Business Owner Insights

The new paradigm

What are business owners thinking and doing now?

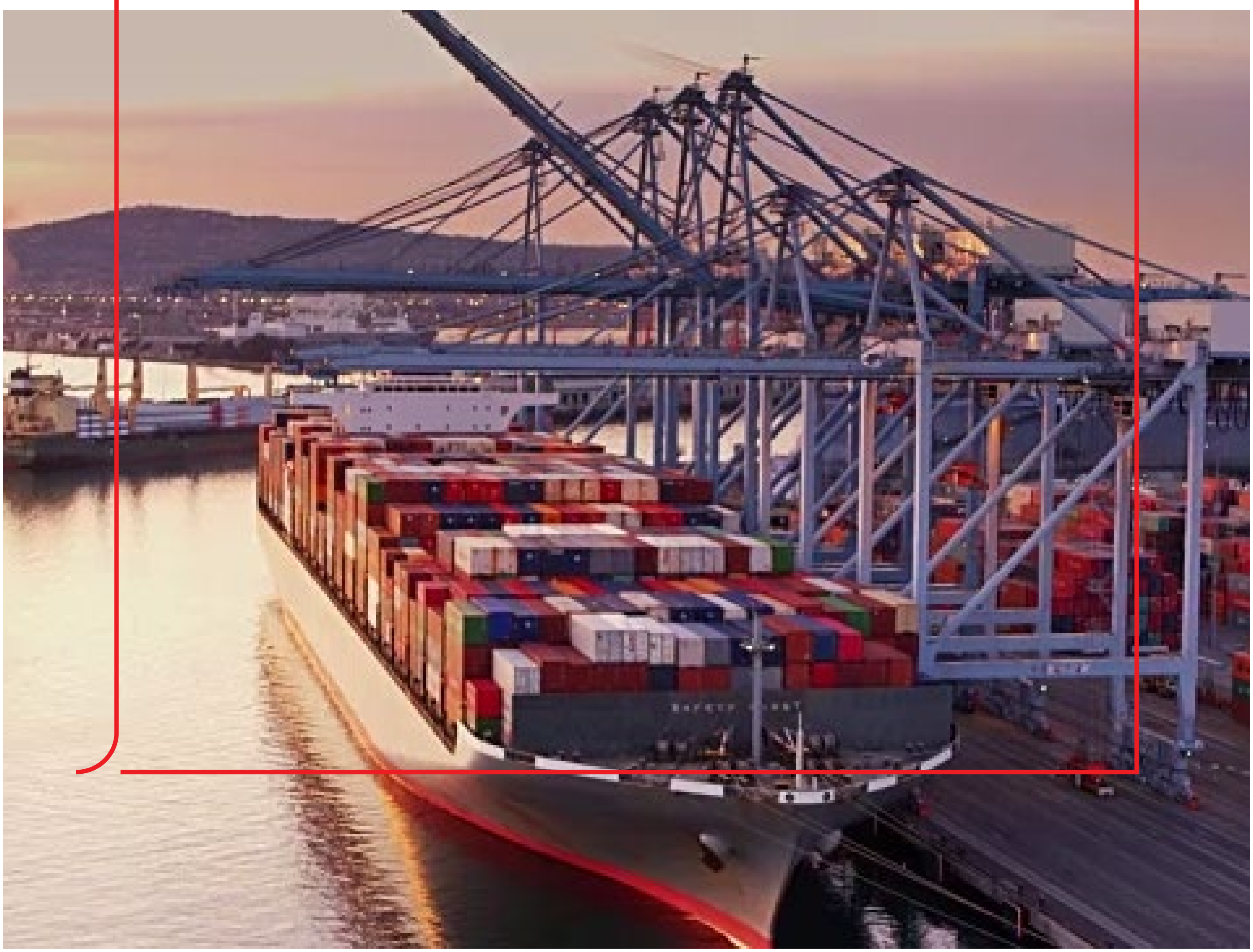
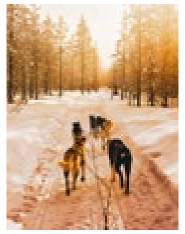
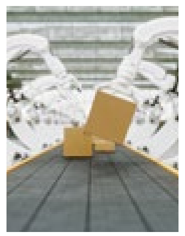


Table of contents



The midnight sun 4

James Jack, head of our Business Owners Segment in the Americas, takes the temperature on business owner optimism from the vantage point of Alaska.



Safeguard your supply chain / Supply chain prowess test 6

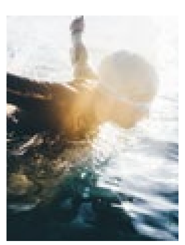
After shocks to supply and demand in 2020 that rocked the world, supply chains everywhere are still recovering and evolving. Shore up vital systems in your business with our supply chain prowess test.

M&A planning: Should I stay or should I go? 12

Thinking about selling your business soon? Wondering what venture capital leaders and strategic buyers have been doing lately? We're keeping an eye on dealmaking activity for you. See what's happening.

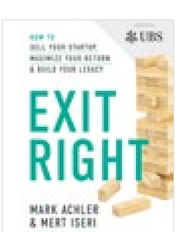
Staying nimble 16

How do you retain top talent now? Find out what employees are thinking, doing and valuing in the marketplace today—and how you can reach better outcomes for everyone in your work environment.



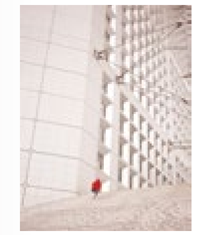
Learning gritty leadership 23

Joe De Sena's company, Spartan Race, was organizing obstacle courses in 40 countries when the pandemic hit. See how his team regained their stride after major setbacks.



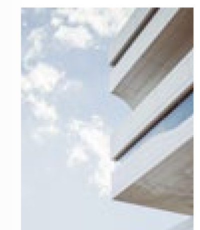
Have an annual exit talk 27

Most entrepreneurs want to sell their business someday. Learn the steps you can take now to set yourself up for success when you're ready to negotiate toward your next chapter.



Founders and Funders: Women entrepreneurs leading the way 32

We speak with Lakshmi Shenoy, founder and CEO of Embarc Collective. Her business offers entrepreneurs one-on-one coaching to help build bold, scalable businesses. She's helping expand opportunities for underrepresented entrepreneurs.

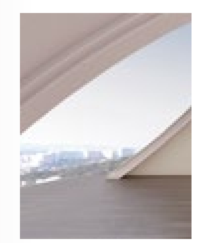


Entrpreneurship and concentrated wealth 34

It's common for entrepreneurs to be highly invested in one business (it's yours after all), but should you consider other options for your personal wealth?

Good for business—business for good 40

Jim McCann, Founder and CEO of 1-800-Flowers.com, shares how a sizable philanthropic effort can grow your company's culture, your business value and your family's legacy.



Business owners and sustainability: Insights from Suni Harford 44

Amidst one of the most challenging macroeconomic environments business owners have faced in recent years, Suni Harford shares the important reasons to keep sustainability goals central to your business strategy.

Takeaways from tech founders at Black Tech Week 46

With a strong current of optimism running throughout this conference, many founders say they view the uncertain times we're experiencing as a prime environment for disruption.

Ask for backup: The liquidity advantage of a letter of credit 48

Learn more about how a standby letter of credit can bring peace of mind in significant international purchases. Did you know you can secure a stand-in source of liquidity and use it if you need additional funds to fulfill an order?

The midnight sun

Happening now

One of the best parts of my job is getting to meet fascinating people who light up when answering the "So what do you do?" question. (It happens over and over with business owners.) This summer, I was spending time in Alaska and got the chance to connect with several business owners there:

- A family-run, seaplane tourism business in Homer was excited about the return of tourists, but cautious about the increase in diesel fuel and inflation. Is now the time to take on new, more expensive debt to purchase an additional plane?

  New revenue is their goal, but are things too tenuous?

- A young family with whom I happened to take multiple tours recently purchased a bike shop from the father's father. This store, down in the "lower 48," is now in its 30th year of operation.

  The new owners had lots to say about the ups and downs of the global bike supply chain.

- An experienced medical doctor in his sixties, now a budding entrepreneur, sat next to me on our 11hour flight to Anchorage. After watching me make notes on my copy of *Exit Right* for some time, he confessed that the words "how to sell your startup" on the cover, had caught his attention. He then asked if a potentially looming recession would put a damper on what he and his partners hope to ask for their business soon. What kind of market do they face in finding a strategic buyer now?

  His startup is looking towards their next raise.

When UBS published our most recent Investor Sentiment survey earlier this summer, some of my colleagues were surprised, initially, as they saw the data come in. The survey showed that business owners' level of optimism remains quite strong, despite months of dealing with issues like the ones above, and market volatility, a war in Ukraine, fatigue from the global pandemic ... the list goes on. (Let's not forget that overcoming the pandemic, the lockdowns it brought and the changed patterns in consumer behavior has been, and continues to be, an enormous struggle.)

But business owners, in my experience, tend to be optimistic people. And that's especially true when it comes to their own business. It's tough to put yourself out there in the way that business owners do, every day, without having a sense of optimism about what you are doing, right?

James Jack

Head of Business Owners Segment Americas, UBS Global Wealth Management

So, I was not surprised that optimism remains high despite the mounting challenges of late.

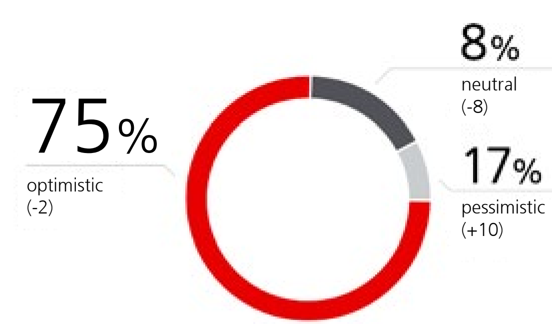
In previous issues of Business Owner Insights, we looked at how our world is being changed by the pandemic and we explored the long run opportunities that trending investor priorities are bringing to sustainability efforts—how business owners can drive value from the trends.

This year, our focus is on the present and the evolving, shifting paradigms business owners are facing. As with past issues, you'll see insights from experts within UBS and hear too from real world entrepreneurs who are facing the tasks of today head on.

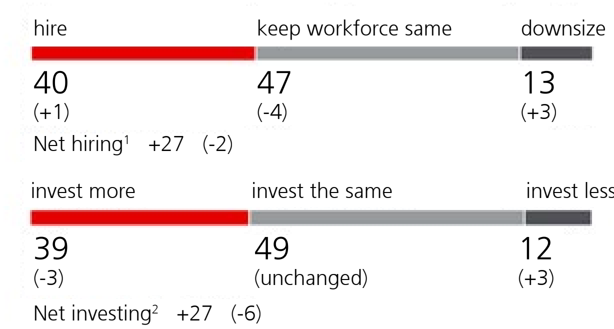
Alaska is the land of the midnight sun. I can think of no more fitting metaphor for business owner optimism now than the warm glow of the sun at a time when we think it should be darkest.

Business owners

Optimism about own business stays high*



Plans for hiring and business investment remain strong* (in %)



*Changes since May 2022.

[1] Hire minus downsize [2] Invest more minus invest less.

[1]Investor Sentiment 2Q21: UBS surveyed 500 business owners in the US with at least $1M in annual revenue and at least one employee other than themselves, from June 29 – July 10, 2021.

Safeguard your supply chain

While the COVID-19 pandemic may be fading, its impact on supply chains will last much longer.

A shock to the supply system started in China in 2020. A shock to demand occurred too, when the global economy shut down. Separately and jointly, these two shocks to the supply chain exposed numerous vulnerabilities. The challenge for companies now? Make supply chains more resilient without damaging competitiveness.

Be aware of fragility

Supply chains are delicate ecosystems: when operating properly, they deliver a smooth and efficient flow of goods. When there is a hiccup, the whole network appears to be collapsing. Effective supply chain management now calls for a holistic approach with an overview that captures sourcing, production, inventories and shipping.

At each stage of delivery, too much or too little throughput can ramp up costs or spark major disruptions. These ultimately affect the customer, through higher prices or non-delivery of goods.

For entrepreneurs with rapidly growing companies, the combined complexity and fragility of supply chains presents a particular challenge today. While larger companies may vertically integrate to create more controllable supply chains, smaller businesses often have to accept the risk of supply chains failing, which can slow growth or bring it to a halt.

As COVID-19 showed, external shocks can trigger significant disruptions that are beyond the entrepreneur's control. Goods-based businesses are especially at risk. They can't deliver—let alone improve—a product without involving the supply chain. By contrast, software businesses can iterate their products on a daily basis. (Think of the frequent updates on mobile apps.)

Gathering the data you need to manage your supply chains is particularly challenging right now. But, having good data equips you to answer a central question: should my supply chain be sustainable, fast, flexible or cheap? Having or recruiting an experienced supply chain professional can help you achieve three out of these four targets—or even all four.

Excerpt from UBS's Entrepreneur Compass

You're not alone: 66% of US business owners say "rising materials costs" and "supply chain issues" are among top concerns[1]

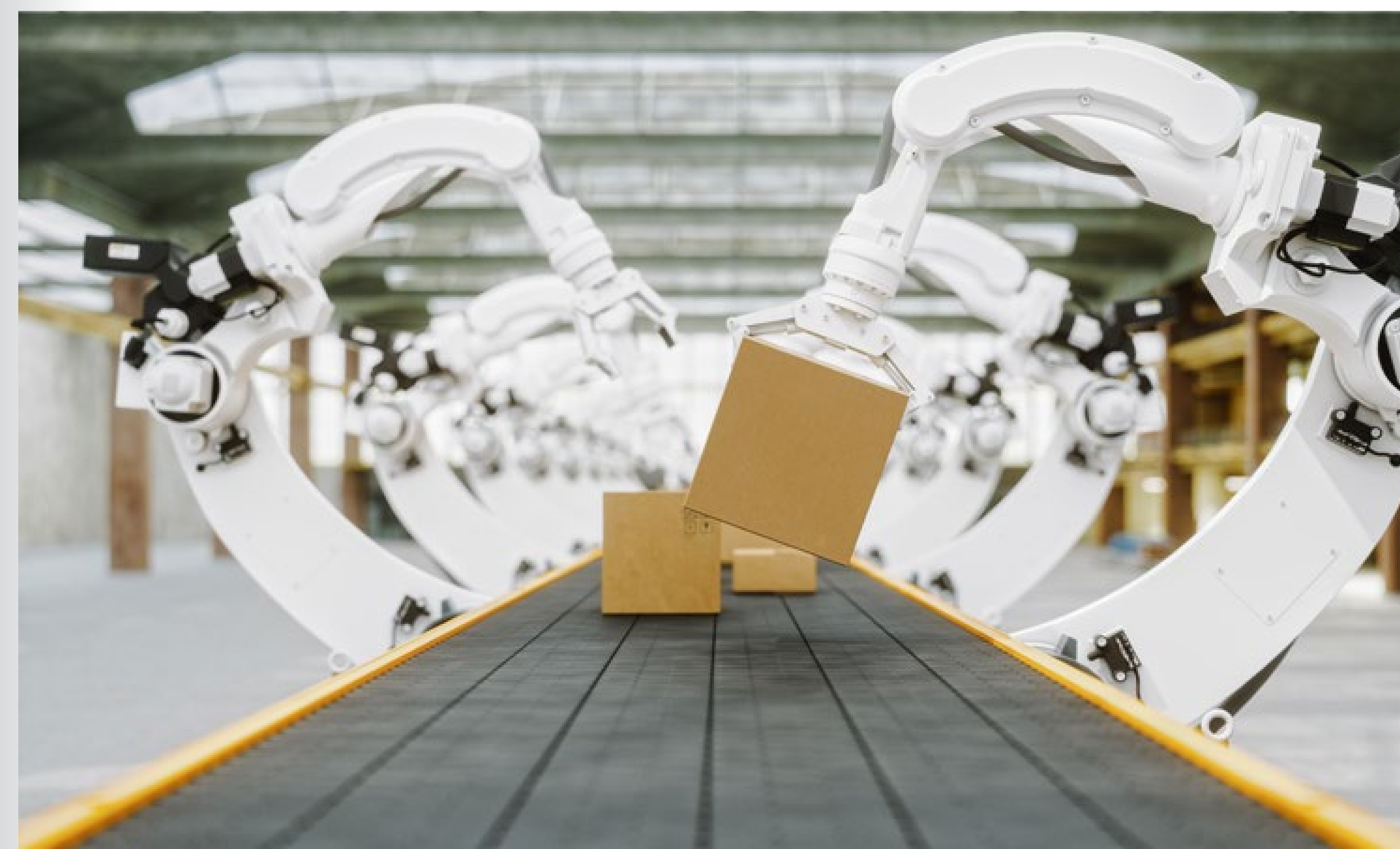
Businesses are facing challenges

It's hard to overstate the potential for harmful impacts on supply chains to cause problems for fast-growing businesses. This true for both B2C and B2B businesses.

Supply chains regulate the flow of goods across the external and internal value chain; they are your business's "nervous system." While supply chain costs may prove a major roadblock to profitability and brief stockouts can put your business in emergency mode, some supply chain risks can threaten your business's very existence. Longer-lasting disruptions can critically hamper business growth when too many customers turn to competing products.

The challenge now is to make your supply chain more resilient—while staying competitive

See more strategy-building ideas in the full report—[UBS Entrepreneur Compass]



[1] Investor Sentiment 2Q22: UBS surveyed 500 business owners in the US with at least $1M in annual revenue and at least one employee other than themselves, from June 29 – July 18, 2022.

Supply chain prowess test

Should you hire help?

Managing complex supply chains well often requires the help of a supply chain specialist—or specialists. This is particularly true now, with the rapid increase of automation. In some situations, an expert's salary can be recouped several times over in cost savings and value—creating efficiencies.

Beyond hiring a professional with supply chain management expertise, there are five broad ways to improve supply chain performance effectively and increase your business's potential for growth.

1 Develop a comprehensive knowledge of your supply chain

The first step in optimizing and improving your supply chain is to fully understand it. What suppliers are critical to your business? Who are your key partners currently, and why? What are their weaknesses and strengths? Would they be ready to scale up if you need more from them? Which external factors (e.g., dependencies, trends) could critically affect your supply chain? Where is it particularly fragile? How do external partners score in terms of your sustainability goals?

Supply chain costs can play an outsized role in the life of your business—for better or for worse

2 Select suppliers strategically and collaborate

Selecting the right supply chain partners is a difficult task. In order to choose your suppliers well, clearly specify your product and delivery requirements from the outset. Get to know your primary vendors and build good relationships. Communicate regularly and engage in trust-building measures. Your suppliers are valuable partners—they may go to great lengths to support you when you need them to.

3 Align growth plans with supply chain capacity

Expanding significantly within a short time may stress your supply chain. When planning your next growth phase, devote time to solid demand forecasting. Work your way backwards in the value chain to understand the implications of the new demand level for each step of the supply chain. How would a surge in demand affect your supply chain infrastructure and your team? Set aside funding for capacity increases and plan to be able to quickly and reliably ship your products to customers, while keeping your inventory level to what's absolutely necessary.

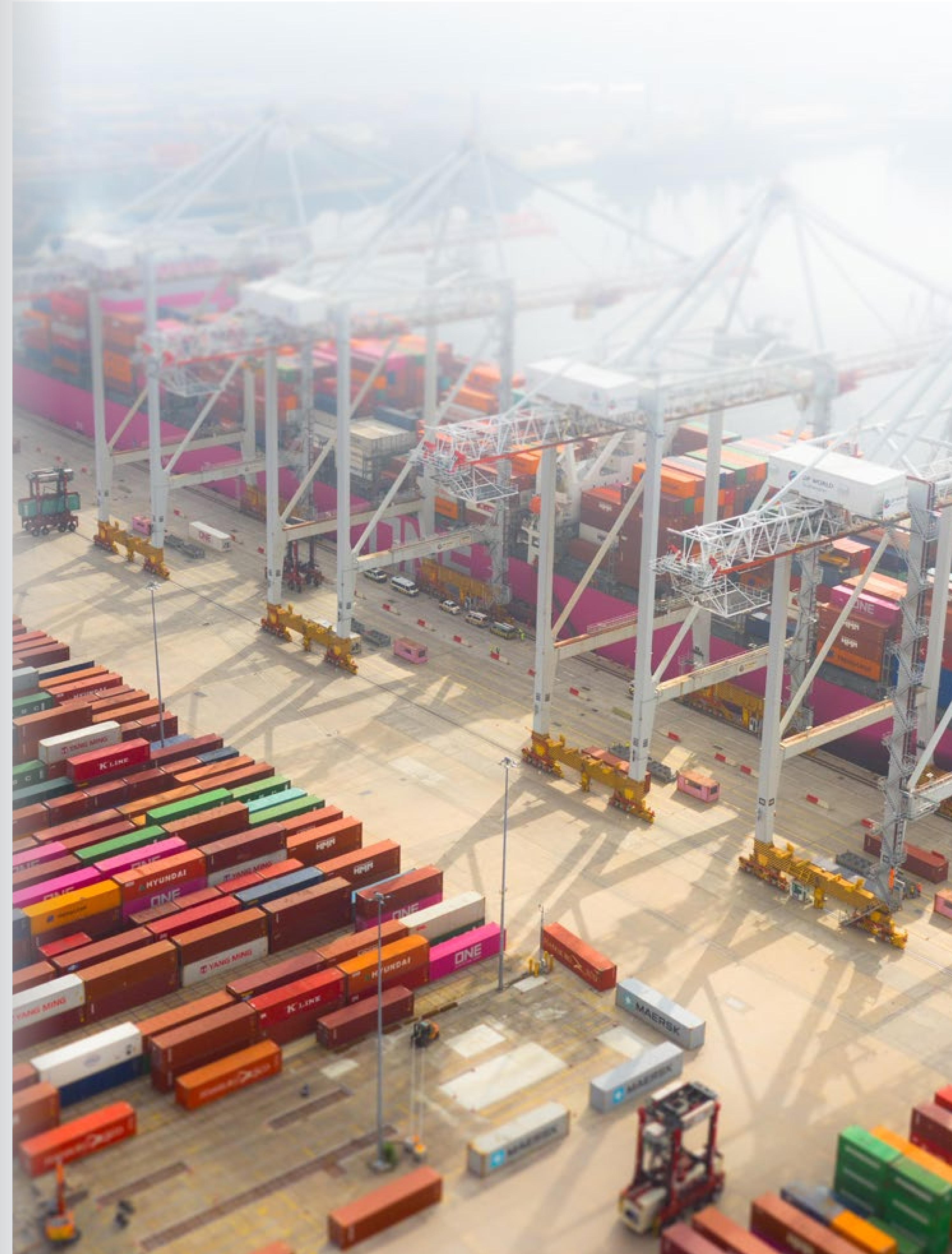
4 Anticipate risks

Develop contingency plans and locate “cheap” buffers that will foster resilience. For instance, when it comes to goods that are essential to your production, you may want to establish relationships with multiple suppliers and make sure contractual arrangements are strong. Some suppliers should be located domestically. (This is called near-shoring.) Although domestic suppliers may charge higher prices, you can typically find better quality and have more shipping control—possibly fewer headaches and fewer communication problems, too. If you are relying on supplies that can only be sourced from abroad, develop relationships with partners that are dispersed internationally to hedge your risks.

5 Invest in “smart,” automated supply chains

There is a move now towards digitally enabled, self-regulating “smart” supply chains, functioning with near autonomy. Supply chains like this offer real-time end-to-end visibility, quick responsiveness and AI-supported decisions. You may not be ready for all of that yet, but collecting new types of data and making supply chains digital now, can improve future decision-making. Add to that the ability to share information with customers, like the carbon footprint of a product, and the advantages begin to grow.

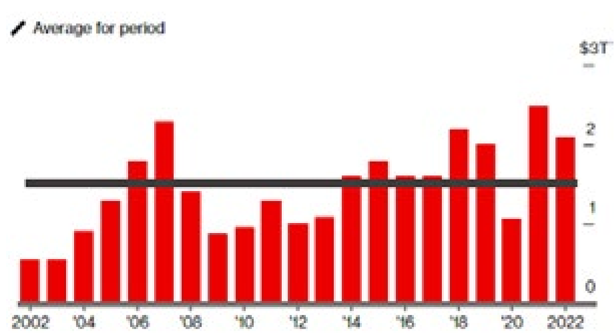
Lasting disruptions to supply chains can critically hamper business growth if customers turn to competing products



M&A planning: Should I stay or should I go?

Amid recession fears, volatility in the public markets and rising interest rates, some business owners look at the mergers and acquisition climate as though dark clouds are forming for business owners pursuing a sale of their business.

But how is this year going, so far? The chart below has the numbers. Take a look at how activity in private markets in the first half of this year outpaced the historical average ... Surprised?



Source: Bloomberg
Data cover 1H periods

Dealmaking remains well above the historical average, for a first half

Chris Cua

Business Owners Client Segment,
UBS Global Wealth Management

Activity in the first half of this year outpaced the historical average

Activity in the private market appears healthy

Transactions so far this year are on pace to reach close to $4T for the year. The robust volumes from 2018 and 2019 are being maintained.[1] And in yet another sign of resilience in private equity assets ... the 1Q22 deal count is in line with previous quarters.[2]

Other factors playing a role

Colleagues at UBS and outside specialists have mixed feelings on whether the momentum in mergers and acquisition will persist, as many of the deals this year were likely to have been negotiated in 2021 or in the early stages of 2022—preceding a significant turn in the macroeconomic environment. Adding to ambiguity, there's higher inflation and the pandemic-induced supply chain disruptions to consider.

1 Bain & Company Global M&A Report 2022
2 Q1 2022 Pitchbook-NVCA Venture Monitor

We will be observing the impact on demand for deals in the remaining months of this year with great interest.

The case for optimism

There is still an abundance of capital in the system—private equity firms are actively fundraising. When this "dry powder" begins to "age out," well-capitalized investors may feel pressure to fund deals. So, it's possible that the current levels of available capital will continue to fuel deal volumes, but anticipate that private equity firms will deploy funds opportunistically (looking for bargains) and they will be looking for established businesses proving to be financially stable through these turbulent times.

Although the appetite for strategic acquisitions has taken a dip recently, 80% of surveyed executives in 2021 identified mergers and acquisitions as one of the core elements to their business.[1]

Today's executives may now face more headwinds—in relation to previous market cycles—but despite all, a strategic merger or acquisition remains an attractive option for many businesses. Many may currently be looking for the right company to buy, hoping to add to their talent pool, their product offerings or even key competencies. Fundamentally, plenty of companies still want to grow.

Waiting for the market to settle?

For owners who may want to reassess the idea of a transition once the market settles, now could be the optimal environment to retool and strengthen the business's operations. Especially during fast markets and uncertain times, a business sale can be a major undertaking.

With uncertainty and challenges come great opportunities to differentiate and improve from a strategic standpoint, whether or not a sale is in the near-term future. So, to address the question, "should I stay or should I go?" continue to evolve, remain resilient and take the challenges head on. With time, one can hope that there will not "be any trouble."

There is still an abundance of capital in the system—private equity firms are actively fundraising

Nick Parks, Head of UBS's Private Markets M&A in the Americas, offers insight for business owners seeking a sale in the near term

"While the increased macro uncertainty and recent market volatility has caused a pullback in M&A activity from last year's records, the environment is still very constructive relative to longer term benchmarks. The M&A window remains 'open' for good companies with an established track record of profitable growth."

See the next page for five steps to prepare for a sale

Five steps you can take now to be better prepared for a sale when the time arises

1. Document what is being done, both tactically and strategically, to counter the pandemic-related shocks. For example, as it relates to supply chains, dealmakers are showing a preference to companies that are de-risking by reshoring or "friend-shoring"[3]

2. Leverage detailed marketing materials to illustrate the business's story—highlight how your business responded and evolved throughout the pandemic and how it has converted the recent challenges, such as labor dynamics or inflation, into value creation opportunities

3. Organize financial statements and legal paperwork—you want this information and documentation to be readily available, current and in order

4. Evaluate your business's key talent—think about employees or partners who could be critical to a successful sale and look to ensure that these individuals remain with the company, despite the increased labor turnover that is happening now in the general market

5. Assemble a trusted internal team and an exit planning advisory team—including an investment banker, a CPA, an attorney and a financial advisor

Private equity transactions are on pace to reach almost $4T this year

Staying nimble

The pandemic set the work environment on a new path and the path is still shifting.

A look at workplace activity, by the numbers, shows employers are adjusting to the changing needs of employees in numerous ways. And flexibility will continue to be required, if you want to retain top talent.[1]

Anca Ciorga

Head of Market Strategy and Engagement, UBS Workplace Wealth Solutions

Most employees will remain in their preferred work environments post-COVID-19

As a sense of security returns, 85% of employees will opt to work in their preferred environment, whether in-person, remote or hybrid. About half of employees will resume working in-person, while another 38% will remain remote or hybrid. Employees whose work environment preferences are not aligned with employer expectations are major flight risks: Seven in 10 will leave.

Employee expectations align with their preferences

85%

of employees will remain in their preferred work environment post-COVID-19.

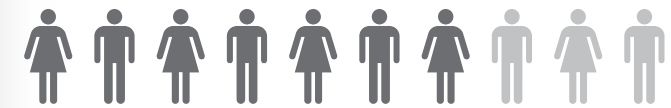
Work environment post-COVID-19

What I expect	What I prefer	
Mostly in-person	Mostly in-person	47%
Fully remote / hybrid	Fully remote / hybrid	38%
Mostly in-person	Fully remote / hybrid	11%
Fully remote / hybrid	Mostly in-person	4%

Employers are adapting to a more mobile workforce

Receptive to the fact that many employees want the flexibility to live and work where they choose, seven in 10 companies are allowing employees to move to new locations and continue working remotely. However, employee salaries are being adjusted to compensate for this flexibility—most by at least 15%.

Employers are easing in-person policies



7 in 10

At my workplace, we're allowing employees to move to other areas and continue working remotely.

Make sure you communicate your full range of benefits to employees

Employers went to great lengths to support employees during the pandemic by adding many new benefits, but communication of these benefits can be improved. Employees are aware of the more traditional benefits such as COVID-19 testing and flexible work schedules, but may not be noticing many of the nontraditional perks such as childcare resources and reimbursement for home office equipment.

Company and employee awareness is aligned	Company view	vs	Employee view
Access to COVID-19 testing / vaccinations / boosters	58%		60%
Hybrid working models / flexible work schedules	55%		54%
Paid leave to be used for any reason	51%		53%
Mental health resources	51%		48%
Physical health resources	49%		45%

Company and employee awareness differs	Company view	Employee view
Emergency leave for childcare	51%	43%
Reimbursement of work-from-home expenses (e.g., office supplies, printers, laptops)	55%	41%
Emergency leave for eldercare	46%	37%
Additional holidays	47%	36%
The ability to borrow from not-yet-earned paid time off	43%	29%

Employees value—yet remain unaware of—diversity, equity and inclusion (DE&I) efforts

While employers have increased DE&I efforts over the last few years, they may be overestimating the extent to which employees are aware of them. Sixty-three percent of companies feel their employees are highly aware of such efforts, yet only 45% of employees agree. Half of employees wish their companies would do more to promote DE&I efforts.

Employers have stepped up DE&I efforts

49%

We have increased DE&I efforts over the last two years

Companies overestimate awareness of DE&I efforts among employees

High awareness of DE&I efforts

63% Company view VS 45% Employee view

Employees value DE&I efforts ...

66% My company's DE&I efforts are highly important

Importance of DE&I efforts resonates more with younger employees

Gen Z	75%
Millennials	83%
Gen X	61%
Boomers	40%

... and feel their company could do more

49% I feel my company should be doing more to promote DE&I

Employees are looking to employers for retirement planning needs

Access to retirement plans is a major factor when choosing a new job or remaining in a current one. Despite this fact, one-third of companies don't offer this benefit. More than 80% of employees feel companies should be doing more to help employees reach their retirement goals.

Employees value a retirement plan benefit ...

These benefits are important to me when…	Taking a job	Staying at a job
Healthcare benefits	84%	81%
Base salary	83%	82%
Access to a retirement plan	80%	81%

... yet many companies don't offer it

32% of US companies don't provide access to retirement plans[1]

Equity plan participants want help managing their awards

Many equity plan participants are worried about mismanaging their awards. Three in four are highly concerned they could be doing more to maximize their wealth potential. Most equity plan participants are highly open to tools to help minimize tax strategies, track progress toward financial goals and automatically diversify their awards into traditional investing accounts.

For more research from UBS Workplace Wealth Solutions, please visit: ubs.com/workplaceinsights.

1 U.S. Bureau of Labor Statistics, Retirement benefit access and participation rates, March 2021

1 March 2022, UBS Workplace Voice, In motion.

Turn insights into action

You can use our research to create a more rewarding workplace

1 Check in with employees

Workplace benefits are constantly changing, and the pace of change is quickening. If you haven't surveyed employees in the last two years, consider doing so now. Find out what they need.

2 Focus on benefits that matter

When it comes to attracting and retaining talent, certain workplace benefits are at the top of employees' wish list: base salary, healthcare benefits and retirement plans. If you already provide access to a retirement plan, consider automating enrollment. If you don't, consider offering retirement plan access in the future.

3 Get noticed for what you offer

To attract the right talent for your company, maybe it's time you start including benefits in new job postings. This could help you further distinguish yourself in the marketplace.

4 Increase awareness of new benefits

Most employers have added new benefits in the last two years—yet fewer than half of all employees say they are aware of any new benefits. Examine your benefits communications to see where you can make changes. You could also survey your employees on their preferred method of communication.

5 Publicize DE&I efforts

Almost half of employers have increased their DE&I efforts, which are valued by employees, especially the younger generations who make up the majority of today's workforce. Yet fewer than half of all employees are aware of what their companies are doing in this area. This is another opportunity for you to review your employee communications and their frequency.

6 Help ease the student loan burden

The Biden administration has recently taken steps to erase up to $20,000 in federal student loans. While this may be welcome news for many, it comes with the caveat that the moratorium on payments will end at the end of the year. Owing student debt remains one of the biggest financial challenges facing American workers today. Eighty-four percent of employees across all ages say it's the number one reason they don't participate in workplace retirement savings programs.[1] Do you know if your employees need assistance with student loan debt? What solutions do you already have in place to assist? What solutions could you add?

7 Engage employees with equity

Equity plans are now being used in unique ways to engage and retain talent. What more could you do with equity awards? If you don't already offer them to all your employees, could you expand the benefit? Do you want to make adjustments your vesting periods for equity awards?

[1] Employee attitudes and behaviors survey, Issue 3, June 2022, presented by UBS Workplace Wealth Solutions

Learning gritty leadership

When lockdowns began across the globe, Spartan Race suddenly faced the tremendous challenge of staying afloat without earning any revenue. (Races couldn't be held at that time.) Their expense sheet, however, continued to grow.

Going back to early 2020 though, Spartan was seemingly on top of the world. It had acquired its competitor, Tough Mudder, and was planning races in more than 40 countries, supported by a workforce of more than 500 employees. Now, in this pandemic moment, De Sena recalls, he had to motivate himself to push through the crisis instead of giving up.

"The mission of Spartan is to make unbreakable people and transform 100 million lives—now was the time to live it."

De Sena eats, sleeps and lives the Spartan life. This time, though, the stakes were higher than ever. He knew it was "show time," so he dug deep and forged ahead, making operational changes to sustain the company as races were being canceled. Reluctantly, he furloughed more than half of the workforce to conserve cash reserves.

The difficult yet bold move worked. Spartan began to pivot and focus on maintaining its 10 million-plus strong athlete community as its top priority. The company expanded its digital media presence and created a series of digital endurance events for community members, to help them keep personal fitness goals on track through the pandemic.

Serving members this way helped create new market opportunities and Spartan began generating revenue again. In May 2020, Spartan's virtual "Project Unbreakable" became the largest online race event held to that point—over 40,000 participants in 100 countries. Leading up to this event, De Sena began hosting a daily 5:30 a.m "Warrior Call." Making it worthwhile for people became De Sena's way of keeping a strong pulse flowing within the organization and maintaining an important connection with his audience.

Joe De Sena

Founder and CEO,
New York Times best-selling author of *Spartan Up*, *Spartan Fit*, and his recently released third book *The Spartan Way*.

Spartan Race is an extreme sport and wellness brand organizing obstacle course races in over 45 countries

What can you do to cultivate a mindset for success?

Beyond developing personal resilience, make sure that your leadership teams and general workforce are similarly equipped; individually and as a group, De Sena advises. He believes that when corporate teams overcome hard challenges together, they develop grit and build the resilience they'll need to thrive through crisis.

"In preparation for crisis, as a leader, you can create situations where your organization is challenged to overcome something difficult, so that you continually build resilience as a team." At Spartan, for example, the whole team takes the stairs to the fifth-floor office instead of the elevator, De Sena adds. "The little but hard things that we do together and celebrate completing as a team make a difference here."

What you ask of your team is certain to be different than what De Sena asks of his, but he feels that when teams struggle together, talk about it together and commiserate together, they can do anything together.

"The company culture at Spartan is incredibly hardworking. We believe in our mission and in how our team funtions together," De Sena says. "Sustaining a high level of motivation for a team that's deeply invested in the impact it is making results in having a workforce that is determined to contribute—determined to support our company in times of crisis."

Recently, De Sena recounts, events beyond their control threatened to undo his team's hard work organizing one of Spartan's first races since the start of the pandemic, on the Golden Gate Bridge in San Francisco. With only two weeks to go, setbacks tested the team's spirit, but they came together and pulled off a great race. "No customer would have known that two weeks before it was a disaster. But our whole team has trained to tackle tough problems and lean into them rather than shy away. They know how to get out of their comfort zones—how to do something hard—and they believe that what we're doing is purposeful and impactful. That motivates our staff, too."

For De Sena and the broader Spartan community, preparing for crisis resilience takes the form of physical and mental fortitude, accepting hard challenges and exceling at them, even in the face of easier alternatives. Several months after shutting down all in-person events, Spartan is returning to many previous race locations, operating races now with a much smaller staff than they once had.

De Sena's adversity model was recently featured last spring on a new television series on CNBC entitled *No Retreat: Business Bootcamp.* Other business leaders are taking notice of De Sena's aptitude for resilience as well, looking to him for help with their companies. De Sena hopes that every business—no matter how big or small—will start to implement its own resilience lens, in order to thrive during times of struggle.

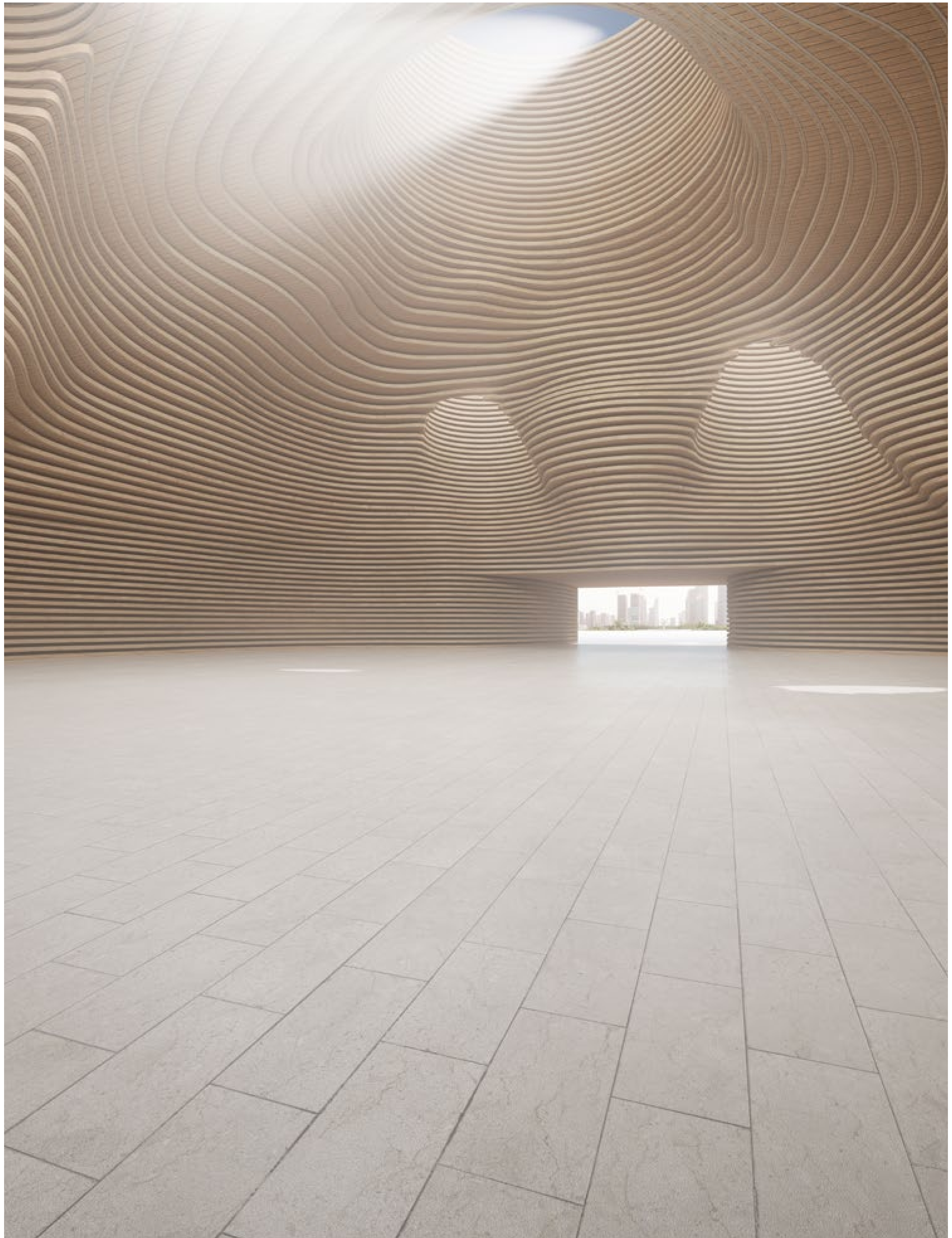
Push past challenges by referring to "resilience data points"

"When I reach my breaking point, I refer to a resilience data point in my mind and often muster enough fortitude to continue pushing. I know that if I got through such a tough moment then, I can get through this crisis too It's all about perspective and mindset."

"Inevitably, it's by going through difficult and gritty challenges that humans become better—stronger, tougher and faster. This is what changes lives," De Sena concludes. After overcoming the immense obstacles created by the pandemic, the Spartan team is looking ahead: on their mark, they have gotten set, and are off and running again.

"I will lead from the front and do everything I've been asking the world to do for the last 20 years: get out of your comfort zone and do hard things."

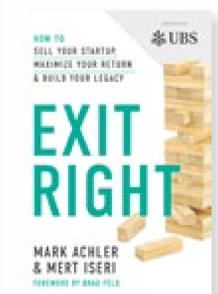
Learn more about facing five of the biggest challenges in the decade ahead—see the full report at [UBS Entrepreneur Compass]



Have an annual exit talk

What's the value of an exit talk? Who do you talk to? How should you approach the conversation?

While it has historically been a bit taboo to discuss exits in the past, it should now be standard practice for founders to have at least one annual "exit talk" with your key stakeholders to take everyone's temperature and see what the appetite is to sell.



Earlier this year, we sponsored the release of a book written to help entrepreneurs and business owners: *Exit Right: How to Sell Your Startup, Maximize Your Return and Build Your Legacy.*

Our sponsorship allows us to bring you this key excerpt. Use it to prepare for your best exit.

In Chapter 2, the authors discuss the importance of having an annual "exit talk" to maintain alignment across your board and shareholders. Hear from them now:

The foundation of all trust is open communication. We all know this instinctively, but we tend to forget it when we get busy. We prioritize other issues and forget to stay in regular communication with the important stakeholders in our organization. But you need to talk about selling your company with your stakeholders, often and consistently. Getting acquired is not a bad thing, after all—a successful exit is the desired outcome for most startups. What hurts is when the acquisition is a surprise—a distraction from the shared commitment everyone is there for.

Mark Achler

Co-author, *Exit Right*

An early employee of Apple and head of innovation at Redbox, Mark Achler has been creating and investing in tech startups since 1986

Mert Iseri

Co-author, *Exit Right*

Mert Iseri is the founder of SwipeSense, a healthtech company acquired by SC Johnson in 2020—he also cofounded Design for America

Start a conversation about selling too early, and the shareholders will doubt the long-term commitment of the leadership. Too resistant to a sale, and the shareholders will grow frustrated with their expectations for a positive return. This is a tough balancing act, but it should not prevent you from discussing an exit at all.

Unfortunately, the conventional wisdom is for founders to virtually never discuss exits with shareholders. It is frowned upon to talk about the sale—investors expect the founders to constantly be focused on building an even bigger company until they are ready to cash out. The challenge is that if the founders are bringing up the sale conversation, it looks like they are interested in selling the company before the maximum value can be achieved. In other words, the board will question the long-term commitment of the CEO if the conversation comes up prematurely.

Founders need to establish the expectation with their boards that once a year, the group will add an agenda item to the meeting related to the sale. It is simply a temperature check on long term strategy, potential strategic buyers, and time horizons. This will allow you to build rapport continue the process of alignment and establish the trust you need to have a FAIR deal. The exit is one of the most important moments in the life of a startup for the founders and investors alike. A conversation filled with anxiety, doubt and mistrust serves no one. Carving out intentional space to have these conversations in an open and honest fashion on a periodic basis will improve outcomes for all parties.

The secret to board (and shareholder) buy-in is consistent communication on expectations and strategy to achieve objectives. This is where the CEO can withdraw from the trust bank that they have been putting the savings in over the years with their consistent communication.

The goal of these conversations is not to kick off a sale, but to ensure there is alignment around key questions:

- What is our threshold walk-away price?
- What is the fund timeline to return proceeds for limited partners?
- What objectives need to be accomplished for existing investors to further capitalize the company?
- Who are the key buyers, old and new? With whom should the CEO be building relationships in those companies?
- What is the key performance metric those buyers care about? What is the strategy to optimize that further?

We call this the exit talk: a key ingredient for a successful exit and effective governance. It is also an opportunity for a CEO to educate their shareholders and board on what matters. These are the moments to build shareholder confidence, define what the possible exit can look like, and execute on that premise.

It is true that if a founder never mentions a sale for eight years and suddenly starts bringing up the topic to a board, it signals a lack of energy to win even bigger. The reverse is also true: VCs are managing a fund with return expectations. A founder unaware of the dynamics of the investors and their timeline doesn’t help the anxiety surrounding the sale.

Instead of fueling the awkwardness of the exit topic by staying silent, we are putting forward a new norm that we believe the entire industry should adopt: the exit talk.

The moment the founder shakes hands with the investor who will join the board, they should agree to bring up this question once a year: are we ready to sell our company? In most cases, the answer will be a simple no—but the space itself will take out the anxiety that a founder will feel when they bring up this question. This is one of the many norms we hope to shift in the world of startups today, in order to take the stigma out of this important conversation.

In addition to the board, regular check-ins (about once a year is the right cadence) with the core leadership team to update them on the current thinking surrounding an exit are similarly beneficial. Take the temperature of your team and fill them in on where your head is. Is everybody still in the game? Are there things we should be worried about? Is this the right time to sell? Use correct judgment and limit the discussion to your top leadership, but be honest and transparent with the folks who will take the company to its ultimate destination. If the ultimate goal is to go public, you need to have extreme dedication from your key leadership to stick it out long-term, not just from the founders.

Seeking a FAIR deal?

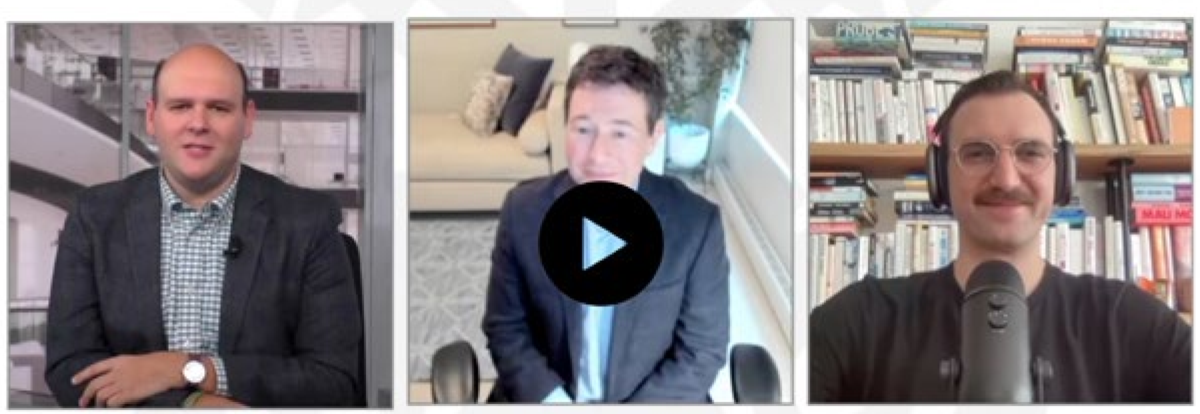
A successful business exit requires preparation at key stages of your business's lifecycle.

Understanding the FAIR Framework can empower you with know-how from all sides of the negotiating table. Successful founders may only experience one exit in their lifetime, but larger acquirers are in the business of buying companies, with decades of experience and hundreds of transactions under their belt.

It's crucial to understand the elements that will be required of you to complete a successful exit. Prepare now to be able to overcome the many pitfalls that often upend deals.

Eric Marrello

Business Owners Client Segment,
UBS Global Wealth Management



The authors of *Exit Right* talk about why they wrote the book and how you find a "long-term home" for your business

Authors Mark Achler and Mert Iseri share their FAIR Framework:

Fit

What is the connection between parallel company cultures?

It is an absolute necessity for both the sellers and the buyers to share a common set of values. Cultural fit stems from developing long term relationships between your company and those within your industry, often with direct competitors. By deepening these relationships and building trust over years, you will already have an idea of how your potential acquirer operates. Knowing this in advance will alleviate any concerns you have in the initial stages of a transaction.

Alignment

Is there agreement among the key people involved in the deal? (founders, board of directors, investors and leadership)

Alignment is established through clear and transparent communication across all sides of the negotiating table. It is worth noting that before trust can be built with your acquirer, you must ensure that everyone within your organization is on the same page. (See annual "exit talk," discussed above.)

Integration

Is a clear plan in place for where the business will reside within the larger acquirer?

Think through everything: people, culture, technology, customer support, office location, etc. It is the responsibility of the founder to ensure that there is a clearly defined plan in place with key metrics to determine success. While it may seem difficult and overwhelming, the acquiring company's business development team will absolutely appreciate your input. It will create shared value. Ask questions early and often. Do not wait until the eleventh hour of negotiations to establish a plan.

Rationale

What is the plan to create new value as a result of the combined capabilities of the two companies?

The starting point in understanding if there is a clear business rationale for the acquiring company is timing: Is now the right time to make the purchase? Is the buyer better off by becoming a customer or vendor of the target company? Might it make more sense to build a competing product?

In order to justify the acquisition, the buyer needs to financially justify the purchase because at some point in the future, the bill will come due. Understanding these four elements will significantly improve the odds of a successful sale and will set you and your team up for a smooth landing.

For more insights from the book, which includes a foreword from James Jack, Head of the UBS Business Owners Client Segment, please visit ubs.com/exitright

Founders and Funders: Women entrepreneurs leading the way

In the UBS Founders and Funders series, we shine a spotlight on female entrepreneurs who have built successful businesses and are empowering the next generation of founders to reach their full potential.

For the June 2022 episode, we had the privilege of speaking with Lakshmi Shenoy, CEO of Embarc Collective in Tampa Bay. Shenoy's business offers entrepreneurs one-on-one coaching, bespoke programming and a myriad of networking opportunities to build community, both at Embarc Collective's 32,000 square-foot startup hub in downtown Tampa and virtually.

Success breeds success. Shenoy was recently named Businesswoman of the Year 2022 by both the Tampa Bay Business Journal and the Indo-US Chamber of Commerce; the business community is taking notice of Shenoy's impact.

Offering views from someone who is not just a builder, but "a builder for fellow builders," our discussion with Shenoy was thought-provoking and illuminating. Her passion is for expanding opportunities for underrepresented entrepreneurs, like women and people of color.

Lakshmi Shenoy

CEO of Embarc Collective

Embarc Collective helps entrepreneurs build bold, scalable, thriving businesses—offering one-on-one coaching on business strategy or specific functions within a business

On founders assembling a great board of directors:

"I've learned that your board should be an asset, a resource you depend on as an entrepreneur building an organization. You want to be able to go to your board with strategic challenges, personnel challenges, competitive challenges ... and really open up and say something like *here's my assessment of the situation—can you help me identify blind spots I may not be thinking about yet?*"

On the importance of being a coachable entrepreneur:

"We are equipped to serve companies that have a growth mindset in place when they come to Embarc Collective, that they want to be number one in their category in the world. So, ensuring that the founders we work with are coachable, can take feedback, are able to hear different perspectives—not always just listen blindly, but think critically about those perspectives—is important to us. It's vital to the success of an entrepreneur seeking to build a thriving company.

Within that coachability, too, I'm looking for people who see obstacles, challenges and curveballs as opportunities, rather than something that's impeding their ability to continue to move forward."

On the positive impact the pandemic had on entrepreneurs:

"If there is a 'silver lining' of going through a global pandemic, from my perspective, it's that very quickly we were able to identify huge problems in the world—health system problems, economic problems, social justice problems and more.

As an entrepreneur, your goal is to solve problems—a number of entrepreneurs will wind up working on solving the world's biggest problems. So, the pandemic and other events of the last couple years have become a source of inspiration, you could say, in how they point entrepreneurs toward ways for a business to be more meaningful and impactful. There are still huge problems that need to be solved urgently. Help can come from many fronts, including your business.

I've tried to have the mindset, as we are hopefully coming out of this pandemic, to really think through which problems matter most now. How will entrepreneurs contribute to our communities—and the world—in the most significant ways?"

On the value of diversity within startups:

"I think corporations do a much more intentional job around getting a diverse set of candidates. Startups need to follow in that mindset—with hiring practices and with investors too.

Make sure you're seeking out diverse populations of investors to consider and have conversations with. Think about whether the stakeholders that you're surrounding yourself with demonstrate the world that you want to see.

It's easier said than done, and it takes a lot of work to be able to do that. (As opposed to accepting investor support from wherever you can get it.) But if you're going to be part of the solution, invest time and effort into making your investor set more inclusive, as well as your employee set and customer set."

How will entrepreneurs contribute to our communities—and the world—in the most significant ways?

"I'm looking for people who see obstacles, challenges and curveballs as opportunities ..."

Subscribe to the Founders and Funders playlist on our UBS YouTube channel to catch each episode in the series

More discussions are on the way. All feature women who built businesses, exited and are now empowering rising entrepreneurs.

Entrepreneurship and concentrated wealth

Entrepreneurs commonly pour everything into their business—time, talent and treasure (capital)—in order to start it, scale it and potentially sell it. By contrast, a widely accepted maxim in investing points to diversification—spreading capital across asset classes, sectors and regions—as the desired path for most investors.

With this dichotomy in mind, consider these questions:

- If you're keeping wealth concentrated in your company, you might be putting your personal financial circumstances at risk
- As an entrepreneur, you can test your concentrated position against your goals
- You can manage a concentrated position in ways that benefit your business—and your wealth

What is a concentrated stock position?

There's no single definition of a concentrated stock position, but a common description is an equity stake that is 10% or more of a total portfolio allocation.

If you have concentrated wealth that is not in publicly traded securities, we propose the following, broader definition:

A position whose return, risk or other predominant characteristic determines most of your overall portfolio performance.

Matthew Carter

CIO Investment Strategist, UBS Global Wealth Management

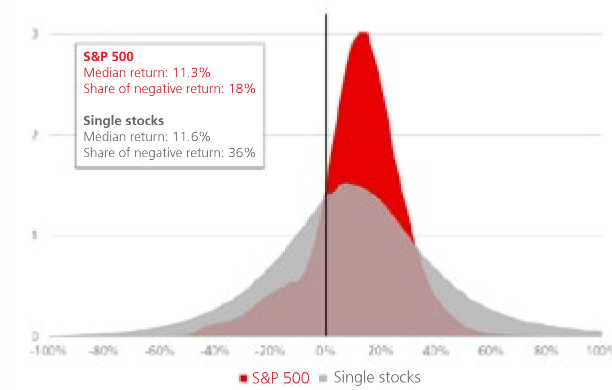
7% of stocks in the S&P 500 recovered from their troughs more rapidly than the index overall in the past 20 years

What are the risks of holding wealth in a concentrated position?

When you hold a concentrated stock position, you can be inefficiently allocating wealth for three main reasons.

1 Returns appear less reliable

Look at the daily rolling annual returns data for the S&P 500—the largest and most liquid stock market in the world—from 1990 to 2022. Holding the whole index would have led to a greater number of annual returns around the median and fewer periods of negative annual returns versus holding a single stock.

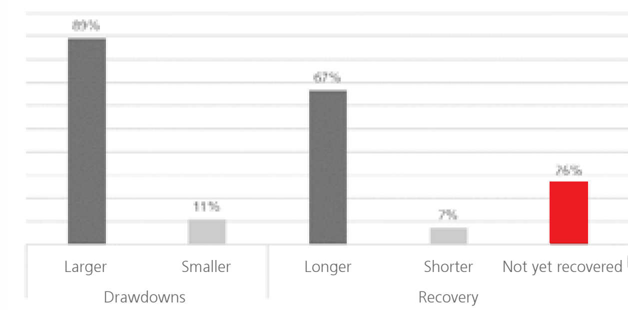


Negative returns are more likely when investing in a concentrated stock position based on probability distribution of one-year daily rolling returns on the S&P 500 and its constituents, since 1990.[1]

This figure displays histograms of the count of monthly rolling annual total return observations of the S&P 500 index and its individual constituents from 1990 to 2022. The set of S&P 500 constituents is updated on an annual basis.

2 External shocks test resiliency

The same S&P 500 index data set shows that nearly nine in 10 single stock positions saw steeper drawdowns (peak-to-trough losses) than the overall index, and single stocks took longer to recover from their maximum drawdown. Only 7% of the constituent stocks in the S&P 500 recovered from their troughs more rapidly than the index over the last two decades.



Single stock drawdowns were more extreme and recovery time was longer in comparison with the maximum drawdowns of the S&P 500 and its current constituents. The maximum drawdown is measured over the past 10 years using monthly total net return data.[2]

Note that time to recovery does not sum up to 100, as not all stocks have fully recovered from their maximum drawdown. This does not necessarily mean that the time to recovery is longer.

3 Results appear less repeatable

Over the last two decades, only 46% of stocks have outperformed the S&P 500 in a given year. When you look at the share of stocks that outperformed the index two years in a row, that number falls to 22%.

Too many eggs in one basket?

If you are holding concentrated equity, you should periodically consider whether you want that concentrated position to continue to play such a major role in your portfolio.

How is your largest position helping you achieve your goals?

Are you holding the concentrated position for non-financial reasons? Do you want to retain control of a company or preserve family ownership? In such instances, you may do well to ask whether these non-financial motivations are creating trade-offs that aren't in line with your overall financial goals.

If you're holding the concentrated position for financial reasons, are you targeting a set return or seeking the greatest possible returns? Is the concentrated position the most efficient way to help you meet short-term spending needs and your long-run saving and giving goals—or is one set of goals taking predominance?

What types of goals are you aiming to meet?

Does the concentrated equity position serve your day-to-day spending needs (i.e., a Liquidity strategy)? If so, your main goal may be to raise liquid funds from your position, while the stake is held in a seldom traded or untraded company.

Will your business stake ultimately fund lifetime spending such as retirement (i.e., a Longevity strategy)? If so, you may want to balance return generation against volatility management. Consider assets vs. liabilities and aim to reduce the risks either of not having enough money (shortfall risk) or of being exposed to a market fall just before you want to sell assets to meet expenses (sequence of return risk.)

Are you aiming to meet goals that extend beyond your lifetime, like bequests to family or charity (i.e., a Legacy strategy) with your concentrated stock position?

If this is the case, do you want to maximize financial returns so beneficiaries have the largest possible capital pool, or do you wish to give heirs particular assets so that they can retain company control or family ties?

UBS Wealth Way is an approach incorporating Liquidity. Longevity. Legacy. strategies that UBS Advisors can use to assist clients in exploring and pursuing their wealth management needs and goals over different time frames. This approach is not a promise or guarantee that wealth, or any financial results, can or will be achieved. All investments involve the risk of loss, including the risk of loss of the entire investment.

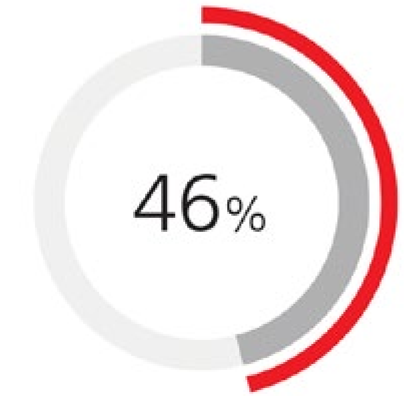
22%

of stocks in the S&P 500 out-performed the index two years in a row

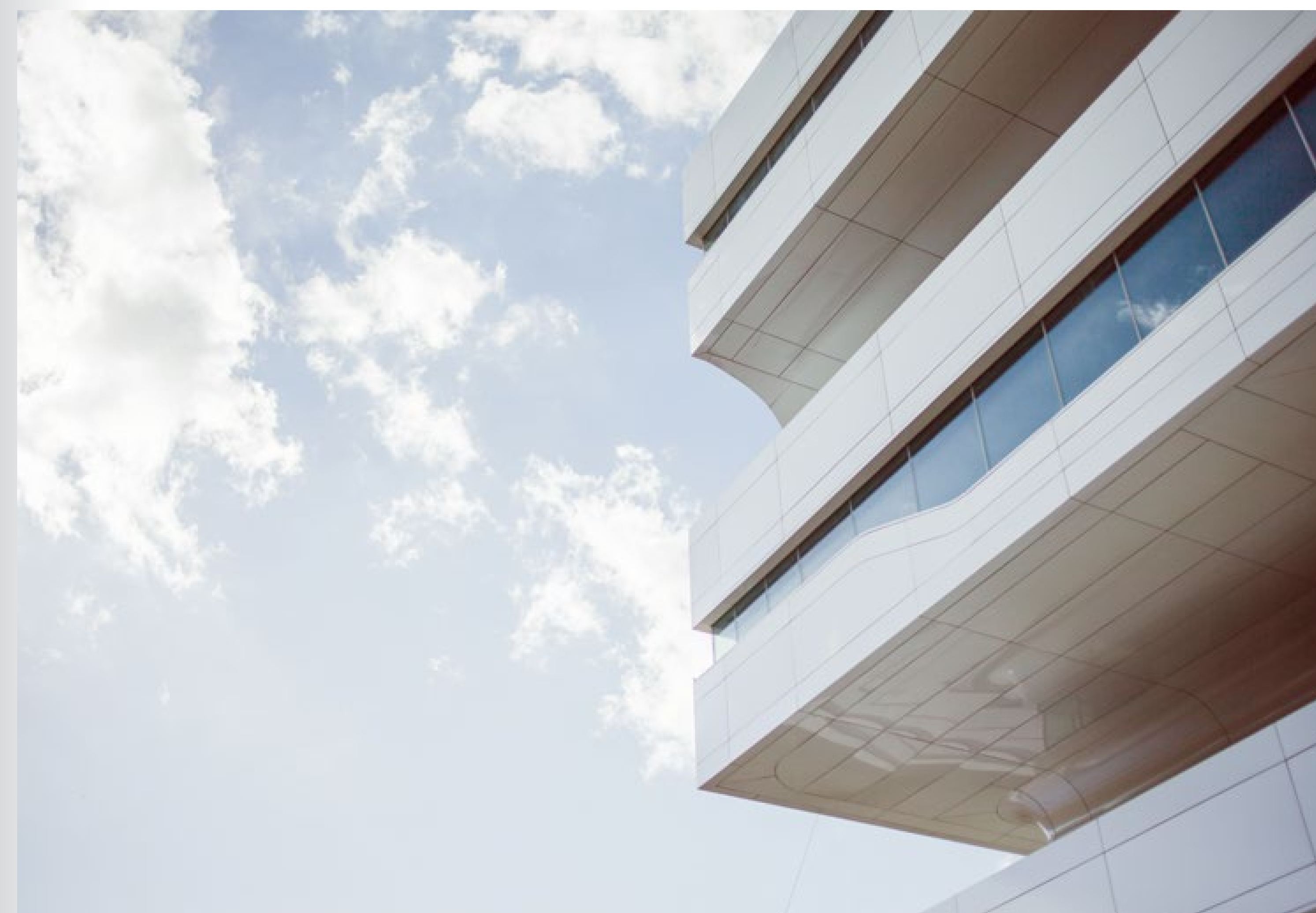
Is your concentrated position constraining you?

You may need to hold a certain proportion of your business's equity to keep the level of control you desire. And you may face restrictions on how much you can change your concentrated position. Will stock purchases or sales trigger regulatory disclosures that lead to a loss of privacy or reputational damage? Would the sale of your stock have an adverse effect on the overall business value?

Constraints can help shape your financial plan, pointing toward how you should manage your personal wealth, but know that you have a wider range of options available to you.



of stocks have outperformed the S&P 500 in past 20 years



What can you do to manage the risks of a concentrated stock position?

Rebalance risk exposure and diversify around the position

One way to raise cash is to sell unrestricted shares. However, this may be difficult for companies where the market is illiquid or if doing so would reduce control over a company.

If you own stock that cannot readily be sold, you should consider how the stock position fits into your overall portfolio strategy. Then make sure to diversify around that position.

Diversifying into less volatile securities—and those with a low correlation to your concentrated position—may help to grow wealth through the power of compounding.

Lock in gains and use the funds elsewhere

You may feel that the decision to "put your money where your mouth is" justifies holding a concentrated equity position. Or, if you're a private investor, you may feel that the control you have acquired in an outside venture (even if not a majority stake) is an additional incentive.

But it is worth noting that personal entrepreneurial effort may not offset the impact of rising interest rates, public health shocks like the COVID-19 pandemic or stricter sustainability regulations (which are increasingly impacting certain sectors and industries.)

Another reason you may want to consider reducing the concentration of a company holding: you want to lock in some of your existing gains for investment elsewhere. If this is the case, and if your position is significant, it may be possible to reduce the position gradually, by exploring tools such as open market sales, block sales, structured sales programs—based on the volume-weighted average price (VWAP) between a pre-agreed trade and completion date—or private placements.

Reduce the volatility of your concentrated position

It may be possible to consider hedging strategies to reduce the price swings of your concentrated equity position.

Consider a "structured solution," like prepaid variable forwards. This typically involves entering what's called an equity collar (arranged with a financial institution) in exchange for immediate cash proceeds equal to the put option's strike price minus the costs of the collar and the loan. You can then use the cash proceeds described above to fund investment in a diversified financial portfolio.

[1,2,3] Bloomberg, UBS, as of March 2022

Are you making trade-offs that aren't in line with your overall financial goals?

Good for business—business for good

Why 1-800-Flowers.com displays its philanthropy to the world

We speak to family businesses on an ongoing basis to understand how they decide to embark on impact endeavors, the challenges they face and what they're accomplishing.

This case study shows, once again, that family businesses are perfectly placed to inspire larger companies worldwide to be a force for good. You can make an important impact with your family business. See what Jim McCann and his company are doing.

Jim McCann

Founder and Chairman, 1-800-Flowers.com

Family in focus

1-800-Flowers.com has a clear mission—to "deliver smiles." The company is publicly owned and traded, but family members provide integral leadership. In 2014, the business acquired food and gift producer and retailer Harry & David.

Harry & David ran a not-for-profit foundation that helped agricultural workers in the community. This work inspired Jim McCann and his brother, Chris, to do something similar. "Harry & David staff all volunteer their time, and we were amazed at the wonderful things they do," said Jim. "We too wanted to put our time, talent and energy into a charity that's special and important to us."

But which cause would they choose? "Our brother, Kevin, was born with developmental disabilities and, at that time, there was very little support. He now lives in a wonderful group home, run by Independent Group Home Living (IGHL), a Long Island–based organization. Its executive director, Walter Stockton, spoke to us one day about the many ways developmentally disabled people can have trouble have finding jobs."

That was the eureka moment. The McCann family decided to set up a philanthropic organization to support, train and employ people like their brother, Kevin.

1-800-Flowers.com is a US floral and foods gift retailer and distribution company with a mission to "deliver smiles"—while the company is publicly owned and traded, it's still very family focused

Facing the challenge

Jim and his family had never set up anything like this before. But help was at hand. IGHL, partner agencies of 1-800-Flowers.com and employee volunteers all rallied around the initiative to get it off the ground—Smile Farms launched in 2015.

In the early days, 1-800-Flowers.com wasn't sure how public it should be about Smile Farms, and why it was so close to the family's heart. Should they shout about the project from the rooftops? Or let it run quietly behind the scenes?

"Going public ignited more opportunities than we could have imagined."

Influencing perceptions

Over time, 1-800-Flowers.com warmed to the idea of bringing Smile Farms and the family's commitments to the fore: "What changed is our perception of what our community and customers want and expect from us. So, we presented our work to the public."

Going public ignited more opportunities than the business could have imagined. New partners and backers got in touch, sparking new projects. A stronger culture of generosity and loyalty blossomed among customers and staff.

"I wish we'd been more open earlier about our commitments. We didn't realize the benefits that would come from this."

Smile Farms enjoys the support of experts who help bring its mission to life: "We work with around ten partner agencies. With their help, we acquired the expertise we needed to design and launch a new training program for our people."

Today, Smile Farms has grown to 10 campuses, offering employment, training and education to 250 people with developmental disabilities. And the effort has brought the family closer together. "It's been a glue. The next generation is very involved, and we've been able to share our values. We appreciate the importance of staying connected."

Learn more about becoming a "force for good" with your business—see lessons from family business leaders across the globe

> “The world economy has reached the limits of sustainability. We have been using resources at an unsustainable pace. A company that’s not responsible is not likely to be profitable.”
>
> —Paul Donovan, Chief Economist, UBS Global Wealth Management

McCann’s advice on mixing business and philanthropy

Choose a cause close to your heart

If an issue resonates strongly with you and your family, consider making it your philanthropic passion. If it means something to you emotionally, you’re more likely to do all you can to make the biggest possible difference.

Shout it from the rooftops

Don’t hide your philanthropy from view. Get the word out to the world. You’ll get back much more than you expected—stronger brand and culture, more loyal customers and new connections. All this will combine to unlock new opportunities for your philanthropy and business.

Call on experts

However adept you are in your role, no one can possibly be an expert at everything. So, when setting up your philanthropy, don’t be afraid to reach out to people who have done it before and know how to make it work. You’ll find people are more than willing to help.

Unite the family

Setting up a philanthropic organization can be the glue that keeps your family together. Rallying everyone around a cause is a great way to share values and unify the family across generations.

Business owners and sustainability: Insights from Suni Harford

As a follow up to last year's e-magazine *For the long run*, we spoke with UBS's Suni Harford about the challenges business owners are facing and how a focus on sustainability can help you achieve both long and short term goals.

Suni Harford

President, UBS Asset Management Group

Group Executive Board Lead for Sustainability and Impact, UBS AG

1 With so many challenges barreling at business owners recently and on an ongoing basis, is ESG a distraction right now or an opportunity?

This is one of the most challenging macroeconomic environments business owners have faced in recent years.

Rising inflation and interest rates, volatile markets, continued geopolitical uncertainty and increasing risk of recession are a potent mix. But, alongside these circumstances, the focus of governments, policy makers and investors on ESG topics—and the need for innovation in this area—continues to intensify.

I believe that the firms that can successfully navigate their way through the near-term challenges, while maintaining a focus on capturing opportunities and embedding ESG into operations, will be the winners on the other side of this cycle.

2 What can larger corporations teach business owners that want to attract new investors or potential buyers?

We have seen exponential growth in asset owners requiring greater transparency around ESG strategy. Investors are demanding more data from public companies—and this trend is shifting rapidly to private markets.

My advice to business owners seeking new investment or wanting to IPO a business? Be proactive and embrace what providing more transparency to customers and investors can offer you and your business. In our experience, midsize companies have tremendous potential to be innovative, influential trendsetters when it comes to ESG.

Look for opportunities to implement ideas that would stand as a "proof of concept" ESG practice, then be scaled more broadly.

"Our Investor Sentiment data shows that 33% of US business owners already think focusing on sustainability issues will aid in finding investors[1]—and I believe this number is on the rise."

– Suni Harford

3 As workplaces are evolving, more and more workers want their company's values to be in line with their own. Can better approaches to sustainability issues help with hiring?

The competition for talent is getting fiercer, and purpose-led companies with a strong focus on sustainability are faring well.

Embedding sustainability values across your operations has the potential to help you do three things at the same time: attract and retain diverse talent, build a more inclusive culture and better understand the communities you serve.

Suni Harford is President of UBS Asset Management Group, one of the largest asset managers globally, with over USD 1 trillion in invested assets. As Head of Sustainability and Impact, Harford drives the firm's sustainability agenda and efforts to deliver on its Net Zero commitments. She is responsible for sustainability strategy, external engagement and corporate responsibility across UBS, as well as the Office of Social Impact.

Learn more about making sustainability moves in your company—read the e-magazine *For the long run*

[1] Investor Sentiment 2Q22: UBS surveyed 500 business owners in the US with at least $1M in annual revenue and at least one employee other than themselves, from June 29 – July 18, 2022.

Takeaways from tech founders at Black Tech Week

Bianca Benedetti-Fang

Business Owners Client Segment,
UBS Global Wealth Management

Focus on the future

While people in many industries are considering the future with a heavy dose of uncertainty right now (with volatile markets, geopolitical concerns and public health concerns taking a toll on our outlook) ... I was delighted to encounter the sentiment at Black Tech Week, which was held in Cincinnati recently.

Participants there were overwhelmingly upbeat and laser-focused on progress—bright days of innovation seem to lie ahead.

Forging an ecosystem

The weeklong conference, running from June 18 to 22, featured over 50 tech influencers and minority innovation ecosystem builders as speakers. These accomplished speakers addressed the current startup lifecycle, exit options for business owners, IPOs, fundraising trends, navigating the venture landscape, hiring for innovation amid a difficult labor market and more.

Attendees at Cincinnati's Black Tech Week met the opportunity to access a broad network of resources to help them build, scale—and even sell—their companies. Registrants participated in a variety of events, including a career fair, office hours with venture investors and the Inc. Founder's House, a pop-up networking and resource hub sponsored in part by the UBS Business Owners Segment. At the Inc. Founders House, and throughout the conference, insights from owners for owners were a key draw—and attendees were also able to hear from and speak with a wide variety of panelists, tech professionals and like-minded entrepreneurs.

Talking volatility

I have long admired an entrepreneur's relationship with risk—and in conversations at a dinner reception with Inc. 5000 founders, we didn't shy away from discussions that raised the topic of concern for business growth and performance in the coming months. But in keeping with the theme, many conversations centered around looking risk in the face and finding ways (tech-driven or otherwise) to turn aspects of today's uncertainties into opportunities for growth.

Conversation about exit was abundant, though many founders aren't considering "taking all their chips off the table" just yet. Instead, the idea of partial monetization was a topic that seemed to be trending. Some owners expressed that they're considering leveraging private equity (or using an ESOP) "while industry multiples are strong." But—as an indication of confidence in the future—more are aiming for the full exit to happen at a later date.

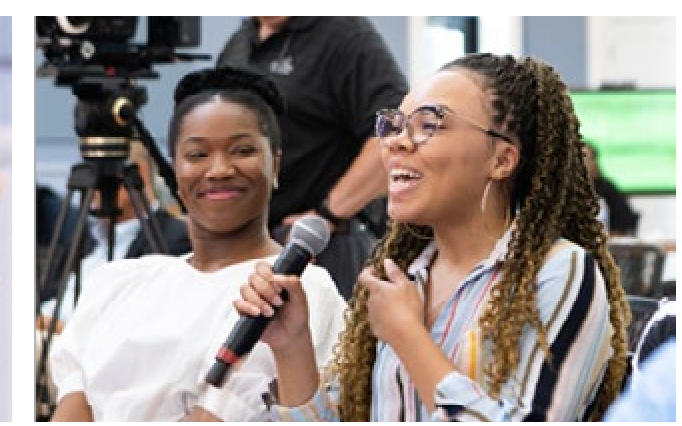
Fortune favors the bold

The current of optimism running throughout the conference was heartening and inspiring. For every challenge that was presented, there was robust discussion of how innovation and cutting-edge technology can help address current issues. In true form for entrepreneurs, when asked about their forecast for the future, many founders felt that the uncertain times we're experiencing may prove to be a prime environment for disruption.

> Tech entrepreneurs are looking to turn today's challenges into opportunities

So many company leaders were excited for how their new product, service, platform or technology offering would help consumers and society improve. Regardless of what the future may bring, it was clear to most at Black Tech Week that technology innovation is going to help us all get farther, faster.



Scenes from Inc. Founder's House, a pop-up sponsored in part by UBS, which engaged Black Tech Week attendees and thought leaders. Photos used with permission from Inc.

Ask for backup:
The liquidity advantage of a letter of credit

People talk a lot about globalization and the impact it's having on business owners' bottom lines, but globalization is also affecting day-to-day operations. Networks that used to be local or regional have expanded to markets around the world. Now there's the global pandemic, supply chain bottlenecks and geopolitical instability to contend with, too.

As a business owner, you're probably all too familiar with these obstacles, but did you know you may eliminate an avenue of potential headaches for yourself when you use a standby letter of credit to make transactions? A letter of credit helps adds security and peace of mind for both buyers and sellers.

How does a letter of credit work?
When two parties are preparing to enter a transaction with substantial value, the letter of credit applicant starts the process by securing a "standby letter of credit" with an "issuing bank." This process begins with submitting your application and supplying related documents and details necessary for approval to be granted. (An issuing bank will tell you more.)

Once approved, as a letter of credit holder, you have a guarantee from the issuing bank that the bank will pay the beneficiary of the letter of credit, if needed. If you cannot pay an underlying obligation to the beneficiary—due to unpredictable cash flow, or another circumstance—the issuing bank will pay the beneficiary for you.

If the issuing bank pays an obligation for you, you become obligated to pay the issuing bank the amount you agree to in a letter of credit, within the time period your agreement stipulates. (While debt you previously owed is now settled.)

Why consider a standby letter of credit?
With global supply chain considerations and other market pressures facing business owners in 2022, being able to guarantee payment can provide the beneficiary of a letter of credit (usually the seller of goods or services) with added peace of mind because they can know exactly when they will receive payment, based on the terms in the letter of credit.

For an applicant (the purchaser of goods or services), a letter of credit can serve as a back-up liquidity source—in case you need it—to support a transaction.

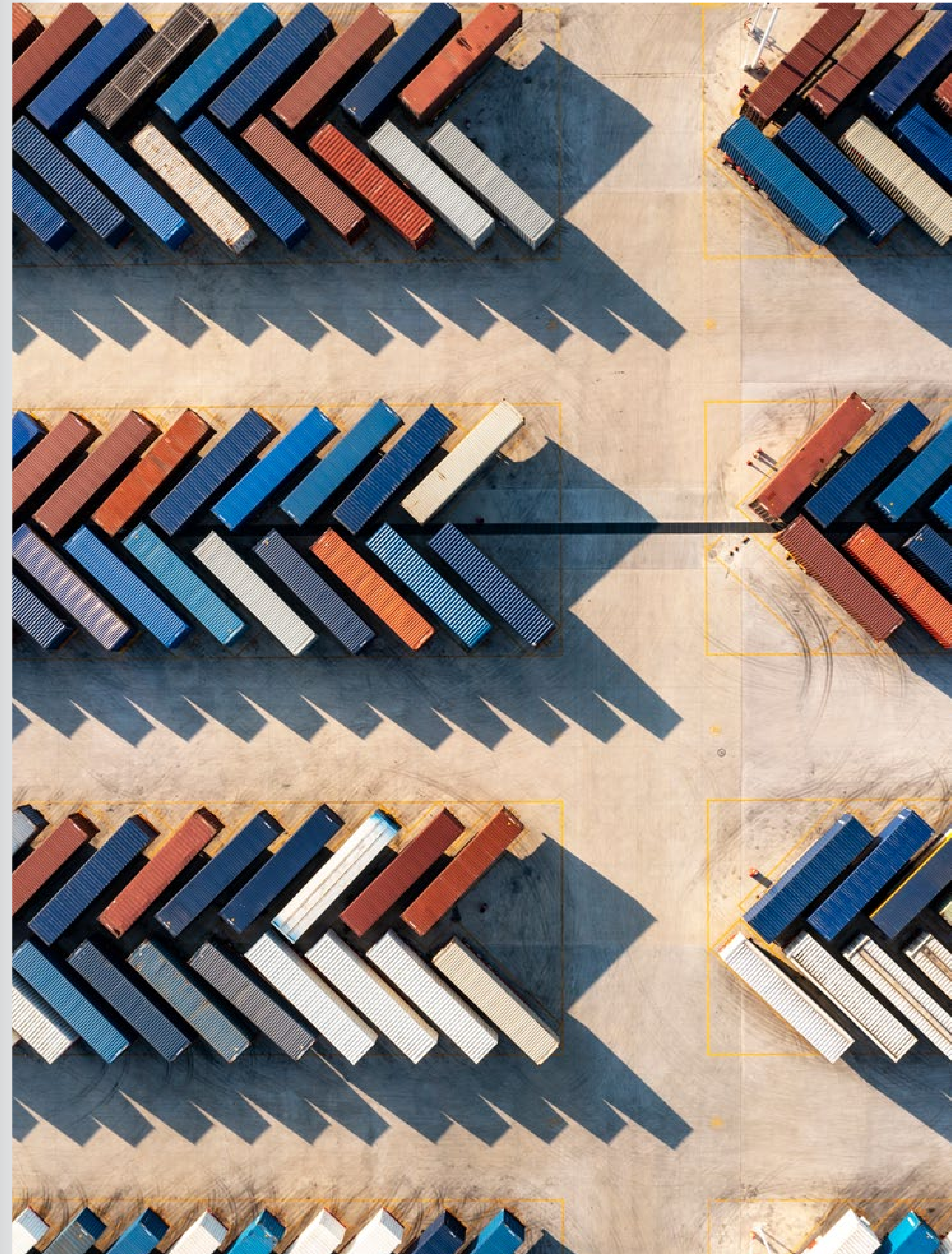
Standby letters of credit are common in international trade

You can use one for other transactions, too. A few examples:
• They substitute for a performance bond on construction projects
• You can use one in lieu of a cash security deposit
• You can add security to commercial lease agreements

Standby letters of credit are highly customizable. Each one is a unique agreement based on the demands of a given transaction. (Plan for the approval process to take some time.)

There are other considerations and risks involved with using a letter of credit, but if you feel that using one could serve your needs, reach out to your financial institution to learn more.

See disclosures



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James Jack

Head of Business Owners Client Segment Americas,
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