

Selling Your Boomer Business: Maximize Value & Bridge the Wealth Gap

Understand the critical differences between "real" vs. "tax" business valuations, calculate your wealth gap and learn how EBITDA multiples impact your sale.

BILL HARRIS, CFP, RMA • MAR 17, 2025 9:00 AM EDT

By Bill Harris

Remember the Y2K scare? The world was supposed to end when the clocks rolled over to January 1, 2000. The fear was real – planes falling from the sky, elevators stopping, ATMs spitting out money, utter chaos! We survived, of course, but a different kind of "end of an era" is upon us: the baby boomer business transition.

Born between 1946 and 1964, these folks have been running the show for decades. They're the backbone of the American economy, the innovators, the risk-takers. Now, they're hitting retirement age, and it's like a financial tidal wave about to crash on the shores of the American business landscape. Some call it the "Silver Tsunami," and while that sounds a bit ominous, with the right planning, it can be a wave of opportunity for everyone involved.

Boomers: The "O.G.E.s" a.k.a. The Original Gangster Entrepreneurs

These aren't just any retirees; they're business owners. And not just a few of them – we're talking about a massive generation of entrepreneurs. Consider these figures:

- Over half of all U.S. businesses are owned by people age 55 and older. That's 52.3% to be exact.
- Of these, nearly 30% are owned by folks between the ages of 55 and 64, while almost 23% are owned by those 65 and older.
- And every single day, approximately 10,000 boomers hang up their hats and call it a career. Ten thousand!



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Migration, and it's going to reshape industries in ways we can only begin to imagine.

The \$10 Trillion Question (and Why You Should Care)

So, what happens when these titans of industry decide it's time to trade their corner offices for a beach somewhere? Well, buckle up, because we're talking about a massive transfer of wealth – a transfer so large it could make or break the next generation of entrepreneurs:

- \$10 trillion in assets will change hands over the next couple of decades. That's more money than the GDP of most countries!
- That's spread across more than 12 million businesses.
- And get this: more than 70% of those businesses are likely to change ownership, either through sales, acquisitions or family transfers.

That's a lot of potential upheaval, but also a lot of opportunity. The key is to be prepared, whether you're a boomer looking to cash out or a young gun looking to buy in. This transition could create a new generation of millionaires (and maybe even billionaires), but only for those who know how to play the game.

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Decoding the Numbers: What Boomers (and Aspiring Owners) Need to Know

If you're a business owner thinking about your exit strategy or if you're eyeing a chance to own your own company, here are a few things to keep in mind:

- Real vs. Tax Number: The Great Divide: Your "real number" is what your business is actually worth – the true economic value. Your "tax number" is what you report to the IRS, often adjusted to minimize your tax burden. When you sell, you want to maximize that real number.
- Think of it this way: Your real number is like the sticker price on a new car, while your tax number is what you actually pay after rebates and haggling. A skilled adviser can help you bridge that gap, legally and ethically, to get the best possible deal.
- The Wealth Gap: Are You Really Ready to Retire? How much money do you need to retire comfortably, living the lifestyle you've earned? How much do you have? The difference is

your wealth gap. Selling your business can fill that gap, but you must know the numbers.

- A good starting point? The 4% rule. It's a simple guideline that suggests you can withdraw 4% of your retirement savings each year without running out of money. But remember, that's just a starting point. Factors like inflation, health care costs and your desired lifestyle all play a role. To provide a further illustration, consider this: a business owner needing \$150,000 annually to maintain their current lifestyle would require \$3.75 million in investable assets. This is calculated by dividing the required annual income by 0.04 (4%). It's important to consult a financial professional for personalized advice that accounts for individual circumstances and market conditions.
- EBITDA Multiples: Cracking the Valuation Code: This is how businesses are valued, especially in the eyes of potential buyers. EBITDA stands for "Earnings Before Interest, Taxes, Depreciation, and Amortization." It's a measure of your company's profitability and the "multiple" is how many times that profit a buyer is willing to pay.
- What's the going rate for a business like yours? Is it 3x EBITDA or 14x EBITDA? The answer depends on your industry, your company's performance and the overall economic climate. Do you even know your EBITDA? If not, it's time to get friendly with your accountant. For example, imagine a tech startup with an EBITDA of \$500,000. If similar companies in the sector are being valued at 10x EBITDA, the startup could potentially be valued at \$5 million. However, factors such as growth rate, market position and competitive landscape can influence the multiple. Consulting with a valuation expert is essential to determine an accurate and justifiable business valuation.
- The Profit Gap: Leaving Money on the Table? Is your business as profitable as it could be? Are you squeezing every drop of efficiency out of your operations? If not, you're leaving money on the table - money that could be padding your retirement fund.
- Closing the profit gap might involve cutting costs, raising prices or investing in new technology. It's about making your business as lean and mean as possible before you put it on the market. Let's consider a retail business with an annual revenue of \$2 million and an EBITDA of \$200,000. If the industry average EBITDA margin is 15%, this business has a profit gap of \$100,000. By improving operational efficiencies and reducing costs, the business could potentially increase its EBITDA to \$300,000, aligning with industry standards. This would not only make the business more attractive to potential buyers but also increase its valuation.
- The Value Gap: Beyond the Bottom Line: Is your business as valuable as it could be? This goes beyond just the numbers. Are your processes documented? Is your management team strong enough to run the show without you? Could you streamline operations? Expand into new markets? A little TLC can go a long way in boosting your company's value.
- Think of it like staging a house before you sell it. You want to make it look as appealing as possible to potential buyers. The same goes for your business. For instance, a manufacturing company that relies heavily on the owner's expertise may have a value gap. By documenting processes, training employees and developing a

strong management team, the company can reduce its dependence on the owner and become more attractive to potential buyers. This not only increases its valuation but also ensures a smoother transition of ownership.

Your Pre-Exit Checklist: Are You Ready to Ride Off into the Sunset?

Before you start picturing yourself sipping margaritas on a yacht, ask yourself these tough questions:

- Have I had a real professional valuation done? And is it up to date?
- Do I know my "real number" vs. my "tax number"?
- Have I calculated my wealth gap? Will selling my business cover it?
- Do I know the typical EBITDA multiples for my industry?
- Is there a profit gap I need to close?
- Is there a value gap I need to close?
- Can my management team run the show without me?
- Are all my processes documented?
- Have I talked to a financial adviser (hopefully one with a CEPA® designation), CPA and a lawyer about the tax implications?
- And, maybe most importantly: What the heck am I going to do with myself after I sell the business? (Seriously, this is important! Don't underestimate the emotional toll of leaving your life's work behind.)

The Silver Tsunami: Opportunity or Wipeout?

The baby boomer business transition is coming, ready or not. It's a potential goldmine for savvy entrepreneurs and a chance for boomers to cash in on a lifetime of hard work. But like any major change, it's important to be prepared.

Get your financial house in order, know your numbers and plan your exit strategy. The future is coming, and it's time to make sure you're ready for it. So, whether you're a boomer looking to retire in style or a millennial looking to make your mark, now's the time to get in the game. The Silver Tsunami is cresting, and it's time to ride the wave.

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