

Trendsetter

BAROMETER™

News Release

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Wide Majority of Fast-Growth CEOs Likely To Move On Within Ten Years, PricewaterhouseCoopers Finds

Yet Almost Half Have Done Little or No Succession Planning

PricewaterhouseCoopers' "Trendsetter Barometer" interviewed CEOs of 364 privately held product and service companies identified in the media as the fastest growing U.S. businesses over the last five years. The surveyed companies range in size from approximately \$5 million to \$150 million in revenue/sales.

NEW YORK, January 31, 2005 – Most CEOs of America's fastest-growing private companies say they are likely to step down within the next ten years, but almost half have put little to no thought into succession planning.

Nearly two-thirds (65%) of surveyed CEOs plan to move on within a decade or less: 42 percent within five years, and 23 percent in five to ten years. And their exit plans? Most (51 percent) anticipate a sale to another company. Other plans include: sale or transition to next generation family members (18 percent), a management buyout (14 percent), and an ESOP (Employee Stock Ownership Plan) (seven percent). A smaller number cited an IPO or other options.

But, despite these intentions:

- Only 22 percent have done a great deal of succession planning, and another 26 percent have done some. But 24 percent have done little, and 19 percent, virtually none. Nine percent did not report.
- Only 39 percent of CEOs have a likely successor in mind, but less than two-thirds of them say that person is ready to take control today. Nearly half (45 percent) have

- more -

identified no successor, and 16 percent did not report. Most exit plans involving family members (79 percent) do designate a primary successor, as do 51 percent of plans anticipating a management buyout, and 48 percent of those planning an ESOP. However, only 29 percent of those expecting to sell to another company have identified a primary successor.

More have prepared for disability than departure:

- 44 percent have a contingency transition plan for an unforeseen event which would render them incapable of leading their company. But nearly as many, 42 percent, do not. Fourteen percent did not report.

“Somehow it is not surprising that more CEOs have prepared for disability than voluntary transition,” said Rich Calzaretta, leader of PricewaterhouseCoopers’ Private Company Services practice. “In some respects, these business owners may feel conflicted about succession planning. They have nurtured their business, and reveled in its successes over the years. And, because many come to see it as a part of their persona, they often cannot face the thought of stepping down one day. Complicating the matter is how transition is to be accomplished. Those who expect to sell to another business may be more likely to see succession issues as the buyer’s responsibility. But those expecting to eventually transition to family members, partners, or employees seem to assume a greater responsibility for planning ahead.”

Partial Preparedness

While only 22 percent of Trendsetter CEOs have done “a great deal” of succession planning, they are part of a larger group that has started on the broader aspects of planning for the eventual transition of their business. Altogether:

- 58 percent have an estate plan that addresses the disposition of their business—and most (85 percent) have updated it over the past five years.
- 45 percent have a buy/sell agreement that covers lifetime transfers of the ownership of their businesses. This includes two-thirds of the 14 percent that expects an eventual management buyout.

But among those planning to sell their business—internally to management or family members, or to another company—far fewer have explored the following opportunities:

- Only 36 percent have planned how to increase after-tax proceeds;
- Only 35 percent have developed an investment strategy to protect and manage their monetized wealth; and
- Only 37 percent are planning on using funds from the sale to meet philanthropic commitments or objectives.

“Like many of us, these CEOs have a sense of their desired future, but they are overloaded with managing for today and short of time for developing comprehensive plans for tomorrow,” said Mike Kennedy, leader of PricewaterhouseCoopers’ Personal Financial Services practice. “Unfortunately, unless a key event occurs, such as - the company being sold, a shareholder

becomes incapacitated or dies, family members seek a partial or full buy-out, or one of the key shareholders becomes uninsurable - important corporate/shareholder documents, like the buy-sell agreement, are often not reviewed on a periodic basis. It is essential that the economics of these documents reflect the shareholder intentions and the company’s funding plan.”

Different Business Profiles, Different Exit Plans

Companies with exit plans involving sale or transition to next generation family members (18 percent) are notably larger businesses, whose CEOs have less concern about weak demand as a barrier to growth over the next 12 months. Those considering sale to another company expect the strongest revenue growth over the next 12 months, but on balance their gross margins over the past year have been tighter, and a majority are concerned about demand.

	<u>Sale to Another Company</u>	<u>Sale to Family</u>	<u>Mgmt Buyout</u>
	51%	18%	14%
• Revenue Growth Next 12 Months	22.5%	18.5%	19.9%
• Gross Margin Over Past Year:			
- Up.....	30%	38%	35%
- Down.....	22%	18%	14%
- Net.....	+8%	+20%	+21%
• International Sales.....	50%	54%	33%
- % of Revenue Next 12 Months.....	18.3%	15.2%	13.2%
• Potential Barriers to Company Growth Over Next 12 Months			
- Lack of Demand.....	57%	47%	59%
- Profitability	28%	24%	29%
• Company Demographics			
- Product Sector	44%	46%	45%
- Service Sector	56%	54%	55%
- Enterprise Revenue Size [Millions]..	\$23.5M	\$44.1M	\$27.1M
- Enterprise Employee Size	131	333	161

“These profiles should be viewed as snapshots in time,” said Calzaretta. “With a window of

up to ten years for transition, significant changes could occur before final disposition.”

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PricewaterhouseCoopers’ “Trendsetter Barometer” is developed and compiled with assistance from the opinion and economic research firm of BSI Global Research, Inc.

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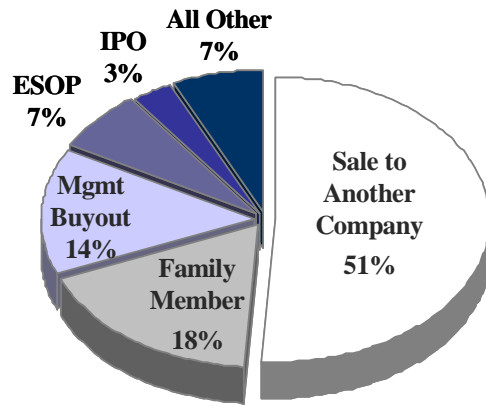
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Chart attached

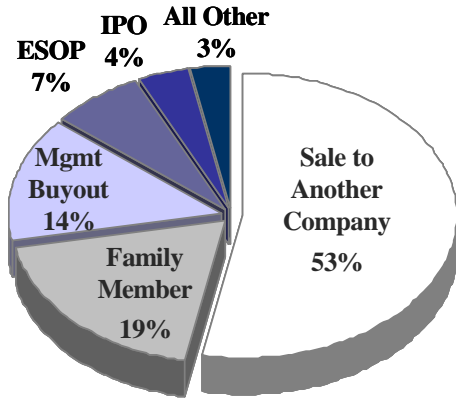
If you have a question about this “Trendsetter Barometer” survey, please contact Pete Collins, survey director and publisher, at 646-471-4496 or e-mail to: pete.collins@us.pwc.com

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