Bank Trust Wealth Management

# Exiting your Business

CANADIAN WESTERN BANK

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It's hard to step away from your business. You built it, you've spent years running it and it's a big part of your life. Many business owners delay the process of creating an exit strategy. To help make your exit go smoothly, be proactive, develop a plan and be prepared.

An exit strategy requires planning and time. Depending on the size and complexity of your business most strategies can take at least a year. There are a lot of stakeholders in your business and they will all be affected. Stakeholders could include your family, business partners, shareholders, management team, staff and customers.

Every business is different and there are a number of factors that need to be considered when you are exiting your business. Key points you will need to think about are legal constraints, financial and tax implications, and the current economic climate. Just as you needed expert advice at stages during your business planning, you will need guidance and advice during your exit planning.

## The major options

In the simplest terms, you have four exit options:

1. Sell or pass on the business to a family member
2. Sell to a business partner or employee
3. Sell to an outside buyer
4. Liquidate (close the business by settling its liabilities and assets)

## Getting started

### Do your personal planning

Begin by considering your own personal situation.

**Ask yourself:**

- Do you want to continue working in some capacity with this business or do you want to transition out completely?
- Do you want to pull all of your money out of the business? What are the financial and tax implications for you if you do so?
- Are you in a hurry? Can you do a staged transition over several years?

**TIP**

There are a number of investment options open to business owners, especially if you start planning well ahead. Canadian Western Bank (CWB) Group offers a full line of Wealth Management Services to help you prepare financially for exiting your business.

Sitting down with a financial advisor to plan your succession strategies and potential impacts on your future is your first step.

### Assemble the information

To start the planning process, take the following steps:

1. List your preferred exit options, in order of preference.
2. Develop a succession timeline. When do you want to exit? What major steps have to be taken to make that possible?
3. Organize the necessary information for your advisors or business broker such as the ownership structure of the company, shareholder agreements, financial statements, register of assets, organization charts and major contracts.
4. Create an initial communication plan. Don't forget that staff and customers will be worried if it looks like you're busy planning your exit, but you haven't told them about your plans.

### Assemble your team

Determine the advisors, mentors or family members who will bring crucial skills to this planning process. Who needs to be included? Key team members could include your lawyer, accountant and members of your senior management team.

As the transition process rolls out, you may need more specialized advice. As an example, if you decide to sell, you will probably hire a business appraiser and a business or commercial real estate broker.

## Evaluate your exit options

Take some time to consider all of your options before you commit to one course of action, or to a plan A and plan B.

Our guide on Business Valuation can help you with the financial considerations for exiting your business.

## Family transition

Is there a family member who is interested in the business, and has the right skills and experience to run the firm? Consider whether your family members are able to work together in professional manner. Will you be able to step back and resist the temptation to be a "back seat driver" to your successor?

Financing can be the most difficult part of a family transition. Financing options could include having the successor front the capital themselves or using an internal buy-out where the business absorbs the cost of purchase.

If you choose an internal buy-out, ask yourself if the business can afford to take on additional debt to finance the acquisition.

If you are going to finance part of the purchase yourself (seller financing or 'vendor take back'), you are taking on risk and need assurances that you will be repaid. Make sure that full and proper legal agreements are in place when dealing with family members.

**TIP**

Conduct family ownership transitions in a business-like manner. Prepare as if you were selling to an outside buyer. Bring third party consultants to the table for valuation and succession planning to help keep family discussions neutral and focused on business.

## Internal buy-out

Are there business partners, shareholders or employees interested in buying the company and willing to take on the risks of ownership? How could such a buy-out be financed? Options could include having the firm take on debt to finance the transition or seller financing.

The biggest advantage of an internal buyer is that they know your business and have a vested interest in keeping it running successfully. You also know them, so your due diligence is more limited than it would be for an external buyer. Other advantages may include a faster transition and minimal disruption.

**TIP**

If no one on your management team wants to buy the company, consider bringing in a new partner to learn, and then eventually, buy the business.

## External sale

An external sale is typically the most profitable option. An external sale may require more preparation than an internal one, and it can also take time. Some companies may be listed for sale for a year or more before finding a buyer.

In many cases, the most difficult part of a third party sale is setting a price. There are several different methods used to assess business value you can find in our guide to Business Valuation. At the end of the day it is still a challenge to predict what a buyer will be willing to pay you. Your success at finding a buyer can also be influenced by unpredictable factors like the current economic climate.

Consider using an experienced business broker. Business brokers can be more objective and skilled at not only finding additional potential acquirers but also negotiating on your behalf.

The first place to start looking for potential buyers is in or near your own industry. What company would find your business a good strategic fit? This might be a competitor. It could also be a related business that could expand its offerings quickly by acquiring your products, equipment or expertise. If your company has strong strategic value to a buyer, you may be able to sell for a high price.

### Liquidation

Few business owners want to close their company, but there are circumstances where it may be the best choice. It can be your fastest option. It can also leave you with no further responsibilities, legal commitments or ongoing concerns. The liquidation route will probably provide the lowest return on your investment. Liquidation can also take time. Up to a year is quite common, especially when major property is involved.

## Moving the plan along

Developing a written succession plan that highlights key goals and objectives for your company can be helpful throughout the transition period.

Lay out a timeline and set dates. If you are planning an internal or family transition create a plan for transitioning the management of the company. Your successor may need some mentoring, training or shadowing to prepare for their new role.

Your purchaser will also likely need time to do their due diligence and arrange financing.

Your successor and your business will benefit greatly if you leave clear, well organized records with documentation and processes describing what you do. Start early. If you were in a car accident tomorrow, would your business still operate effectively?

### Communicate

Uncertainty breeds tension. Your employees, customers and other business partners are also planning their futures. When you have an exit plan, tell your close associates what you have in mind. Communicate your intentions and give a timeline to aid with change management.

If you have strategic reasons for keeping your plans under wraps, consider the impact on your staff. It can be difficult to keep secrets within a company and incomplete information can lead to speculation and rumours. Talk to an advisor about strategies for publicly discussing your exit plan. You want to present it as good news and dispel fears.

## Now what?

Now that you have an understanding of the options available to you for exiting your business, move to the next step with our Business Valuation guide.