

Your Guide to Business Transition Planning



Your Trusted Advisor

For over 100 years, generations of Canadians have relied on the expertise of CIBC business advisors to manage their finances. Today, our advisors continue to build relationships with their clients based on trust and integrity; values that make our name synonymous with excellent service and expert investment advice.

Ensuring A Successful Transition

You have invested a lot of time and energy into making your business a success. Now it's time to start thinking about the next step – both in your life and in the life of your business. Whether you're planning to transition your business to a family member, sell to a third party, or sell to a partner, having a clearly-defined plan in place can increase the likelihood of ensuring a successful transition.

More than half of family businesses are expected to change hands by 2019. Only 20% have a robust, documented succession plan in place.

Source: Securing the Future: The Canadian Supplement to the 2014 PwC Global Family Business Survey.

Your CIBC business advisor can support you throughout the transition process. From business transition advice and financing assistance, to retirement planning and ensuring you can leave a legacy for your loved ones, we have access to the solutions to help you every step of the way.

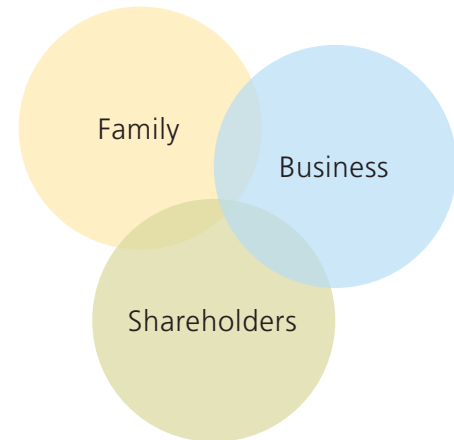
Your Business Transition Plan

Your business transition plan acts like a roadmap – helping you chart a course towards a successful transition. An effective plan contains a number of components, including those that encompass your business resources, objectives, leadership and financing needs.

The 10 components of a successful business transition plan

1. Short and long-term stakeholder objectives
2. Assessment of financial, managerial and emotional resources
3. Lifestyle and income requirements
4. Optimal tax and legal structure
5. Management development plan
6. Shareholders' agreement
7. Tax planning information
8. Estate and trust information
9. Exit strategy and timeline
10. Contingency plans

The Stakeholders in the Business Transition Process



Source: Taguiri and Davis (1996).

Acting as the quarterback of your transition team, your CIBC business advisor can help coordinate the creation of your business transition plan, helping to ensure you have the essential elements in place.



Clarifying Your Goals & Objectives

- Do you have sufficient resources to allow you to continue on with your business financially and emotionally?
- When do you want to retire?
- Do you want to maintain a role in the business after retirement?
- Do you intend to transition your business to a family member or sell to a third party?
- Approximately how much is your business worth?
- What steps can you take today to maximize the value of your business before a sale?
- Does the management capability and expertise exist within your business to maximize the chance of a successful transition?
- What do you plan to do after you sell your business?

The answers to these key questions can help form the outline of a successful business transition plan. Like a financial plan, your business transition plan will constantly evolve and will change as your business continues to grow and develop over time.

31% of business owners planning their succession say that it will be difficult to let go and may continue to play a role in their business.

Source: CIBC Leger Marketing Survey, July 2012.

Examining Your Options

There are three main options for transitioning your business.

1. A transition within the family as:
 - owner manager, or
 - owner investor
2. Selling to a partner or employee
3. Selling to an outside buyer

Your CIBC business advisor can help you determine the right option for you and your business..

28% of business owners with plans to transition their business do not know who they will transition it to.

Source: CIBC Leger Marketing Survey, July 2012.

Questions that may help you identify the right successor

- What does the business need from its next leader?
- Does a member of the family want to take over the business?
- Are the successor's talents, vision and values in line with the needs of the business?
- Is there an experienced key person at the business who could take over?
- Does a third-party purchaser have the necessary financing arrangements in place?

PwC warns the current generation of family business owners looking to exit, that a highly competitive buyer's market is predicted between 2018 and 2025. Those second generation family businesses that may opt to sell may not be able to get the value they were hoping for without a solid business transition plan.

Source: Securing the Future: The Canadian Supplement to the 2014 PwC Global Family Business Survey.

They Are Family, But Are They Capable Business Owners?

Many owners hope to transition their business to the next generation of their family. This transition can result in the successor actively operating the business (owner manager) or hiring a management team to run the business on their behalf (owner investor).

Is a family transition feasible?

The first question any business owner should ask when considering a transfer within the family is whether it's a feasible option. When considering feasibility, you may wish to consider these possible consequences.

- Disharmony in the family after transition
- Family outside of the business may feel they are not being treated equally or fairly
- Impact of transition on employee morale and overall business performance

16% of Canadian businesses plan to sell to a business partner or management team.

Source: CIBC Leger Marketing Survey, July 2012.

Selling To A Partner Or Employee

In many cases, a shareholder or a key employee may seem like an ideal candidate to take over a business. They know the business already, and are usually familiar with its key suppliers and clients. Typically, however, there are other factors worth considering:

- Partners are very likely to be close in age; therefore, they may be considering retirement at the same time
- Shareholders may already have a significant portion of their net worth tied up in the business
- It takes a special kind of employee to trade in a regular paycheque for the added financial and emotional commitment that comes with owning a business
- Partners know the shortcomings and challenges that the business faces and may not be willing to pay top dollar for it

If you are selling to a partner or employee, the buyer is likely to provide you with a combination of cash and financing. Your CIBC business advisor will discuss with you and your accountant financing options that are in line with the objectives set out in your plan.

22% of Canadian business owners anticipate selling to a third party, strategic acquiror or private equity firm.

Source: CIBC Leger Marketing Survey, July 2012.

Selling To A Third Party

For some business owners, selling to a third party may be the best option. If you are considering a third-party sale, you may wish to think about the following:

- Where can you find an interested buyer?
- Do you want to sell the whole business or parts of it?
- What is the most tax efficient way to structure the sale?
- Is it important that a potential buyer have the entire financial resources necessary to purchase the business?
- Would you be prepared to partially fund an acquisition?

Where do you find a buyer?

A buyer can come from anywhere – your suppliers, your customers, or even your competition. In some cases, you will actively seek out a buyer; in others, you may receive an unsolicited offer.

Your CIBC business advisor and team of experts can be invaluable in providing you the support and objective advice you need to keep your best interests in mind, including possibly finding a buyer.

Enhancing The Value Of Your Business

There's an adage that says your business is only worth what someone is willing to pay for it. If the value of your business is lower than expected, you may be able to improve it through one or more of the following strategies:

- Having a transition plan
- Identifying new markets
- Investigating strategic acquisitions
- Investing in sales or marketing efforts
- Diversifying your customer base
- Increasing or enhancing your product line up
- Tax planning
- Streamlining process and procedures
- Investigating new technology

Company valuation is important when defending the value of your business, from taxation purposes or selling your company. To receive an analysis on the value of your business and advice on how to maximize the sale value, seek out a certified business valuator.

Studies show that business owners often miscalculate the value of their business. Don't make the same mistake. Work with your team of experts to obtain an independent, objective valuation of your business.

Unleashing The Tax Opportunities

As the value of your business assets transitions into your personal investments, tax strategies need to be considered in order to maximize retirement savings. There are several possible tax strategies for transition plans, including:

- Capital Gains Exemption
- Estate Freeze
- Holding Company
- Family Trust
- Individual Pension Plan
- Retirement Compensation Arrangement
- Other tax deferral opportunities

Your CIBC business advisor, along with a team of experts, can help evaluate your situation to determine if any of these strategies are applicable to your situation.

41% of respondents said they were not aware of capital gains tax implications.

Source: Making the next move: the Canadian supplement to the 2010/11 PwC Global Family Business Survey.

Planning Is Crucial To Your Success

A well thought out transition plan increases the likelihood that you can maximize your business's value, minimize any tax burden, and secure your own financial future when it comes time to sell or transfer your business.

Benefits Of A Strong Transition Plan

- Reduces risk of failed transition
- Increases your opportunity to maximize value and minimize the tax implications of sale
- Increases flexibility, choice and control
- Creates peace of mind among employees, customers, suppliers and business partners
- Reduces the potential for conflict among family members

Commonly Made Mistakes

- Failing to assemble a team of experts
- Failing to think of transition as a process and not just an event
- Failing to obtain the proper valuation for the business
- Failing to properly integrate your business transition plan into your estate plan
- Failing to identify key employees who may have concerns with your transition plan
- Failing to treat the business as a key stakeholder
- Failing to start early enough

Why Retirement Dreams Don't Happen

You have invested a lot of time and energy into making your business a success. Don't let a poorly planned transition affect your retirement dreams. Here are some of the most commonly-made transition planning mistakes.

- Leaving your succession planning until it's too late
- Tax strategies that haven't been properly implemented
- A macroeconomic climate that has reduced the value of the business
- Poor communication with and preparation of heirs

Make your retirement dreams a reality. Speak with your CIBC business advisor today and start planning for a successful transition.

Selling the business is expected to generate roughly 30% of self-employed retirement income.

Source: Are Canadian Entrepreneurs Ready For Retirement? CIBC Small Business, 2005.

How can your CIBC business advisor help you?

- By assembling a team of experts
- By offering a diagnosis of your situation
- By offering objective advice and guidance
- By offering solutions tailored to your specific needs

Don't leave your financial security to just anyone. When you work with a CIBC business advisor, you will have peace of mind from knowing we will tailor our advice to help meet your needs.



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