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Study

The Coming Wave of Business Transitions in Canada

Are Entrepreneurs Ready to Exit Their Company?

September 2017

Table of contents

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Acknowledgements

Thanks to Isabelle Simard, Marco Santos Pires, Cyril Cochrane, Étienne Drouin, Claude Laberge, Bernard Simon, Don Macdonald and Louise Girard for their valuable contribution to this study.

This research was prepared by the Economic Analysis team from Marketing and Public Affairs at the Business Development Bank of Canada (BDC). It is based on public and proprietary data that were analyzed and interpreted by BDC. Any error or omission is BDC's sole responsibility. Reliance on and use of the information herein is the reader's responsibility.

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Highlights

This study shows that many Canadian small and mid-sized business owners who plan to exit their business are not making the best moves to realize the highest possible return.

- Close to 60% of Canada's small and mid-sized business owners are aged 50 or older, nearly double the proportion of the overall workforce.
- Four out of ten entrepreneurs in Canada are likely to leave their businesses within the next five years, up from one in three in the mid-2000s. The main reason they give for moving on is retirement.
- Over half of these entrepreneurs intend to sell or transfer their business to someone outside their family. A quarter of them see a family succession in the cards, while just over one in five expects to wind down the business and sell its assets.
- As with a homeowner putting a house up for sale, any entrepreneur planning to sell a business, typically his or her biggest asset, wants to realize the highest possible return. However, this study shows that many business owners are not making the best moves to ensure that outcome.
- Entrepreneurs planning to exit their business are reluctant to pursue growth or take risks to improve the firm's performance. One potential drawback: this cautious approach may drag down the market value of the firm.
- Overall business investment in Canada could suffer as a result of the significant number of entrepreneurs who tend to limit the growth of their businesses before exiting their firm.
- Nearly 40% of business owners who expect to sell to outside buyers within the next five years appear to have done little or nothing to spruce up their financial reporting. Most have also not taken action to maximize cash flow in anticipation of a sale. These omissions do not augur well for the future value of their enterprises.
- Several entrepreneurs looking to move on may be too optimistic, underestimating the time needed to complete the transition to new owners and management.
- Finally, our study shows that, in certain respects, business owners with 20 employees or more differ from all respondents. First, the proportion who intend to sell their business is lower at 26%. In addition, they are better prepared for this transition. They are more willing to grow and perform better with regard to their financial planning. However, the challenge will be the same. A significant proportion of bigger firms will be for sale over the next five years and their owners will need to make the right decisions to maximize the value of these businesses.

Context

As we are frequently reminded, Canada's population is aging. Our median age has climbed from 35 years in 1996 to 41 in 2016, and will reach 44 in 2031, according to Statistics Canada.[1,2] Entrepreneurs are no exception. In fact, small and mid-sized business owners are older than the rest of the workforce. While one-third of all Canadian workers are 50 or older, the proportion soars to almost 60% among small and mid-sized business owners.[3]

The ageing of small and mid-sized business owners raises some important questions:

- How well prepared are they to sell their business? Are they taking the actions necessary to realize top dollar for what, in many cases, is their most valuable asset?
- Will entrepreneurs nearing retirement continue to pursue growth for the business and invest as aggressively as their younger colleagues?
- Are these soon-to-be-retired entrepreneurs taking the steps needed to ensure a successful hand-off to new management?

To help answer these questions, BDC's Research and Economic Analysis team, in partnership with Nielsen, a leading market-research firm, asked over 2,500 Canadian entrepreneurs about their succession intentions. The survey was carried out in the spring of 2017.

Besides succession issues, the survey included questions on acquisition intentions. The responses thus help us draw conclusions on prospective buyers as well as sellers of small businesses.

We are presenting the results of our research in two reports, due to the wide scope of the survey and the trove of information it uncovered.

The first report, detailed below, focuses on business succession. It aims to provide a better understanding of the choices that entrepreneurs commonly face as their thoughts turn to retirement or other pursuits. These options include: family succession, a management buyout, a sale to a third party, and winding down the business and selling assets.

In addition, we examine whether soon-to-retire entrepreneurs are taking specific steps to ensure that they obtain maximum value from their businesses. This report also outlines recommended strategies to maximize the value of a business and improve the chances of a smooth transition to new management, based on in-depth interviews with subject matter experts. Finally, we include two case studies of successful successions, one involving the owner's own family, the other involving outsiders.

The second report—to be published later in 2017—will look at the intentions of potential buyers.

One overriding message is clear from our research: succession planning is not easy, and it requires more time and more resources than most business owners might expect. As with selling a home, the business may require some "staging" to make it more attractive to buyers. Those willing to put in the necessary time and effort are likely to be well rewarded. Some relatively straightforward strategies can boost the sale price, and help minimize the turbulence often associated with handing over a business to new, often younger owners.

These strategies are particularly relevant as we enter a period when sellers of small businesses may outnumber potential buyers.

1 Some parts of the country have seen even faster age progression. The typical resident of Newfoundland and Labrador, for instance, was more than a decade older in 2016 than in 1996, as the province's median age went from 34.1 to 45.3 years over this timeframe.

2 CANSIM Table 051-0001

3 In 2016, 32% of Canada's labour force was aged 50 or older (CANSIM Table 282-0001). Based on Statistics Canada's 2014 *Survey on Financing and Growth of Small and Medium Enterprises*, 59% of small and mid-sized business owners were in this age bracket.

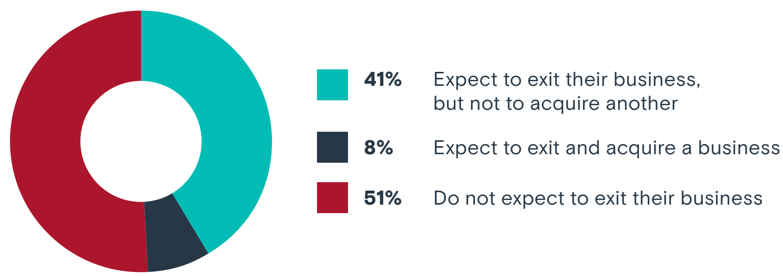
1. Entrepreneurs' exit plans

According to our survey, 41% of entrepreneurs plan to leave their business without acquiring another one.

Our research points to a rise in the number of entrepreneurs who plan to leave their businesses within the next five years.

Similar surveys conducted by the Canadian Federation of Independent Business (CFIB) in the mid-2000s found that just one in three entrepreneurs planned to quit within five years. By 2017, according to our survey, that proportion had grown to half, with more than 41% not expecting to acquire another business (figure 1).[4]

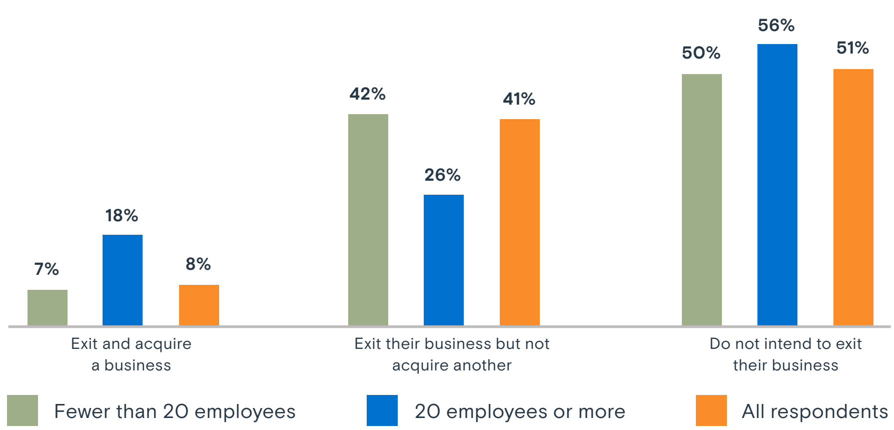
Figure 1 – Exit intentions within the next five years



(Percentages reflect the share of entrepreneurs reporting that it is either "very likely" or "somewhat likely", rather than "somewhat unlikely" or "very unlikely.")

Entrepreneurs' intentions vary based on the size of their business. It is worth noting that, over the next five years, 26% of business owners with 20 employees or more intend to leave without acquiring another business, compared to 42% of those with fewer than 20 employees (figure 2).

Figure 2 – Exit intentions according to size of firm

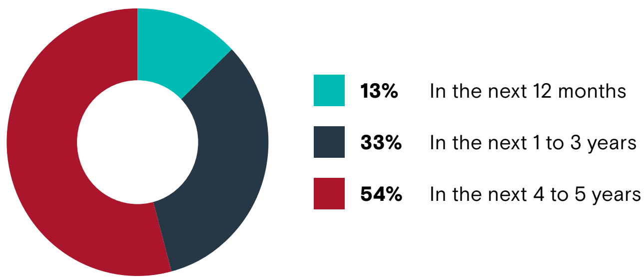


4 The questions asked in the CFIB (2006) and BDC (2017) surveys differ. In particular, the CFIB asked entrepreneurs to simply select a timeframe for when they would likely exit their firm. Here, respondents were asked to describe their business succession and acquisition intentions in the next five years, specifically, as being "very likely," "somewhat likely," "somewhat unlikely" or "very unlikely." Those who answered that it was "very likely" or "somewhat likely" that they would exit their company or acquire another (or both) were asked an additional series of questions about their succession and/or acquisition intentions, as well as more precise questions around timing.

Close to 50% of entrepreneurs who intend to exit their business plan to leave within three years.

Among entrepreneurs expecting to exit their businesses, one in eight say they are likely to move on within the next 12 months. Close to half expect to leave within the next three years (figure 3).

Figure 3 – When do they expect to leave?



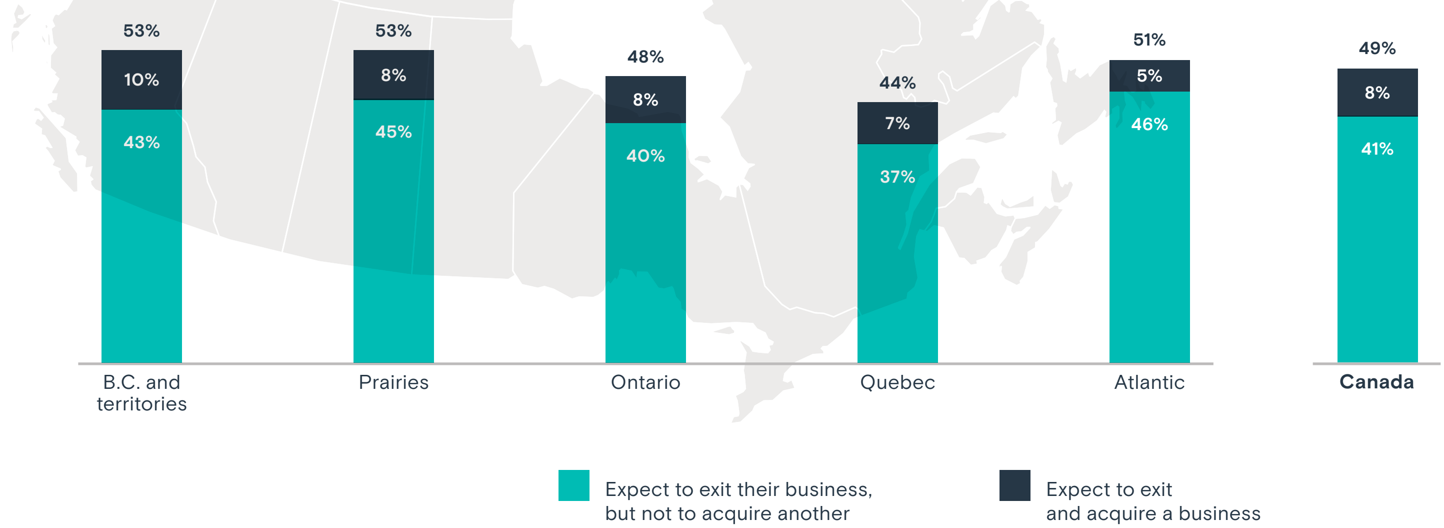
2. Regional differences

Entrepreneurs in Atlantic Canada and on the Prairies show greater intentions than their counterparts in Quebec and Ontario to leave an existing business.

The survey points to clear regional differences in business owners' intentions. Entrepreneurs in Atlantic Canada and on the Prairies show greater intentions than their counterparts in Quebec and Ontario to leave an existing business without acquiring another one (figure 4).

These regional differences may be due to varying demographic patterns and economic conditions. For instance, entrepreneurs in Atlantic Canada are older than in other parts of the country. On the Prairies, more challenging economic conditions due to low oil prices may motivate some entrepreneurs to step away from their business without acquiring another one.

Figure 4 – Entrepreneurs expecting to leave, by region

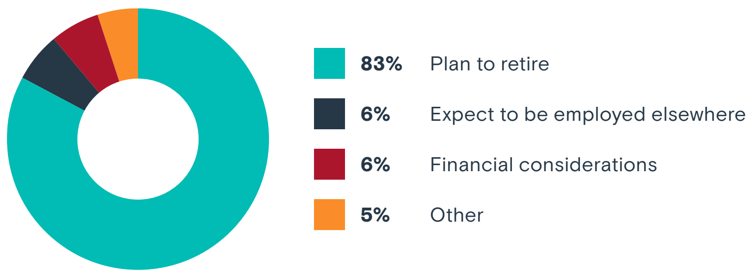


3. Reasons for leaving

Among the 41% who expect to leave their existing firm without buying another business, five out of six say they plan to retire.

Entrepreneurs overwhelmingly cite retirement as the number one factor behind their decision to move on. Among the 41% who expect to leave their existing firm without buying another business, five out of six say they plan to retire (figure 5). A small proportion will pursue outside employment, or simply exit for financial reasons (either to realize a gain from the sale, or because the firm is not profitable enough).

Figure 5 – Reasons for leaving among those not looking to acquire another firm



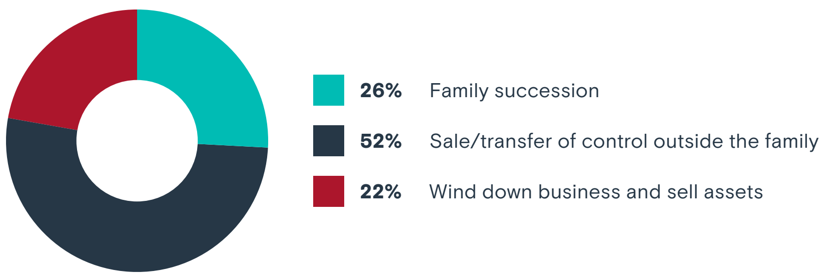
4. Exit strategies

22%

of entrepreneurs intend to wind down the business and sell any assets.

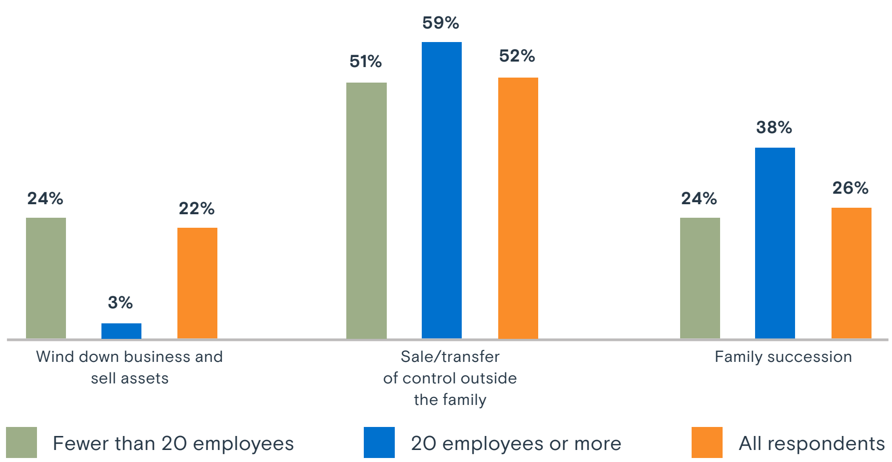
How do today's entrepreneurs plan to go about exiting their business? Just over half of all sellers say they intend to sell or transfer the operations to someone outside their family. One in four sees a family succession in the cards, while 22% intend to wind down the business and sell any assets (figure 6).

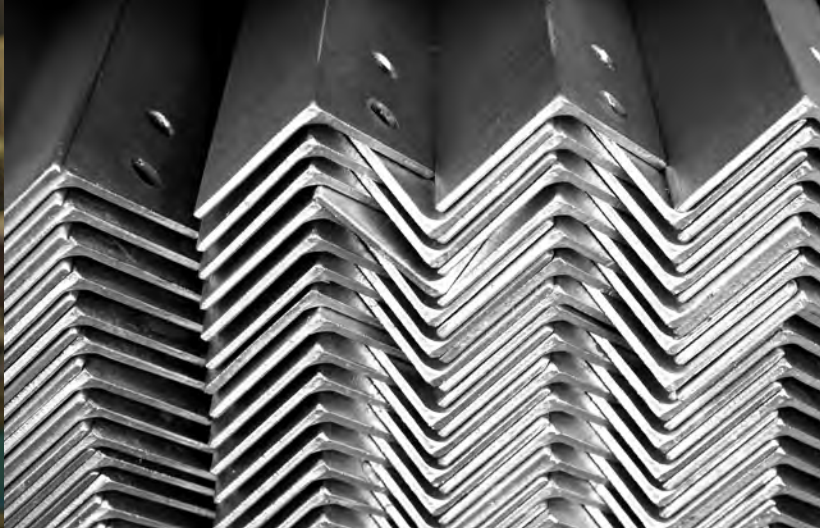
Figure 6 – Exit options



Only 3% of business owners with 20 employees or more intend to liquidate their company, compared to 24% of those with fewer than 20 employees. Selling the business outside the family is the option preferred by entrepreneurs with bigger companies (figure 7).

Figure 7 – Exit options according to size of firm





Miralis

Strong relationships key to successful management buy-out

When the founder of kitchen cabinet-making company Miralis was ready to retire, he turned to five youthful managers led by Daniel Drapeau, who had been named the company's CEO a few years earlier. It proved to be a textbook case of a management buyout.

The company, with 240 employees, makes high-end custom cabinets at its state-of-the-art 11,600-square-metre (125,000-square-foot) factory in Rimouski, Quebec.

To fund the transaction, Drapeau and his management group turned to BDC's Growth & Transition Capital group for mezzanine financing because of its flexible terms. For example, the company was able to keep more cash on hand during the initial period after the transition.

Also, the financing conditions didn't require Miralis to create a board of directors, as likely would have been the case if the new owners had taken an equity investment.

Flexible financing structure

"A board of directors would have hindered our flexibility and our ability to make decisions," Drapeau says.

As existing managers, Drapeau and his team were able to shepherd the business through the ownership change without disruptions and keep sales growing. Miralis's revenues are up about 40% since the transition, and the company has paid back a substantial portion of its mezzanine financing.

The transition went smoothly because the new owners already knew the company inside and out.

"We maintained a very close relationship with our employees, suppliers and customers," Drapeau says. "You want to create a good relationship of confidence between them and the new team that's taking over."

Pagnotta Industries

Good communication helped family succession

Alex Pagnotta had ample time to learn the ropes at his Edmonton construction company, Pagnotta Industries. He started as controller in 1999, then took over running the company from his father, Mario.

In 2012, Mario Pagnotta started talking about passing on the company entirely to Alex and Alex's two sisters.

The question was how to structure the succession. A number of considerations made the question sensitive. It had to be fair to all the siblings but at the same time allow the company to be managed and governed effectively.

Alex ran the company, while one of his sisters worked there as the office manager and the other sister wasn't involved at all. Alex wanted to take over full ownership, but he couldn't afford the financing it would take to buy the business outright from his parents. (His father was the majority owner, while his mother owned a minority stake.)

Sought outside advice

For advice, the family hired a consultant who specializes in family successions. The consultant interviewed everyone independently and suggested structuring options based on the family dynamics. A workable arrangement emerged from the discussions.

Alex got 55% of the common shares in the company, while his sister who works there got 25% and their uninvolved sister got 20%. Meanwhile, their parents exchanged their common shares in the company for preferred shares, which would pay them a dividend.

They also used an estate freeze to lock in the company's value and capital gains tax liability. Any future growth in the company's value will accrue to Alex and his sisters.

No money exchanged hands to complete the transaction in late 2014. Since then, family members have worked to clarify their roles in the company and Alex says the succession has gone well. His father is still active, helping out with business development.

Regular family/owner meetings are vital to work out differences, Alex says. "The most important thing is clear communication and regular feedback."

5. Financial reporting and cash flow

Nearly two in five business owners who expect to sell to outside buyers within the next five years appear to have done little or nothing to spruce up their financial reporting.

Any entrepreneur planning to sell a business obviously wants to realize the highest possible price. With this in mind, our survey sought to find out how actively current owners are pursuing this goal.

Thus, we asked whether entrepreneurs looking to move on are making the best possible use of financial reporting to provide a detailed picture of their business's profitability. We also raised the question whether they are taking steps to maximize cash flow[5] in the years leading up to a sale.

While an accurate picture of current financial performance is essential for any business, potential buyers typically want to track that performance over at least the previous three years, according to experts.

A healthy cash flow is especially important in the years leading up to the transfer of ownership because it goes a long way towards maximizing the value of the firm. It can be achieved by generally keeping a lid on operating costs, but also by avoiding unnecessary expenses, especially those linked to the owner's personal lifestyle that can add up over time. One example is vehicles used for both business and non-business purposes (see "Six tips to enhance the value of your business").

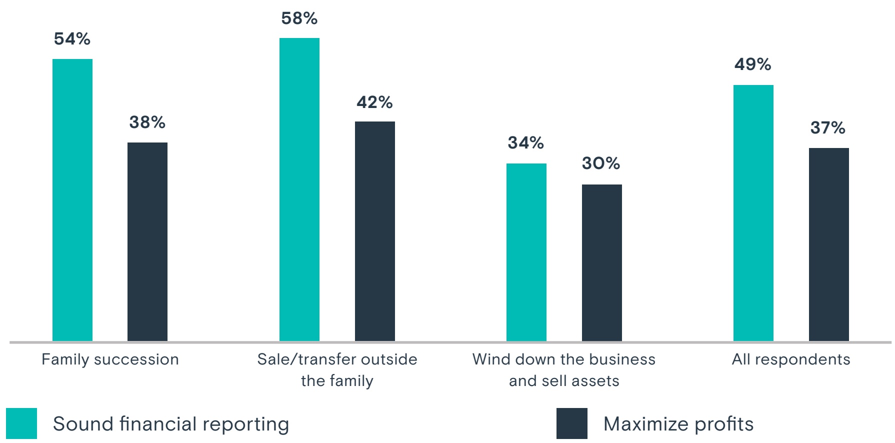
Too few businesses are preparing for a sale

Our research sought to determine whether succession planning has improved since the Canadian Federation of Independent Business found, in both the mid-2000s and again in 2011, that most companies did not have even an informal succession plan in place.

On the financial side, the findings are not encouraging. Nearly two in five business owners who expect to sell to outside buyers within the next five years appear to have done little or nothing to spruce up their financial reporting. Most have also neglected to take action to maximize profits in anticipation of a sale (figure 8).

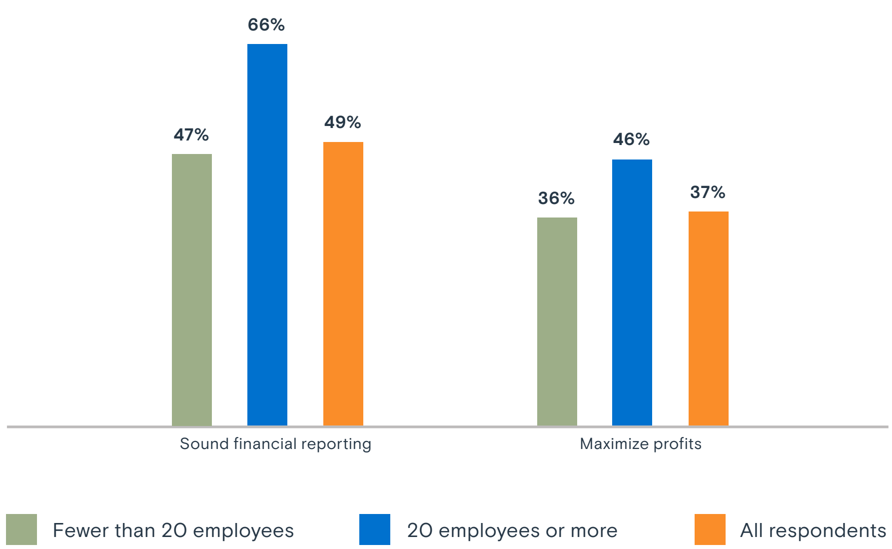
5 For the purpose of this report, we define cash flow as earnings before interest, taxes, depreciation and amortization, commonly known as EBITDA.

Figure 8 – Preparation for sale according to exit options



Two thirds of business owners with 20 employees or more already have their financial documents in order, which seems to put them in a better position to sell their company. However, more than half of them do not maximize their profits in anticipation of a sale (figure 9).

Figure 9 – Preparation for sale according to size of firm

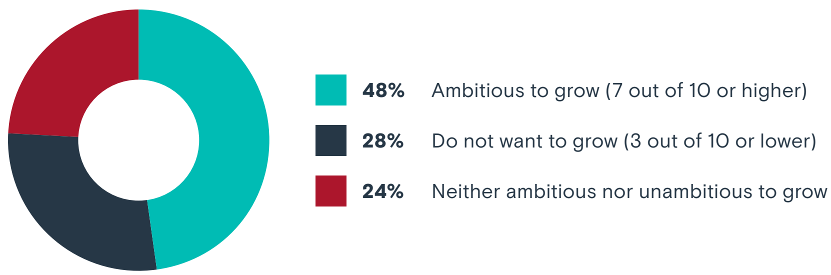


6. Attitudes towards growth and risk

Entrepreneurs looking to exit without acquiring another firm appear to have little interest in expanding the existing business, except for the largest businesses.

When we asked survey participants about plans for growing their business, an interesting pattern emerged. Entrepreneurs looking to exit without acquiring another firm (representing 41% of respondents, as indicated previously in this report) appear to have little interest in expanding the existing business. Less than half cite growth as a high priority, with a score of seven out of 10 or higher. More surprising—and concerning, from the perspective of maximizing value—close to a third in this category express a strong aversion to growth, with a score of three out of 10, or lower (figure 10).[6]

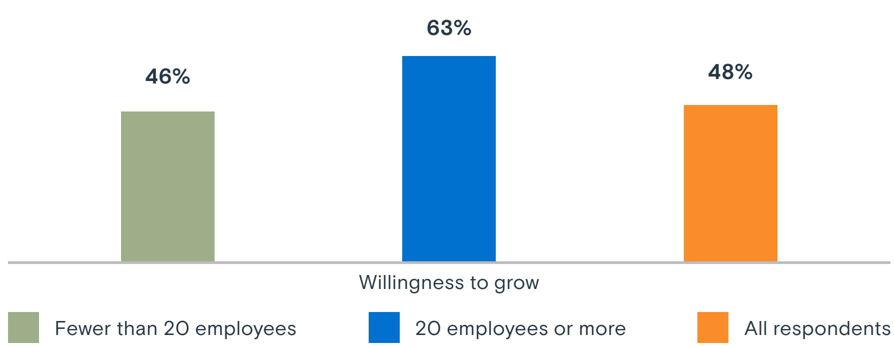
Figure 10 – Growth intentions among entrepreneurs only looking to exit



* Excludes those planning to acquire another business.

However, growth remains a clear priority for respondents whose businesses have 20 employees or more. More than two thirds of these respondents are open to seeing their firm scale up (figure 11).

Figure 11 – Growth intentions according to size of firm

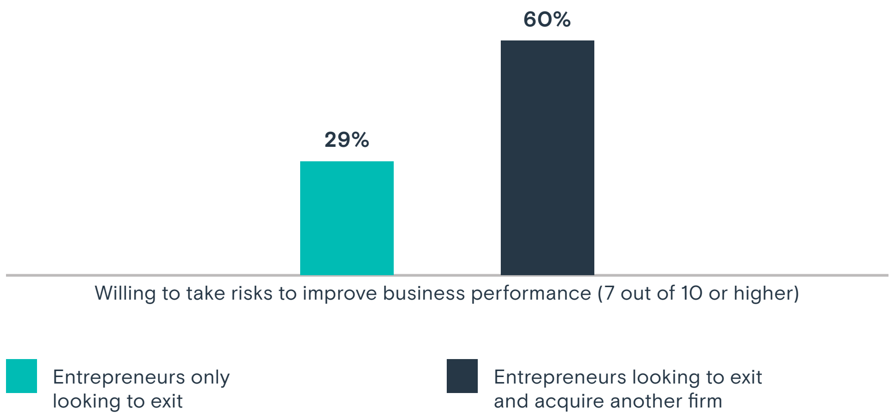


6 On a scale from 0 to 10, where 0 means “Unwilling to grow the business” and 10 means “Very willing to grow it as much or as fast as possible”.

Entrepreneurs only looking to exit are less willing to take risks.

As with growing their existing business, most entrepreneurs planning to leave (excluding those expecting to buy another business) show little interest in taking risks, even for the purpose of improving the business's performance.[7] This finding also applies to businesses with 20 employees or more. Those looking to leave and to acquire another business are far less cautious (figure 12).

Figure 12 – Willingess to take risks according to exit intentions



These responses suggest that a significant proportion of owners who plan to exit their firms may not put enough effort into growing the business, nor be willing to take on enough risk to improve its performance. Such a cautious approach often has an unfortunate result, in that the company fails to reach its full potential value. This is worrisome considering that most entrepreneurs have no other asset more valuable than their business. Letting the business go, as opposed to taking the action needed to enhance its value, can thus cast a long shadow over an entrepreneur's retirement prospects. As with selling a house, some advance "staging" can make a big difference. As recommended by BDC expert Cyril Cochrane, owners should avoid taking profits out of a company in the run-up to a sale; instead, they should reinvest that income to improve the business (see "Six tips to enhance the value of your business").

7 On a scale from 0 to 10, where 0 means "Not at all willing to take risks" and 10 means "Very willing to take risks".

"There are a handful of fairly basic things entrepreneurs can do that can help improve the odds of maximizing the sale price of their business."

Cyril Cochrane
**Managing Director,
Growth & Transition Capital,
BDC Capital**

Six tips to enhance the value of your business

Cyril Cochrane has nearly 30 years of experience in business financing, many of them spent arranging capital for mergers, acquisitions and growth projects. He has worked on a multitude of business successions, and routinely helps assess the value of companies put up for sale.

"There are a handful of fairly basic things entrepreneurs can do that can help improve the odds of maximizing the sale price of their business," says Cochrane. "Unfortunately, we don't always see these things happen."

Cochrane pinpoints two particular opportunities that entrepreneurs often miss as the time nears to exit a business. "The first, very common pitfall is for business owners to take their foot off the gas pedal in the years leading up to the sale, especially if they are nearing retirement. They stop taking risk, and they stop trying to grow their top and bottom lines. The second pitfall is when entrepreneurs start taking profits out of their company, rather than reinvesting them in the years leading up to the sale."

To appreciate the consequences, consider a business sale from the perspective of the buyer, and his or her financial backers.

A business that fails to pay full attention to its top and bottom lines, as well as to its physical capital—in other words, buildings, machinery and technology—will obviously attract fewer buyers. And that inevitably drags down its value in the marketplace.

"While other factors are relevant, the most common starting point in understanding the value of a business is to look at a cash flow multiple," Cochrane notes. "That is, to multiply earnings before interest, taxes, depreciation and amortization by a factor that takes into account the growth potential of the business, as well as other characteristics."

Six tips for maximizing value

1. **Keep reinvesting in the business.**

   As described above.

2. **Continue to pursue growth.**

   A business that is growing slowly or has limited potential due to outdated buildings and equipment is usually worth far less than a firm that has maintained its capital assets and is enjoying sustained, robust growth.

3. **Ensure financial reports are detailed and reliable.**

   "Deals often fall apart in due diligence because answers to financial questions either don't exist or are unreliable," says Cyril Cochrane. "While a three-year audit trail may not be absolutely necessary, it gives outside buyers complete confidence in the numbers being presented." Failing that, three years of financial reports prepared under a review engagement (the second-highest level of financial statement prepared by a certified public accountant) would be considered adequate.

4. **Make your business stand out from the crowd.**

   "Securing multiple serious bidders can have a big impact on the final sale price, especially if it sparks a bidding war," Cochrane notes. Strategies for building interest around a business can be as simple as maintaining an up-to-date online presence, or having a bank of favourable customer testimonials.

5. **Focus on quality, not quantity, when looking for buyers—and get help doing so.**

   "Getting help is critical to facilitating the overall business sale process," says Cochrane. "This should include assistance in finding buyers, but it isn't primarily a numbers question. It's about fit." Consider tapping into professional networks to identify serious prospective purchasers. Such networks might include financial advisors, lawyers, bankers and industry associations. "Depending on the size of the company, many accounting firms offer advice on business succession. They can make the entire journey much less onerous for the entrepreneur, from finding prospective buyers to ultimately selling the business."

6. **Don't be afraid to cast a wide net.**

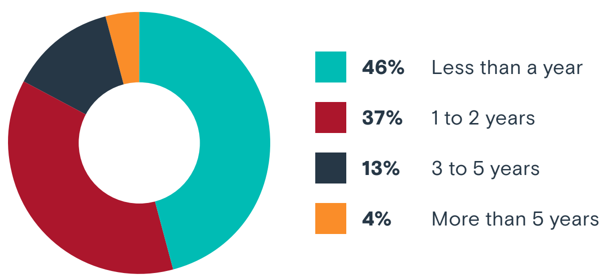
   Finding serious buyers locally can be a challenge, especially for rural businesses. To overcome this hurdle, owners should consider looking to bigger, urban centres, both for advice and as a source of potential buyers. "I've seen cases where companies located in towns of 5,000 have successfully hired advisors in major urban markets," says Cochrane. "It's helped them to get a better level of service, as well as access to a much bigger network."

7. Managing expectations

Earlier research has established that a first-rate succession plan typically takes years—not months—to bring to fruition.[8] (One exception is a franchise, which can be exchanged quite smoothly and quickly among franchisees.)

However, most business owners cling to the belief that the process will be far less drawn out than the experts suggest. Our survey asked entrepreneurs how long they expect the succession process to take, from the moment contact is first made with prospective buyers to a sale being finalized. Five out of six estimate that the process will be completed in two years or less from the time they meet with potential buyers to the moment the eventual sale goes through, and almost half express confidence that it can be done inside of 12 months (figure 13).

Figure 13 – How long will the succession process take?

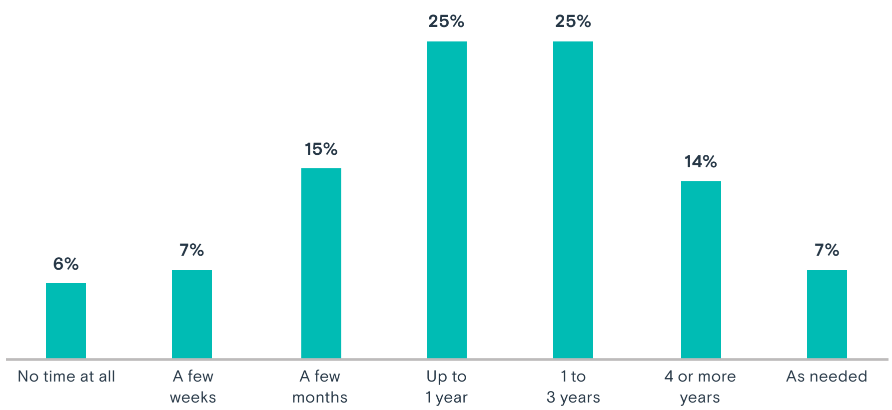


Business owners with 20 employees or more have a more realistic idea of how much time it takes to complete the entire transition process. In fact, only 29% of these owners believe that the process will take less than a year (compared to 49% of owners of smaller businesses) and 23% believe that it will take three years or more (compared to 16% of owners of smaller businesses).

8 See BDC (2015) *Business Transition Planning: A Guide for Entrepreneurs*

We also asked how long business owners think it will take to make the transition to new management. Two-thirds expect the changing of the guard to last from a few months to three years. One in eight respondents expects the transition to take just a few weeks, or no time at all (figure 14).

Figure 14 – How long will the transition to new management take?



*Excludes respondents expecting to wind down their business and sell assets

As for business owners with 20 employees or more, they believe that the takeover by new management will take more time. Three out of five of these owners plan to continue working for more than a year after the sale, compared to two in five owners of smaller businesses.

These replies suggest that some entrepreneurs are too optimistic, and tend to underestimate the time needed to prepare for a transition. According to experts, a transition can take up to five years to complete and, in the case of a family business, as many as ten, depending on the firm's size and complexity (see "How to contain turbulence during the transition"). To be sure, the best outcome is usually achieved by not rushing things and by taking the time needed to ensure a smooth transition.

"In a nutshell, the goal of a business succession plan should be to minimize turbulence. The fewer abrupt changes that take place as the process moves along, the easier the transition to new management will be."

Étienne Drouin
Managing Director, Growth & Transition Capital, BDC Capital

How to contain turbulence during the transition

Étienne Drouin has had a front-row seat on dozens of successful business successions during two decades of handling mergers and acquisitions. He has also witnessed more than a few that didn't go quite as well as expected.

What separates a smooth succession from one that causes endless headaches? The first test, Drouin says, is whether a robust plan has been put in place. "In a nutshell, the goal of a business succession plan should be to minimize turbulence. The fewer abrupt changes that take place as the process moves along, the easier the transition to new management will be."

Four steps to successful transitions

1 **Determine the core competencies of the company's founder or current leader, and assess them against those of the prospective new management.**

Étienne Drouin has seen cases where even managers with impeccable reputations fall short in leading a company that they take over, either alone or as members of a new group of investors. Sometimes, the new leaders lack one or more of the founder's skills, leaving a serious void at the top. In other cases, strong managers who have worked well together for years under the founder struggle to function as a team when the founder leaves and the firm's leadership dynamics change. An important first step in avoiding this pitfall is to take a hard look at what the departure of the founder means for the business in the long run.

"One way to minimize the risk of this happening is to keep the seller around, in a role that he or she would be sad to leave behind," Drouin advises. "Sometimes it's dealing with clients, and sometimes it's something more technical, but usually the founder is good at it because they enjoy doing it. At a minimum, the founder could be retained as a strategic advisor after the transaction. That can be mutually beneficial, and highly useful to the firm."

2 **Make sure the new leadership shares the same vision for the business.**

"Even in the case of a management buyout, where the new leaders know the business inside out, they may not share the same vision and values," says Drouin. On more than one occasion, he has seen a group of managers take the reins of a business, only to watch the team fall apart as members struggle to agree on long-term goals. "In part, success comes from carefully choosing who is on the new leadership team, and who isn't. A group of managers who see eye to eye will be able to switch into growth mode and execute their vision much sooner after taking over."

3 **Allow the new leaders to prove themselves before they take over.**

One of the best indicators that a management transition will succeed is when the founder is no longer essential to day-to-day operations, because the new leaders have assumed most of the responsibilities, proven their mettle to employees, clients, suppliers and financial partners, and developed relationships with these and other key stakeholders. "In the case of internal transitions—family successions or management buyouts—this usually comes from delegating greater responsibility over a period of as long as five to ten years," Drouin says. "When the purchaser comes from outside the business, it's harder. At a minimum, you need to make sure that all key stakeholders know that person. One way of doing that is to hire the prospective buyer as a general manager, say, 18 months before the transition occurs."

4 **Create operational flexibility during the transition period.**

Business succession inevitably generates turbulence as stakeholders come under pressure to adapt to changes at the top. Unforeseen risks can thus come to the fore. For instance, competitors can try to exploit perceived weakness by slashing prices or offering other incentives to gain market share. Other upheavals can come from the wider marketplace, such as a sudden drop in prices for the type of goods the company produces, or a sudden change in the general economic climate. Having the managerial and financial resources to deal with these disruptive forces is paramount.

The advantage of a solid succession plan is that it provides extra room to maneuver, strengthening the owner's hand in negotiations. Thus, the less debt used to finance the transaction, the less susceptible the company is to market volatility and other types of risk. Drouin advises that "the higher the probability that the company's financial performance will be affected by turbulence, the more long-term, flexible, and patient capital should be used."

The bottom line

Our survey points to a significant turnover in the ownership of small businesses during the next five years. Four out of ten entrepreneurs in Canada plan to step away from their businesses.

Many of those looking to leave (mostly to retire) show little interest in pursuing growth or making further investments in their business. But this approach risks dragging down the market value of the firm, and could put the current owner's biggest retirement asset at risk. To make matters worse, this tendency to avoid growth and risks by a large number of business owners could have a negative impact on overall business investment in Canada.

While robust financial reporting helps boost the value of a business, some owners who expect to sell to outside buyers within the next five years appear to have done little or nothing to spruce up their financial reporting. What's more, most have not taken any action to maximize cash flow in anticipation of a sale. This report shows that some simple strategies can greatly enhance the value of a business prior to the owner's departure. Fortunately, businesses with 20 employees or more seem, in some respects, to be in a better position to face a possible sale.

The chances of a smooth transition to new management are greatly enhanced if the existing owner sets out a succession plan well in advance, and then gradually hands over the reins to new leadership. But some entrepreneurs looking to move on may be underestimating the time needed to complete the transition.

Survey methodology

The research presented in this report was conducted in two phases:

- Fifteen in-depth interviews were conducted in December 2016 with entrepreneurs who had left their firm during the previous two years. The interviews were intended to gain a better understanding of some of the challenges and potential pitfalls associated with business succession. The findings from the interviews helped us develop the survey questionnaire.
- Nielsen carried out a telephone survey during March and April 2017 on succession and acquisition intentions among Canadian businesses with 1 to 499 employees. Although the unweighted sample is broadly representative, the high-level results presented in this report—such as the percentage of entrepreneurs planning to exit their firm in the coming five years—are weighted based on the actual distribution of firms by province and number of employees.

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