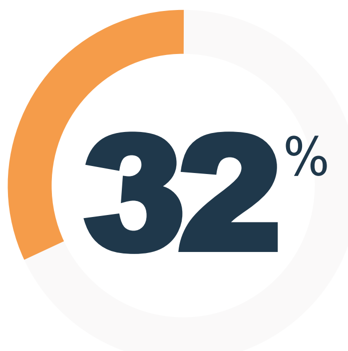
Business transition

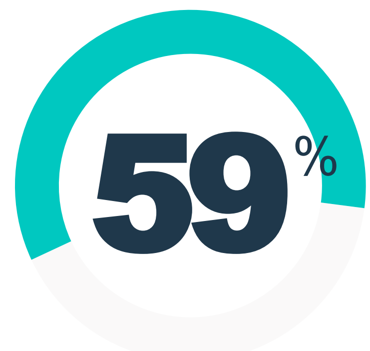
How to prepare for your exit

Canadian entrepreneurs are getting older

50 years old or older



Canadian workforce



Canadian entrepreneurs

SOURCE: Statistics Canada, CANSIM Table 282-0001 and Statistics Canada, *Survey on Financing and Growth of SMEs*, 2014.

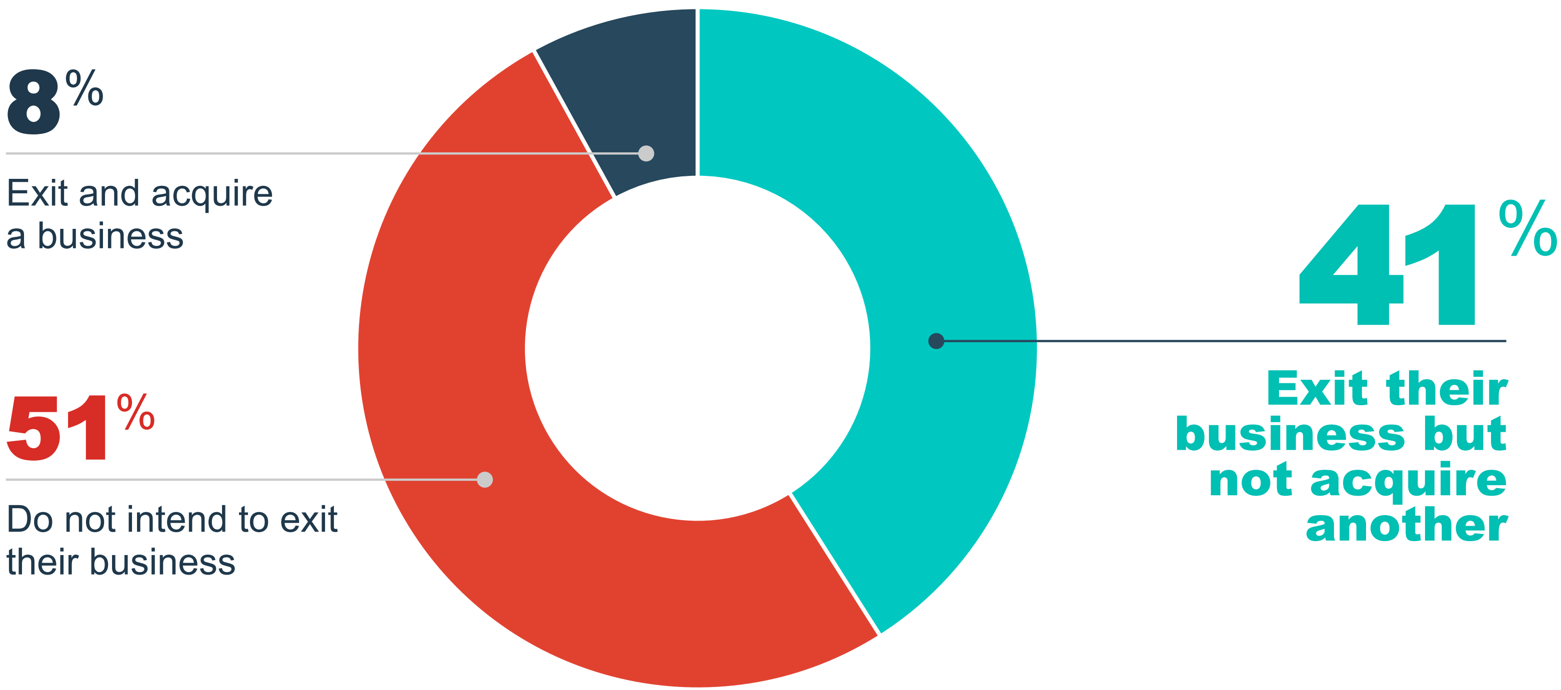
So, we asked them about their exit plans

We surveyed

2,500+

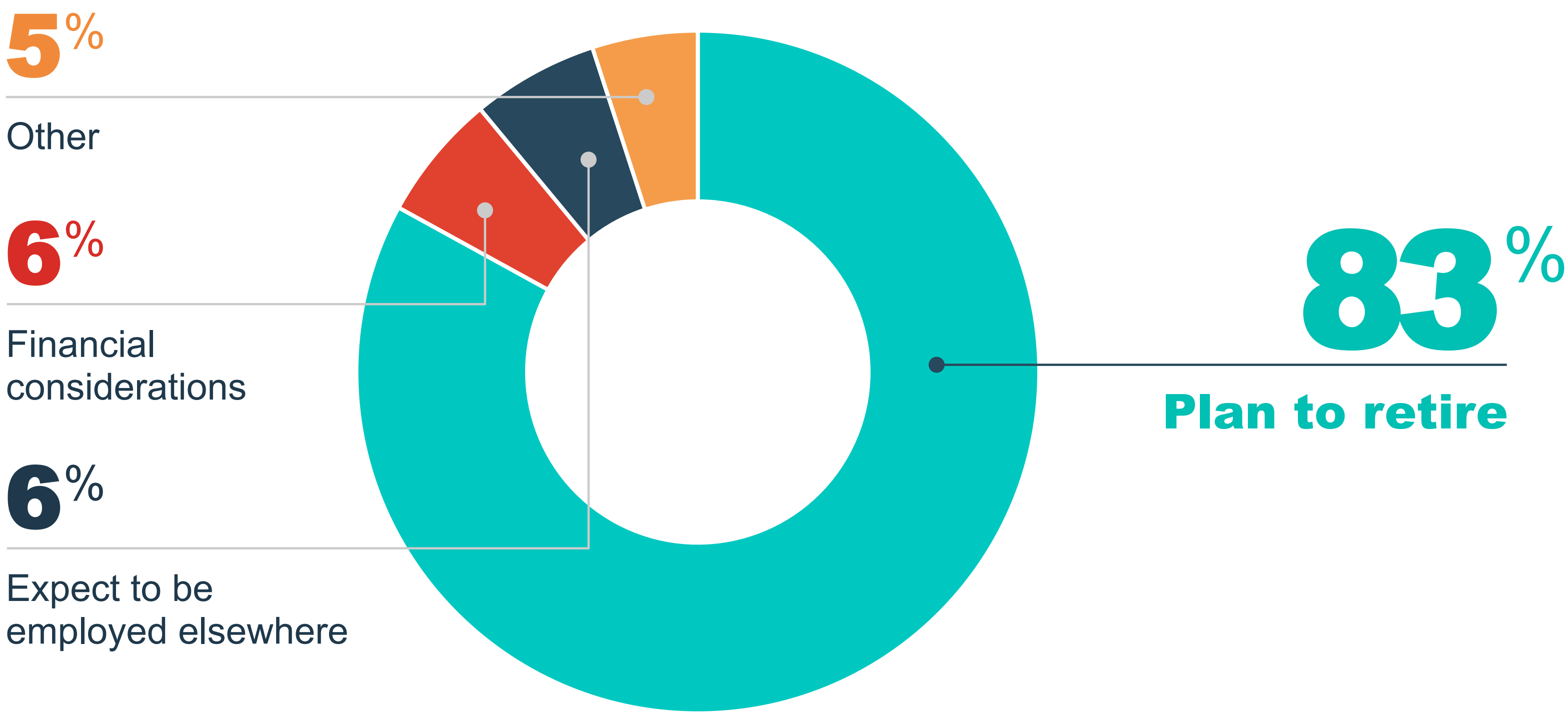
owners of Canadian small and medium-sized businesses in 2017

4 out of 10 told us they plan to step away from their business



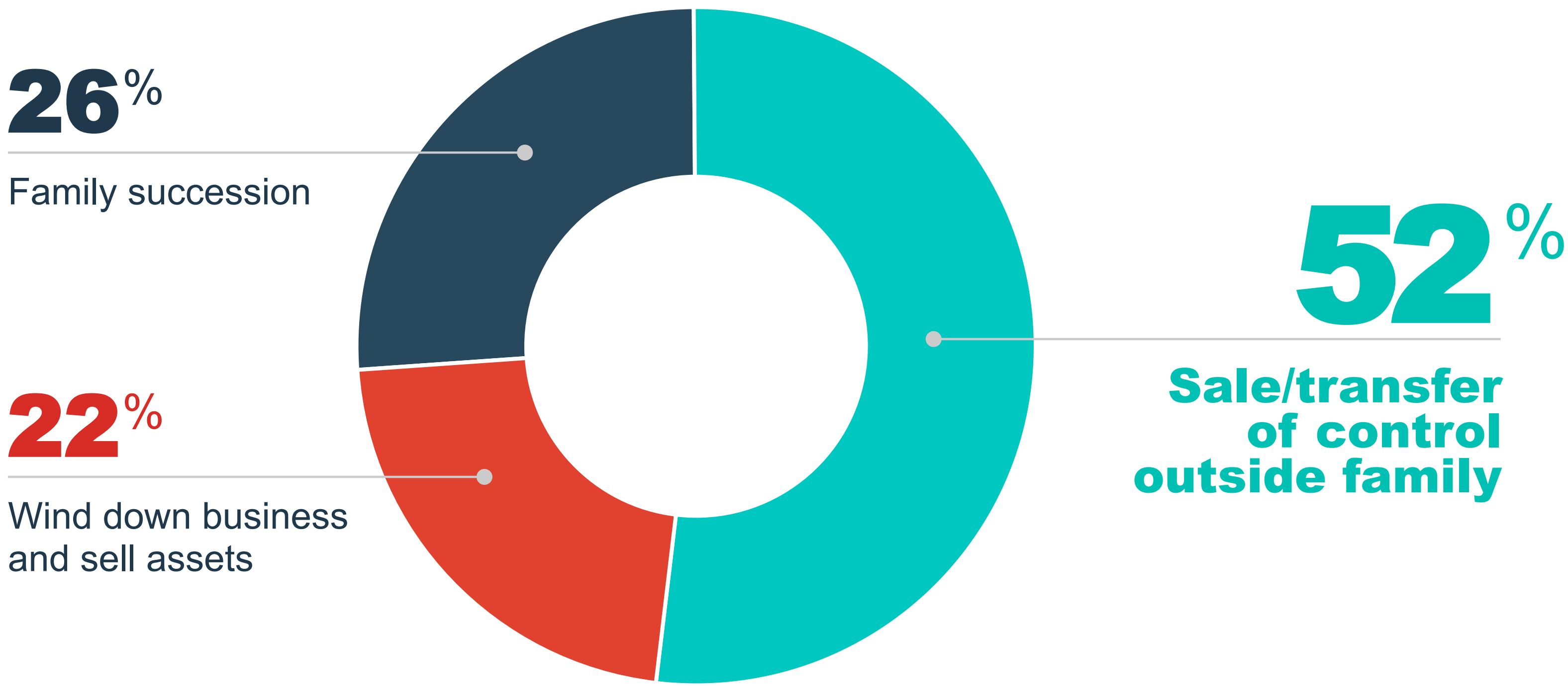
Most owners plan to retire

*Reasons for leaving?



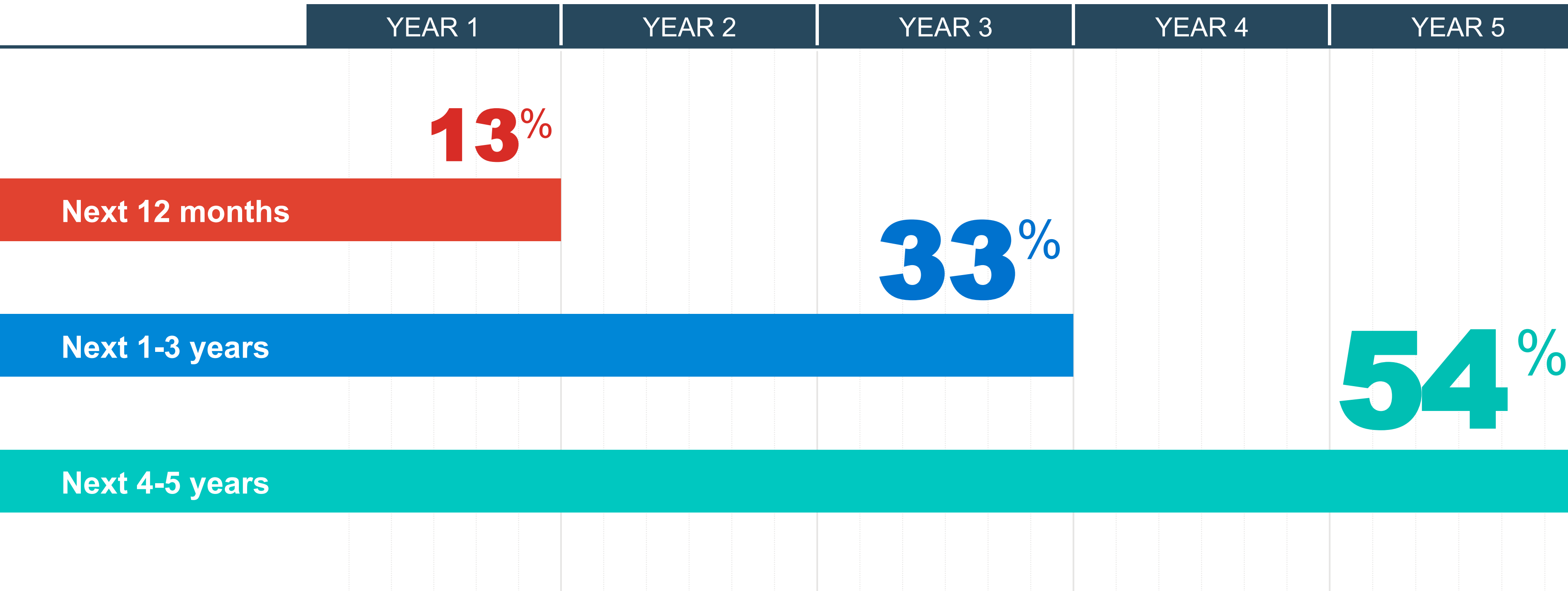
*Among entrepreneurs who are not looking to acquire another firm.

Half of business transfers will be done outside the family



The bottom line? A boom in transitions

When entrepreneurs expect to leave



But many owners are not ready to exit

Only…

49%

of those who plan to sell **have sound financial reporting**

Just…

29%

are willing to take risks to improve the value of their business

And they’re too optimistic

How long will a business transition take?

83%

What entrepreneurs estimate

less than 2 years

How long it actually takes

3-5 years

The result?

Entrepreneurs are leaving money on the table

When you aren’t prepared to exit, you put your biggest retirement asset—your company—at risk.

Why succession planning is so important

- Handing over your business is a critical moment
- A poorly executed transition will hurt the business and your personal finances
- A well-planned exit will preserve your legacy and enhance your wealth

How to get ready to exit

6 steps to a successful transition

1. Plan early to find the right successor and maximize your selling price
2. Allow two to five years to implement your plan
3. Keep a cool head, expect delays, be patient
4. Communicate consistently with all stakeholders to minimize conflict
5. Keep growing and improving the business to build its value.
6. Get outside advice

How to increase the value of your business

1 Continue to invest

2 Pursue growth and boost profitability

3 Keep detailed and reliable financial reports

4 Standardize processes so it can operate without you

5 Train and empower staff to reduce turnover

6 Highlight and promote competitive advantages

Your transition options

3 options to exit your business

1	Transfer to family member(s) or key manager
2	Sell to managers/employees
3	Sell to an outside party

How to decide the best option for you

- ✓ Is it aligned with your retirement goals?
- ✓ Can you keep a role in the business, if desired?
- ✓ Will it provide adequate retirement income?
- ✓ Does it secure the future of the business and your legacy?
- ✓ How will it affect your family, employees and other stakeholders?

A family successor

Advantages

- Reduces third-party involvement
- Possible to maintain influence in business

Disadvantages

- Finding the right successor can be difficult
- Potential family conflicts

Management buy-out

Advantages

- Reduces risk because of managers' knowledge of business
- Rewards employees for the success you've built together

Disadvantages

- Buyers often have limited access to capital
- Failed attempt can damage morale and performance

Sale to outsiders

Advantages

- Buyers are typically well-capitalized and may offer a higher price
- Have resources to improve business and add value

Disadvantages

- To maximize returns, buyer may make major changes to operations, staffing and culture
- Sellers often required to stay on for several years after sale

Sources of financing

- Buyer’s own investment, love money, etc.
- Vendor financing
- External financing

Understanding your financing options

1 **Secured financing**
Term loans tied to the value of assets.

2 **Equity financing**
Raising money through the sale of an ownership interest.

3 **Subordinate financing**
Financing subordinated in priority of payment to secured debt.

4 **Vendor financing**
The seller finances a portion of the sale.

Key points to remember for a successful transition

- → Start planning early
- → Meet and communicate regularly with stakeholders
- → Write down your plan and keep it updated
- → Select a good team of professional advisors
- → Be patient

To learn more check out our study

→ [*The coming wave of business transitions in Canada*]

And if you're interested in buying a business, don't miss our study

→ *[What do buyers look for when purchasing a business?]*