

Wilmington Trust
Business Owners Outlook
Risky Business

Second Quarter 2019



Executive Summary

Welcome to our first Wilmington Trust Business Owners Outlook.

At Wilmington Trust*, we are proud that for more than 115 years we have served the unique needs of America's privately held business owners. Our experience gives us a deeper understanding of how their business and personal finances—and lives—intertwine.

So we are particularly excited to bring you this Outlook, based on a very recent survey of more than 1,000 privately held business owners across the United States. (For our complete methodology, see page 8.) This research builds on the 10-year history of M&T Bank's Economic Outlook, a quarterly survey of senior managers and owners of small to mid-sized businesses located throughout the bank's geographic footprint. When we analyzed the survey data, we found a very interesting dichotomy that suggests owners perhaps are not prepared for all the risks in today's environment. Hence our report title: *Risky Business*.

Overall, business owners are optimistic and confident about their future success and the prospects for their business. Conversely, we found some disconnects that could represent risks for them down the road. For example:

- Business owners strongly support the Trump administration—59% “strongly” or “somewhat” approve. (This contrasts with President Trump's consistently low approval ratings among the general public.) While they support Trump, owners

also rank a recession, U.S. trade policy, and the size of the national debt as top business risks.

- Most business owners (55%) intend to pass on the business to their offspring, but many (46%) haven't fully discussed their plans with their heirs.
- A majority of owners (65%) are married partners, yet few have a true transition plan in case they divorce or one of them should die.
- A sizable number (41%) of owners have at least some level of concern that their business and personal goals are not well integrated.

At Wilmington Trust, we know how deeply an owner's business impacts his or her life, and how much an owner's life impacts his or her business. In fact, according to our survey, 83% of owners say their business has a significant or moderate influence on their personal finances. Because of this heightened interdependency, the disconnect between their optimistic outlook and the realities of risk needs to be aligned.



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► Behind Their Optimism, Risks Lurk for Business Owners

By their nature, most business owners tend to be positive and self-assured. These qualities have served them well during today's pro-business political environment, extended economic expansion, and record bull market. At the same time, risks are emerging that they need to address in order to sustain and pass on the success they have achieved.

PERCEPTION VS. REALITY

OF THE 1,000+ BUSINESS OWNERS SURVEYED IN THE WILMINGTON TRUST BUSINESS OWNER OUTLOOK:

59%

**Strongly or somewhat
approve of Trump
administration**

BUT

**U.S. trade policy was chosen by business owners
as one of the top two external events posing
a risk to their business in the next year**

55%

**Have a plan to
transition the business
to their children**

BUT

**46% of owners have not made their
heirs fully aware of their plan**

68%

**Say they have a
business succession plan**

BUT

**Only 18% of owners actually have a
written succession plan that has been
communicated to all stakeholders**

65%

**Own their business
with their spouse**

BUT

**In the event of a marital status change,
the most common transition "plan" is for both
spouses to continue owning the business**

98%

**Are confident they will
achieve their long-term
financial objectives**

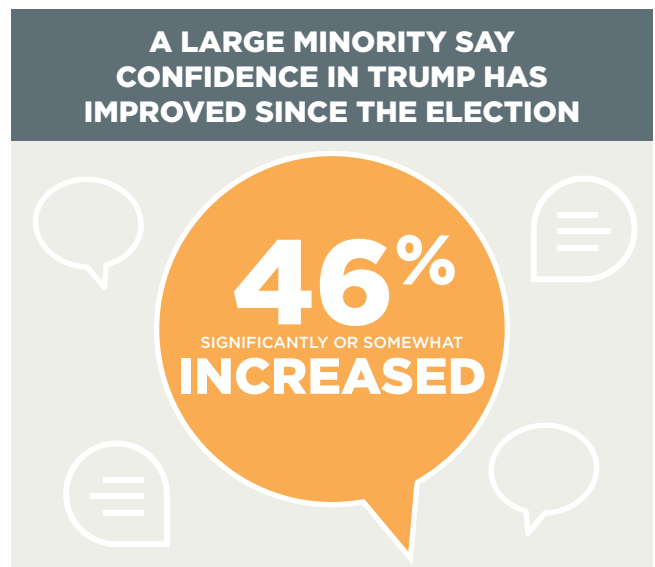
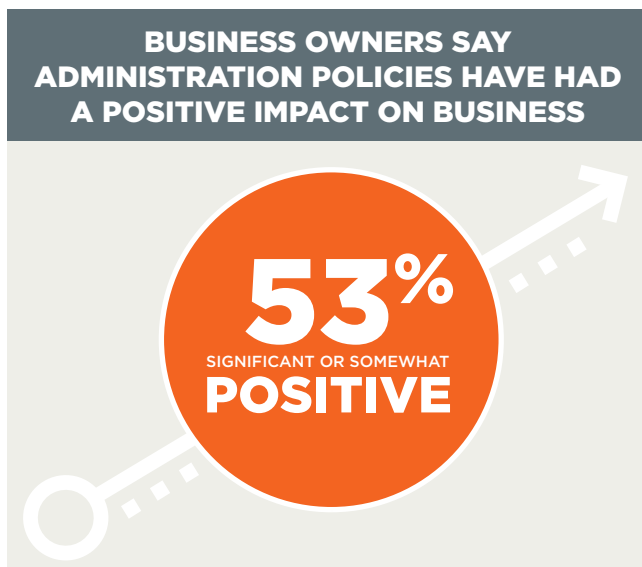
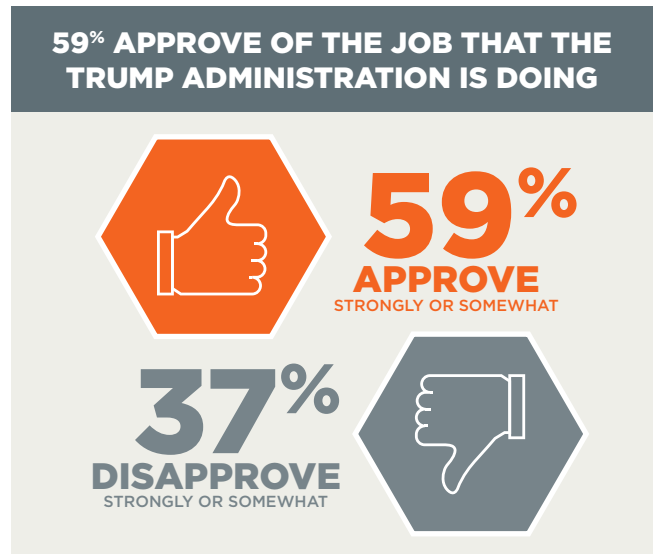
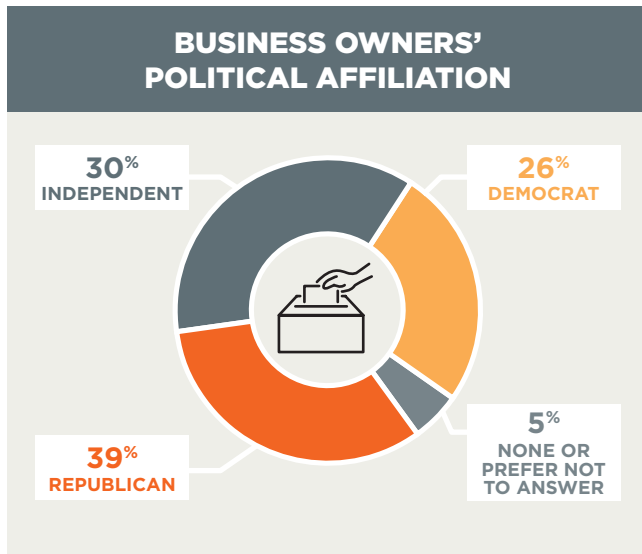
BUT

**41% have concerns that their advisors and
planning are not coordinated so their business
and personal goals are well integrated**

▶ Trump Continues to Score High Marks With Owners

Nearly 60% of business owners are supportive of President Trump and many of his core policies, despite the fact that only 39% of survey respondents identify as Republican. Many owners also report the administration has had a positive impact on various aspects of their business.

Moreover, 46% of owners say their confidence in the administration has increased since the presidential election, despite the fact that the survey was initiated in May 2019, when President Trump was ratcheting up trade tensions with China, Mexico, and India.



Owners Rank Recession and Political Environment as Biggest Threats

Even as many owners approve of the Trump administration and feel its policies have had a positive impact on their businesses, they are worried about issues related to trade and economic policy—and their potential effects on their business success and personal financial prospects.

TOP RISKS TO BUSINESS SUCCESS

1. Recession



2. Trade Policy



3. Inflation



4. Cybersecurity



5. Consumer Demand



6. Over-Regulation



TOP RISKS TO PERSONAL FINANCIAL GOALS

1. Political Environment



2. Rising Healthcare Costs



3. Cybersecurity



4. Tax Increase



5. Downturn in Financial Markets



6. Size of the U.S. Debt



Q&A with Tony Roth

Chief Investment Officer, Wilmington Trust Investment Advisors, Inc. (WTIA)

What do you see on the horizon for business owners?

“The key risks include China trade, electoral risk, and a recession. The markets have gotten ahead of themselves pricing in a resolution to the trade war. In politics, a candidate with less of a pro-business stance winning in 2020 would pose a serious threat to the financial markets and the overall economy. Overall, given the length of the current expansion, a recession in the next couple of years or so would seem inevitable.”

What makes this particularly hazardous for business owners?

“It’s especially concerning for private business owners who do not see the risk in the economy because most of their wealth is concentrated in their own company. If we suffer a real downturn, they usually do not realize they are overexposed until it’s too late.”

What steps can owners take to plan more effectively?

“First, they should conduct a business valuation exercise to determine where they stand. How much is the business worth in the current environment? Second, they should stress test their company to see how it would perform during an extended down cycle or recession. We have some special tools to help do this. Third, they should examine their goals and determine whether they can meet them should the economy fall apart. Next, they should consider, if appropriate, developing a plan that enables them to take some or all of their equity risk off the table. And finally, they should consider building a portfolio that includes non-correlated assets such as low-duration municipal bonds and private market opportunities.”

Lack of Succession and Inheritance Planning Can Endanger Long-Term Goals

While running their businesses and navigating exogenous factors such as recession risk and government policies, owners must keep in mind the critical need to address their long-term professional and personal goals.

68% of business owners surveyed say they have a business succession plan in place. Yet, when asked how well-developed their plan is, only 18% said they have a plan in writing that has been communicated to all stakeholders.

When asked about their most likely succession plan, a majority of survey respondents answered that they planned to transition the business to their offspring. 55% have a plan to transition to their children.

However, nearly half (46%) of owners with a business succession plan have not fully communicated with their heirs about their inheritance. This lack of openness has the potential to put their children at a disadvantage when the time comes to take over the business.

Although most survey respondents say they share ownership of the business with a spouse (59%), few are well-prepared for a change in marital status. The most common business transition plan in the event of a change is for both to continue owning the business, chosen by 30% of owners. This carries major risks for the organization. It's rare that a divorced couple can effectively grow a business despite their relationship differences.



68% HAVE A BUSINESS SUCCESSION PLAN IN PLACE



18% HAVE COMMUNICATED THEIR PLAN TO STAKEHOLDERS



55% HAVE A PLAN TO TRANSITION TO THEIR CHILDREN



46% HAVE NOT COMMUNICATED THAT PLAN TO THEIR HEIRS

“Employing leverage strategically on your corporate and personal balance sheets can assist you and your family in achieving both short-term and long-term goals, while keeping productive capital in the business. In a rate environment with a flat or inverted yield curve, we advise clients to protect their personal cash flows by matching long-term obligations with stable assets and fixed-rate, long-term loan commitments. Doing so protects the revenue streams they rely upon for achieving their personal financial goals and objectives.”

Ann Silverman
Head of Private Banking, Wilmington Trust, N.A.

MOST BUSINESS OWNER COUPLES SHOULD HAVE A PLAN B

59% SHARE THEIR BUSINESS WITH A SPOUSE

30% PLAN TO SHARE THE BUSINESS IN THE EVENT OF A BREAK-UP

BUT FEW COUPLES ARE ABLE TO EFFECTIVELY GROW A BUSINESS FOLLOWING A DIVORCE

► Comprehensive Planning Requires Tight Coordination and Regular Check-Ups

Almost all business owners surveyed expressed confidence they will achieve their long-term financial objectives.

Reaching goals requires tight coordination between business and personal wealth planning. Yet more than four in 10 business owners admit they are worried about exactly this.



- ### STRATEGIES FOR A WELL-PLANNED BUSINESS OWNER
- ✓ Comprehensive Tax Planning
 - ✓ Estate Planning
 - ✓ Business Valuation and Transition
 - ✓ Nextgen Connectivity
 - ✓ Asset Protection
 - ✓ Retirement Planning
 - ✓ Charitable Giving
 - ✓ Risk Management

Q&A with Alvina Lo

Chief Wealth Strategist, Wilmington Trust, N.A.

How can a business owner know that he or she is well-planned?

“When it comes to business succession and transition, you’re not truly well-planned until everything is written down, has been communicated to stakeholders, and everyone knows their roles and responsibilities. In my experience, very few business owners are in that category. Our survey shows a large majority of owners are not worried about succession planning. In reality, we talk to business owners all the time who say everything is taken care of, everything is in trust. But when we really look under the hood, they are not fully prepared.”

How frequently should business owners reevaluate their plans?

“Even if you have checked all the boxes, you have to think about timing, because important factors change, such as the valuation of your business or the level of interest of your successors. Business owners need to consider their businesses as part of their overall worth. Their business value is likely more significant than their investment portfolio, but that is often not considered when looking at the total picture. We also saw major tax law changes in 2017. Have you looked at your business transition and estate plans since then?”

What are some aspects of tax reform that might impact business owners’ plans?

“One is the 199A deduction, which allows for up to a 20% deduction of qualified pass-through business income for some owners of S corporations, LLCs, and partnerships. Another is the amount of tax-free wealth you can leave to your heirs – the federal estate, gift, and GST tax exemption is currently \$11.4 million but it is set to expire at the end of 2025. Business owners may want to think about accelerating their transition/succession plans to take advantage of that window.”



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* M&T Emerald Advisory Services is an offering designed to help business owners and their families identify and meet their most important wealth planning objectives. M&T Emerald Advisory Services is a registered service mark and refers to this service made available to M&T Bank clients and provided by Wilmington Trust, N.A., a member of the M&T Bank Corporation family.

Methodology

The survey was conducted online in May and June 2019, as follows:

We surveyed business owners with at least \$10 million in revenue throughout the United States and across industries and asked them a series of questions about business valuation, succession planning, the business environment, reform and legislation impact, philanthropy, and risks.

The total sample size is 1,011, for a 3.1 margin of error (MOE) at a 95% confidence level.

Finally, the data was weighted to reflect business owner age distributions as reported by the U.S. Census Bureau.

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