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Questionnaire

To help tailor the content to your specific situation, please answer the questions that follow. If you need more information at any point, select **LEARN MORE**. Please note you can always come back to this section and update your responses if needed.

1. When Do You Visualize the Ownership Transition?

1 2 3 4 5 6 7 8 9 10+ **Year/s**

A long-term plan is important. Plan ahead for a successful transition.

Learn More

2. How Do You Plan to Transfer Ownership?

- ❑ Sell in less than 2 years
- ❑ Phased transition
- ❑ Sell in more than 2 years

You have several options: sell for a one-time payment now; sell part of the business each year and stay involved for an interim period, sell the business at a future date.

Learn More

3. Who Will You Transfer Ownership To?

- ❑ Third party
- ❑ Family member
- ❑ Employee
- ❑ Associate

An exit strategy is based on one of four basic options: Transfer to a family member, develop talent from within, bring in associates or business partners, or sell to a stranger.

Learn More

4. How Do I Structure A Deal?

- ❑ I already have a buyer
- ❑ I don't have a buyer

How do I go about structuring the sale transaction?

Learn More

1. Learn More – When Do You Visualize the Ownership Transition?

When Do You Visualize the Ownership Transition?

Start by establishing a preferred target date. Then you can start working with advisors on a plan. Let's look at two questions to help you think about how and when you plan to transition out of the business.

- Why should I do a long-term plan?
- How far ahead should I start planning?

Why Should I Do a Long-term Plan?

A long term business plan helps you build those elements of your business which will increase its ultimate sale value.

Creating a financial plan that builds financial security for you and your family can also provide momentum to help overcome difficult times. Look at both financial goals and lifestyle goals. Set targets, deadlines and activities.

How Far Ahead Should I Start Planning?

Start as early as possible and continue until the age when you plan to retire.

For example, if you're 35 years old and plan to retire at 60, you have 25 years to build a business that someone else will want to buy, either in whole at your retirement, or in stages leading up to it.

Business owners who delay making plans risk having insufficient time to build business value, identify the right buyer and negotiate favourable terms of sale.

2. Learn More – How Do You Plan to Transfer Ownership?

Choosing the Right Option for You

You have several options:

- Sell the business for a one-time payment. Depending on the buyer's needs and your preferences, you may offer to remain involved during a management transition.
- Sell over time, transferring ownership of a part of the business each year and work with the buyer until the entire price has been paid. You may choose to be actively involved over the transition, reducing your hours each year as the buyer gains a higher percentage of ownership.
- Sell the business at a future date. Use the interim period to focus on building your business, creating the potential to reach a higher sale price.

Pros & Cons of Transfer Options

- **Sell for a one-time payment**
  Pros – You get the cash up-front
  Cons – You may get less for your business

- **Sell with payment over time**
  Pros – You ensure the new owner can manage before you transfer the whole business
  Cons – You have to stay longer and payment is protracted over time, often relying on the future success of the business for your payout

- **Sell the business at a future date**
  Pros – You can build incremental value and find and cultivate the right buyer
  Cons – Delays your payout and your departure date, adding risk as future unplanned events can negatively impact the sale price

Tax Aspects to Consider

A variety of considerations can affect the tax efficiency of a business sale. Your tax advisors can help structure your plan to minimize taxes.

Topics to discuss include:

- The right business structure for your business or practice
- Strategies to maximize capital gains exemptions and reduce taxes
- Family trusts and estate freezes for intergenerational ownership succession

Assembling a team of accounting, legal and financial advisors can help you understand the tax implications of various options.

Plan for the Unexpected

Unexpected events can occur over time. Consider possible challenges that could affect you and those who are important to you.

- If you were incapacitated, how would that affect your income?
- If you die, how would that affect your family?
- What if you die before you are fully paid for the business?
- What if the purchaser dies before you are fully paid?

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Work with your Financial Advisor to create an effective contingency plan.

- Make a will and keep it up to date. It should be consistent with your business plans and any business agreements, such as partnerships or shareholders agreements.
- Prepare a Power of Attorney for legal and financial purposes.

Develop a Contingency Plan

- Review life, disability, business continuity, general liability and key person insurance coverage.
- Consider cross-insurance of the buyer if you sell.
- Talk to your family about your wishes, and share key information they will need in the event of your death.

3. Learn More – Who Will You Transfer Ownership To?

Let's look at the four basic options:

- Pass the business to the next generation of your family
- Develop talent from within – (an) employee(s) who will become your successor(s) when you retire
- Bring in associates or partners to buy the business from you over time
- Sell to an external third party buyer

Pass the Business on to the Next Generation

This option is favoured in family businesses yet the number who successfully transition is fairly low.

- Be sure your children have both the interest and talent to be successful in the business. Do a balanced evaluation of their skills and abilities.
- Talk to them early. Many children do not share their parents' long-term vision of the business and their role in it.
- Build a long term transition plan which includes a solid training program to transition business management as well as formal ownership.

Developing Talent from Within

This option is more suited to some types of businesses and professional practices than others. When well planned over time, it can minimize the impact of a change of ownership to customers. By the point of retirement; clients are already primarily dealing with the prospective new owner or owners.

- Determine if you have qualified, interested employees early. Talk frankly about your financial expectations, your willingness to integrate them into management roles and how you will resolve conflicts.
- Good employee ownership plans are supported by clearly documented agreements and specific timetables. Involve legal and accounting

advisors early and discuss the financial implications of transitioning with your business banker, who can assist in structuring credits for the new owners.

Bring in Associates or Partners

Strategically bringing in Associates and Partners and planning a phased transition is often the most successful option for both parties.

- The buyer does not buy the entire business immediately but instead phases into the ownership role over time.
- A typical phased transition might occur over three to five years. For example, the buyer might acquire 20% of the business each year for five years. During this time, both the financial ownership and day to day management of the business or professional practice is transitioned.
- The retiring owner can slowly wind down while the buyer speeds up. For customers or patients, the transfer of ownership can appear virtually seamless, leading to a smooth exit and continued business success.

Sell to a Third Party

Your business or practice characteristics, demographics and local demand will all determine if this is a viable option.

For example, a well established accounting firm with a solid customer base and a strong employee team will be attractive as an acquisition target for a bigger firm.

When planning a third party sale:

- Protect and enhance the value of business aspects which will attract a new owner.
- Develop a documented business plan that sets out clear objectives for business growth.
- Allow enough time to implement your business plan in order to maximize transferable value and ensure the best sale price.

I Don't Have a Buyer

Identifying the right buyer requires careful consideration, time and effort.

This decision table can help you start considering whether an insider or outsider might be the best type of buyer for your situation.

Decision Table

You can give a score out of ten to each point, to help weight more importance to some – as in the following table.

Weighted Decision Table

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Listing with a Broker

If you have not identified a buyer, you might consider working with a broker who specializes in the sale of businesses like yours.

A broker should have a wide network of potential buyers and be able to effectively market your practice to help get the best deal possible as fast as possible.

On the down side, brokers charge a commission on the sale based on the selling price. Weigh the pros and cons.

What to Look for in a Broker

Look for a broker with a proven track record, who is recommended by your professional body, or business association and will charge reasonable fees. Ensure the broker will promote your practice without initially revealing your identity.

Look for:
- A free initial meeting to discuss your proposed sale
- A marketing approach that suits your values
- Some type of guarantee: 'results or your money back'
- References from clients

4. Learn More – How Do I Structure a Deal?

How do I Structure a Deal?

Once a buyer has been identified, the next step is to structure and negotiate a deal. During this stage, it is particularly important to identify your team of advisors and understand their areas of responsibility.

Use the Notes feature of this tool to create questions and action items you want to address with each advisor.

Financial Advisors

Accountant:

Identifies appropriate business structure and tax strategies, prepares financial reports and provides input into business plans which maximize sale value.

Financial Advisor:

Creates a personal financial plan which factors in investment strategies, long term income planning and estate planning considerations.

Business Banker:

Provides banking services to meet the growth objectives of the current business as described in the business plan, and to provide financing and business banking services for the new owner.

Legal Advisors

Lawyer:

Completes legal documents and agreements relative to the changes in business structure, letters of intent and purchase and sale agreements.

Other Advisors

Business Valuator:

Establishes realistic values for the business either for long term financial planning or setting a sale price.

Succession Planning Consultant:

Assists with any number of aspects of the process of business ownership transition from creating long term value optimization plans to identifying buyers, structuring transition deals to overseeing the entire process.

Business Broker:

Markets your business from identifying interested associates or partners to potential third party buyers.

Assessing a Prospective Buyer's Financial Capacity

Before negotiating a deal, recognize that achieving your long term financial objectives is dependent on the prospective buyer's ability to meet the financial terms of your sale agreement. Evaluate the financial resources of prospective purchasers before committing a lot of time to poorly qualified prospects.

Ask their permission to conduct a credit check and a criminal background check, and get professional references. Check with their professional body to ensure their credentials are in good standing.

You can also learn a lot by entering a name in a search engine such as 'Google'.

What Can You Do to Help the Buyer Obtain Financing?

For third party financing, good financial information is required about business performance. The new owner will undertake their own due diligence, and this information will also give the lender confidence that the business has a solid track record of profitability.

By combining an assessment of the historical performance of the company with an assessment of the financial capacity of the new owner, a lender will have an accurate picture of the degree to which new debt can be supported.

Deciding if You Will Provide "Vendor Take-back" Financing

Depending on your purchaser's needs, your willingness to defer the proceeds of sale and the tax and legal implications of continuing financial support of the business, it may make sense for you to be a source of financing.

You will need to balance the fact that you likely do not want to have to jump back into it in a year or two due to buyer default on the finance terms, with the potential to assist with an orderly payout over time.

This document was created using assumptions that are believed to be reasonable. Results may differ, perhaps to a material degree

This plan is not intended to be a blue print of your financial future, but rather a tool to be used to guide and compare relative financial decisions

This Transition Assessment is prepared for the general information and education of clients relative to their own particular situation based on the data provided by the client. To the extent that the data provided is incomplete or inaccurate, so too are the resulting recommendations. Please review all data thoroughly to ensure it is correct.

All legal decisions must be made only with the counsel of a qualified attorney. We make no attempt to give legal advice, nor do we draft or in any way modify legal documents.

Likewise, any suggestions pertaining to income tax or accounting strategies should be implemented only with the advice of a qualified accountant.