



Baby Boomers: Taking Advantage of a Cash-flush Market

For the business owners who are part of the Baby Boomer generation (born between 1946 and 1964), 80% are doing estate planning, and making plans for the eventual sale of their privately held company, according to two new surveys. A 2006 survey conducted by the University of Dallas School of Management and GW Equity questioned 200 owners of privately held businesses between \$1 million and \$150 million. Of the survey respondents who were approached but decided not to sell, 35% are not selling because they anticipated continued growth. Of the owners who were considering selling, 75% intended to do so within the next three years.

Growth Cycles - We have all seen the swings in our electronic manufacturing industry in the past 10 years. The EMS industry grows in cycles and through acquisition. We are in one of the largest sellers markets that has ever been. This is true for the small- to mid-size business, but also for electronics manufacturing operations. Looking back to 2001, EMS owners were struggling to stay alive. The aging business owners that survived this downturn and have been holding-off on their retirement; they now have the ability to cash out by selling the equity in their privately held companies. Some are doing so, while still retaining an active role in the company.

Private equity groups and hedge funds raised \$175 billion last year for various buyout funds. Most people think that there is upwards of \$100 billion of capital sitting on the sidelines waiting to be deployed in good-quality businesses, believes Alan Mayer, managing director at Green Manning & Bunch, a Denver, Colo.-based investment backing firm. "Combine this with lower interest rates, favorable banking debt ratios, a relatively good economy... and you have, very strong business valuations," he adds. Most private equity money goes to growth busi-

nesses or companies that complement a specific niche in their industry. Although private-equity money typically does not go to electronic contract manufacturers (CMs), as they typically are not "growth" businesses. However, it does go to the OEMs with intellectual rights to the electronic designs that are then manufactured at the CMs.

Strategic acquirers generally have had a good performance in the last few years. They are back in the marketplace aggressively acquiring businesses that complement their specific products and services. For the EMS industry, the models for this successful approach are in Tier I companies. They offer all aspects of services to OEMs, and are vertically integrated. The strategic buyers participating in electronic manufacturing are seeing the advantage of vertical integration in all aspects of manufacturing.

Debt Financing - Bankers are lending, and money is still cheap. In 2002 and 2003, bankers were lending two times the free cash flow to a company for acquisitions. Today, they are lending at four times, if not more. Increased leverage gives increased buying power for solid businesses with good histories. SBA loans with 2.5% over prime are readily available. A second factor is that interest rates are still relatively low. For the time being, confidence in businesses with hard assets and great customer relationships is yielding money to grow or acquire. Due to the weakness of the dollar and the fact that the Euro is at a 52-week high, foreign buyers are aggressively buying companies in the U.S. Because of the currency differences, the holders of Pounds and Euros are buying at a 20-30% discount. To put this into perspective, the Euro was 60 cents against the dollar a few years ago. Today, it is over \$1.30 against the dollar. They have a stronger incentive than ever before to acquire solid U.S. companies.



“The time for baby boomers to exit into retirement is flush with cash; and that time is now.”

A 2005 study of PricewaterhouseCoopers found that 65% of CEOs planned to step down within 10 years or less. Half of those plan to sell their companies, as opposed to passing them on to younger members of the family. The first quarter of 2006 saw a 45% jump in worldwide deal volume from a year earlier with more than a third of that \$880 billion taking place in the U.S. Business owners tend to procrastinate during good cycles. What the majority of business owners don't think about is that you cannot outgrow interest rates, income taxes, and capital gains. Buyers pay a premium price when they see a business and its industry growing not when it's at its peak. The time for baby boomers to exit into retirement is when the market is flush with cash.

Conclusion - For those that are fifty-something and want to participate in today's seller's market, but still want to stay active in business for a few more years, there is an attractive opportunity to participate. The best of both worlds may be selling a significant portion of your business and staying on with the company in concert with the new buyer. The buyer may need your experience and customer knowledge. They may be willing to pay a good salary while sharing in the new growth through your equity position. This gives you the cash to support an improved lifestyle and gives you another payout down the road.

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