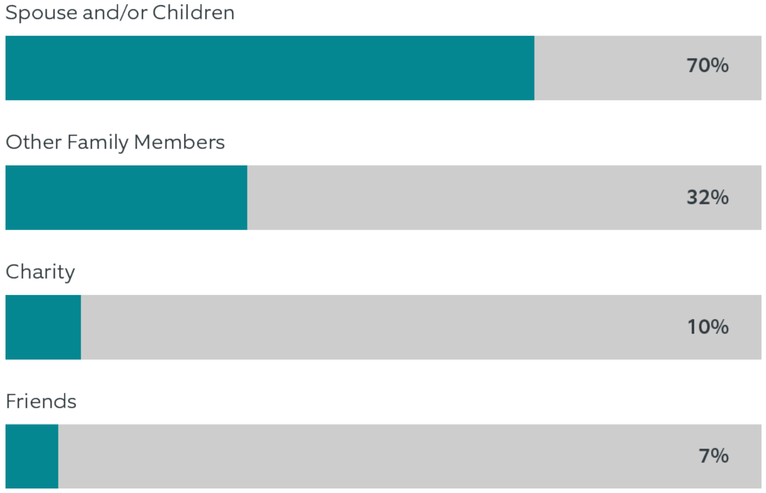
WHICH OF THE FOLLOWING BEST DESCRIBES WHAT PROMPTED YOU TO CREATE YOUR ESTATE PLAN?



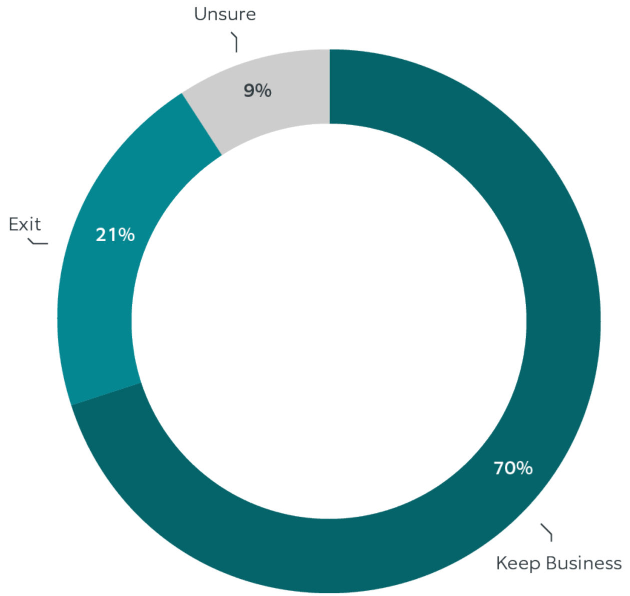
Digging deeper into the details of respondents' estate plans, we gleaned insights into how business owners intend to distribute their wealth. On average, respondents plan to distribute 70% of their assets to immediate family (spouse and children), 13% to siblings and 10% to charity.

Further, survey results suggest that many of these family members will be inheriting the responsibility of owning one or more businesses, as 70% of survey respondents plan to keep their business in the family for future generations.

WHAT PROPORTION OF YOUR WEALTH WOULD YOU LIKE EACH OF THE FOLLOWING TO INHERIT?



WHAT ARE YOUR LONG-TERM PLANS FOR YOUR BUSINESS?



Putting an estate plan in place is only the first step toward transitioning your wealth. The need for proactive and comprehensive planning is even more important when that wealth includes complex assets, such as a private business. The following insights have helped business owners empower the next generation of family members to grow into their role as responsible, enthusiastic stewards of the family's financial legacy.

1. Stress test and modernize your estate plan

Work with your advisors to review your estate plan and ensure it is flexible enough to adapt to potential changes on the horizon. Take the opportunity to gift assets that may have decreased in value due to the current economic environment. Modernize trust provisions to provide your heirs with the autonomy to pursue their passions in lieu of narrowly defined "carrots and sticks" that may incentivize bad behavior or resentment. Finally, accompany your estate plan with a statement of wealth transfer intent to provide heirs with context of the "why" behind your wealth and when and how that wealth will be distributed.

2. Invite outside perspectives

Recognize the value of outside perspectives in providing your heirs with guidance on how to manage both the wealth and the business.

Expand your company's board of directors to include at least one or two independent directors who can offer experience and continuity for the business and help groom the next generation of leadership. Also consider forming a family advisory board comprised of family members, trusted friends and long-term advisors. This advisory board may serve as an informal sounding board for your family or may be more formally integrated into your estate plan and given the authority to direct your trustee on decisions involving the business.

3. Develop competencies and promote entrepreneurship

Educate children on the basics of financial responsibility and provide them with exposure to the family business from an early age. Set aside time to have open conversations about the family's wealth and estate plan and provide opportunities to continue this dialogue as they grow older and your wealth becomes more complex. Consider strategies that help your children cultivate their entrepreneurial spirit and learn from their mistakes, for instance setting aside money in a limited liability company or trust earmarked for family members to invest in early-stage companies that align with their interests and values.

4. Clarify roles and provide an exit

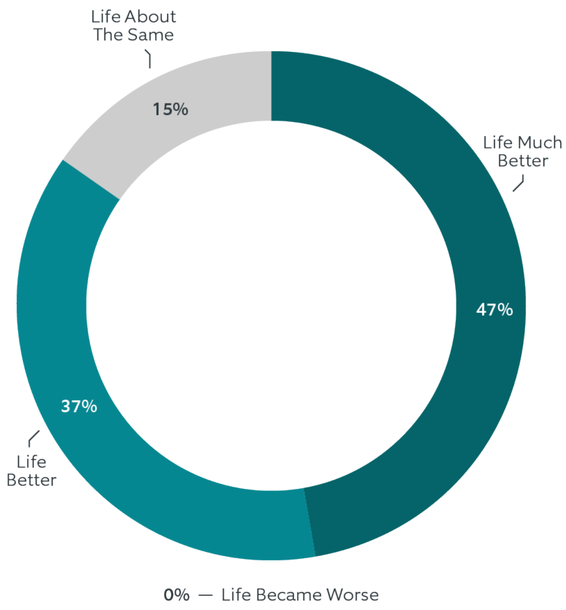
Recognize that your heirs may serve in multiple roles as they inherit your wealth. Clarify the reason why you have placed family members in those roles – for instance, board member, shareholder, employee – and the responsibility that each of those roles entail. Adopt a shareholder's agreement that provides family members with a mechanism to sell their shares and exit the business to mitigate the potential for future conflict among family members who feel trapped within the business.

THE EMOTIONAL ROLLER COASTER OF SELLING YOUR BUSINESS

Selling a business can have profound financial implications, but it can also impact the business owner's family dynamics and even their overall outlook on life.

For most business owners, selling their business is a life-changing event that has profound, multi-generational financial implications and may also impact the business owner's family dynamics and even their overall outlook on life.

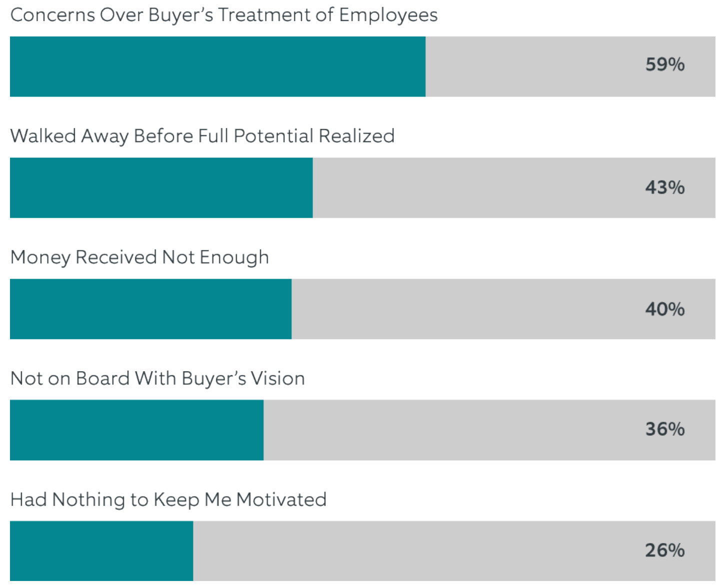
Although survey respondents who have sold one or more businesses reported experiencing a range of positive and negative emotions after the sale, overall most of them felt that their lives had become better since they sold their business. Interestingly, the more businesses that a survey respondent owns, the less of an emotional experience (positive or negative) the sale of their business is for them.



Nonetheless, many respondents admitted having certain regrets post-sale:

TOP BUSINESS OWNER REGRETS AFTER SELLING THEIR BUSINESS

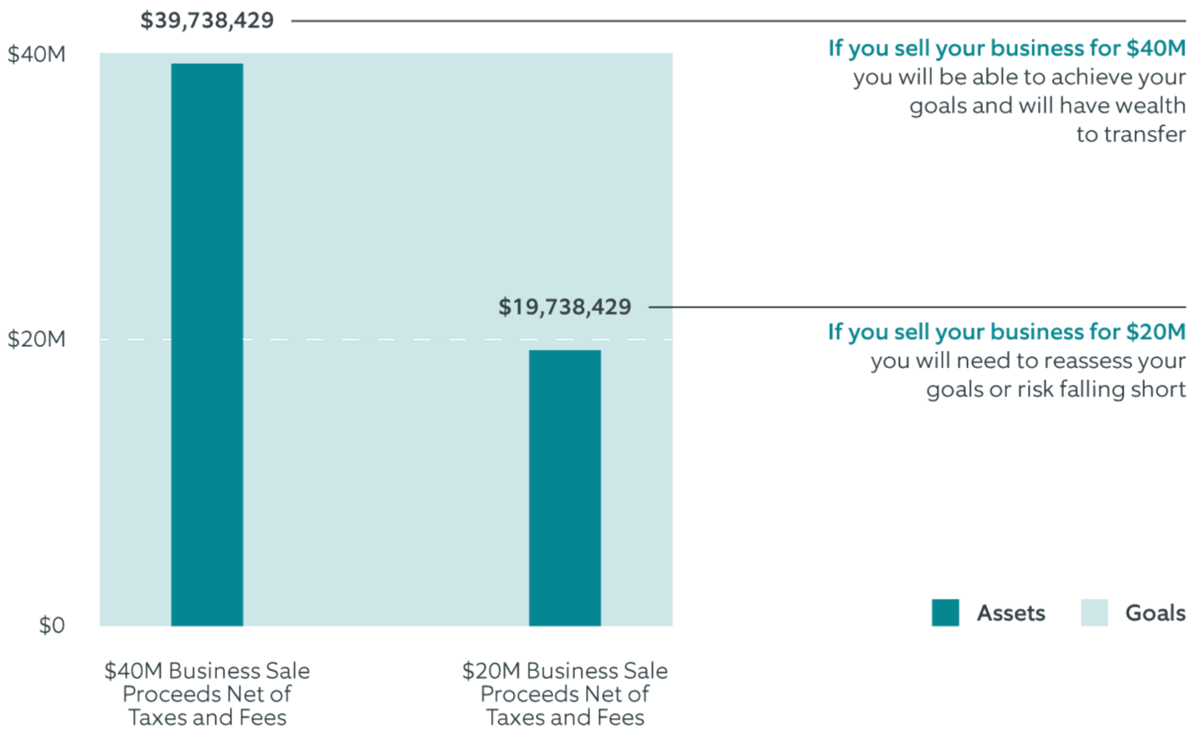
Did you experience any of the following after selling?



Overseeing a sale process while at the same time managing your business can be more than a full-time job. Implementing the following strategies early on, in our experience, can help achieve a better outcome, with fewer regrets, for employees, families and themselves.

1. Negotiate with a view to your "next big thing"

Understandably, most business owners are committed to securing the highest possible sale price for their business during the negotiation process. However, it can be valuable to take a step back and utilize goals-based planning to determine the minimum after-tax sale amount needed to fund your lifetime goals, which may include everything from paying for college to creating a venture fund to starting a new business. Once you have identified your minimum viable sale price, any proceeds you receive above that can be set aside as a separate pool of funds for opportunities down the road, moved out of your estate for the benefit of your heirs, or "given back" to the buyer during the deal process in exchange for other favorable deal terms such as guarantees and incentives for key employees.



2. Develop a “post-exit checklist”

It is all too common for business owners to get wrapped up in the chaos of getting the deal closed and overlooking important things that need to be completed post-exit. We find it helpful to create a 12-month post-exit checklist that catalogs steps that need to happen either immediately, in the first few months or within a year after closing. For example:

- Create a family communication plan to get your family on the same page about what to say and what not to say (e.g., on social media) if asked about the transaction.
- Implement a short-term cash management strategy and 24-month waterfall for deploying cash proceeds to cover anticipated liabilities and tax payments related to the transaction.
- Reassess any personal and cyber security needs as your wealth profile changes.
- Review insurance coverage and any corporate benefits that may no longer be available after the business is sold.
- Review estate and investment plans at key junctures.

3. Redefine your relationship to your business

Whether you part ways with your business or remain involved as an employee, board member and/or minority shareholder, it is important to recognize that your relationship with your business will fundamentally change post-exit. Although survey respondents reported the experience of selling their business was generally more positive than negative, it is not uncommon for business owners to feel a sense of regret or loss of identity after the sale of their business. Prior to closing the deal, mentally prepare yourself for the transition and have a clear understanding of how your authority and access to information within the business will change.

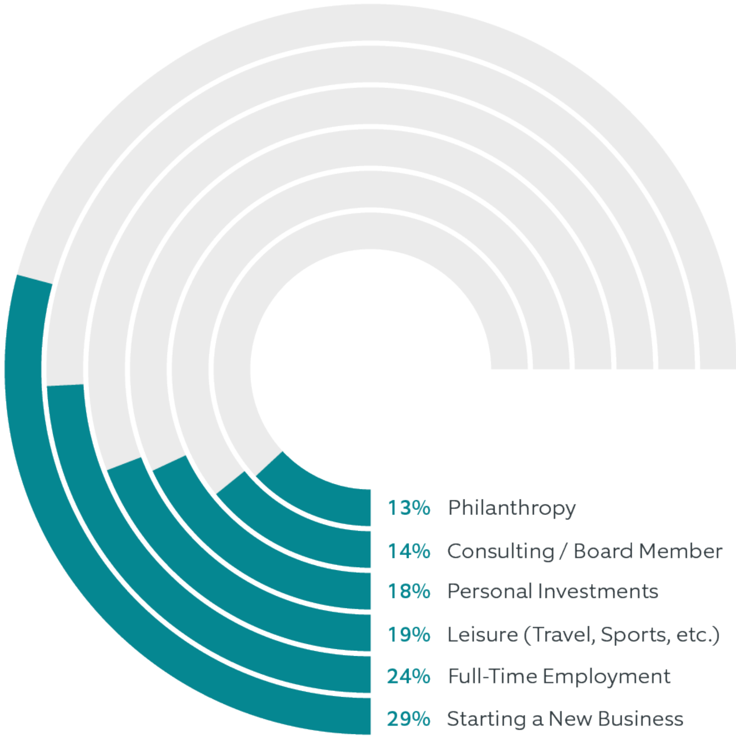
Founders who have already lined up a new endeavor before exiting their business to reroute their focus, motivation and desire to make an impact in the world are often the most satisfied with how things turn out. Finally, write down any circumstances that may cause you to consider getting more involved in your business again — for instance, a significant decline in sales or erosion of the company culture.

FINDING PURPOSE POST-SALE

The task of reorganizing your life post-sale, without the “centerpiece” of running a business, can feel disjointed and even overwhelming.

Business owners tend to keep busy after the sale of their business, but perhaps not on the activities you may expect. Survey respondents spend an average of only 19% of their time post-sale on leisure activities such as travel and golf, whereas respondents spend nearly one third of their time starting a new business and 13% of their time pursuing philanthropic endeavors.

HOW DO BUSINESS OWNERS KEEP BUSY POST-SALE?



Without the "centerpiece" of a business to run and an office to go to, the task of reorganizing your life post-sale to stay engaged in deploying your wealth and pursuing your various interests can feel disjointed and even overwhelming. Business owners who apply some of the following principles are more likely to thrive after the sale of their business both personally and financially.

1. Establish a post-exit infrastructure

Post-exit, you will likely be spending less (if any) time with the business you sold and more time overseeing and investing your newfound liquidity. Many of the successful business owners we have worked with post-exit approach the task of building long-term wealth by adopting the same level of discipline and structure they relied upon when running their business. Best practices that have worked well for founders running their "family wealth enterprise" include:

- Consider forming a family/multifamily office or outsourcing some of the services that family offices often provide (e.g., a chief investment officer's role, administrative tasks), depending on the size and complexity of your balance sheet.

- Avoid the temptation to say yes to every investment opportunity. Instead, put together a disciplined approach and team to evaluate opportunities in the context of your overall long-term wealth plan.

- Create a formal communication structure with your family (e.g., periodic family meetings or a family council) to provide a forum for discussing the family's wealth and resolving conflicts as your family grows and your balance sheet becomes more complex.

- Reevaluate the capabilities of your advisors to ensure your wealth has not outgrown your team.

2. Reimagine how you make an impact

In many respects, the corporate and civic profile you have built over the years may still be aligned with your personal goals and interests even after you have exited your business. However, this is a good time to reevaluate your continued engagement with certain organizations and charitable causes and explore other opportunities to make an impact. Keep the following in mind when pursuing philanthropy post-exit:

- Understand what is out there. While many business owners choose to pursue philanthropy through traditional routes such as charitable giving or forming a foundation, there are numerous creative structures for supporting the causes that are important to you, from for-profit businesses committed to a certain charitable mission to funds that invest in businesses that support a particular set of values. Weigh the costs and benefits of each alternative before forging ahead.

- Avoid jumping in too soon. Just as you've made plans for transitioning out of your business, your philanthropic activities require a similar commitment to planning. While you may have more time on your hands, your philanthropy will be more impactful and rewarding if you take time to create a long-term philanthropic giving strategy to implement over time.

- Don't go it alone. As a (former) business owner, you will likely still have access to the community partners with whom you have been engaged over the years. Work toward deepening those relationships, identifying resources that will support your philanthropic goals and otherwise not "reinventing the wheel."

Thank you for reading

The 2022 Business Owner Benchmark

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