

Business Transition Planning



The Business Transition Planning Process

Establishing a business and making it a success is not easy. Transitioning out of that business can be even harder. Have you taken a moment to consider the legacy of your company when you decide to retire or move on to a new venture?

Think about the following:

- Do you know who will take over your business when you retire?
- Have the necessary documents, agreements and plans been put in place to ensure a smooth transition?
- Will the income provided from the sale of your company be sufficient to meet your retirement needs?

If you're unsure of the answers to these questions, you're not alone.

The CIBC Advantage

As a business owner, you not only have to plan for the transition of your company and its continued success, you must also ensure your retirement goals are met. Your CIBC business advisor can guide you through a process designed to lay the groundwork for the future of your business in keeping with your retirement goals. Even if you already have an exit strategy in place, it's critical to review your plan to ensure any changes in your business or your personal situation are addressed.

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.

Planning For The Future Of Your Business

The fact is, you will transition out of your business at some point, and without a defined plan you are essentially leaving your personal and financial future to chance. Business transition planning determines how to smoothly transfer the ownership of your business while maximizing your personal financial security, minimizing taxes and protecting your retirement assets.

Planning includes not only when and to whom you intend to sell or transition your business, but also ways to maintain your company's value through tax planning and being prepared for unforeseen events. Through this process, you'll gain peace of mind that both you and your company are ready for the transition.

Getting Started On Your Plan

As with your retirement plan, it's best to start planning the transition of your business early and review the plan often. Ideally, planning should begin 10 years before the expected transition of your business; however, it's critical to have a plan in place at least three to five years before the transition occurs.



A Team-Based Approach

According to the Canadian Federation of Independent Business, 28 percent of small-to-medium-sized business owners say they have no time to deal with planning the transition of their business. That's where a team of professionals come in.

When developing your exit strategy, you'll need to assemble a team of experts to partner in the successful implementation of your plan. Your CIBC business advisor is responsible for overseeing and coordinating the plan and will work with your current team of experts or can provide access to professionals where necessary. Your CIBC business advisor will act as your primary advisor and will coordinate with other CIBC advisors on investment and financial planning.

In addition to your CIBC business advisor, your team may also include:

- **CIBC Mid-Market Investment Banking** provides advice on business valuation, locates potential buyers and negotiates the terms of the transaction on your behalf when a sale is the desired exit strategy.
- **CIBC Trust** acts as your estate agency, managing all administrative responsibilities for your estate, such as executor or co-executor, power of attorney, trust administration, wills and estate settlement services.
- **CIBC Private Wealth Management** provides a framework for your business transition plan and works with your CIBC business advisor to implement the process. The framework may include family harmony issues, methods of transfer, tax and legal implications of each sale option and successor development.
- A **Wood Gundy Investment Advisor** will work with you and your CIBC business advisor to provide guidance and delivery of investment solutions that meet the unique needs of your business, your family and your estate.
- A **CIBC Wood Gundy Estate Planning Specialist*** will work with you to implement tax-efficient solutions. He or she can also assist in the development and funding of a buy/sell agreement, implementing insurance solutions and examining other estate planning issues in detail.

You may need to re-evaluate your plan when there is a change to...

- Business partners or key executives
- Your business plan
- Your family situation
- The structure of your company
- Your retirement plans
- Tax laws
- Your health
- Business debt
- Market Conditions

* Financial Security Advisor in Québec.

Considering Your Options

Deciding how and when to pass on ownership and control of your business entails careful thought and planning. It's also important to share your plan with family members and key employees to ensure your wishes will be carried out accordingly. There are three main options to consider when arranging for the eventual transfer of your company.

Sell To A Third Party

Selling the business to a third party is one option for the transfer of your business. Potential buyers include competitors and outside sources. Eliminating the potential for family conflict, competitors are already familiar with the industry and market, while an outside source generally means there are no strings attached if you are looking for a quick sale; both options can allow for a smooth transition.

Management Buy-Out

A management buy-out involves selecting shareholders or key people in your organization as potential successors. Your chosen successor is already involved in the business and likely has an intimate understanding of its operations. It's still important to sufficiently mentor them before the transition to ensure they fully understand the business and are prepared to take over when you retire.

Keep It In The Family

Handing your business over to a family member is a common way to pass your legacy on to your children and future generations. But it's not always that easy. Identifying family members that not only want to be included in the business, but are a good fit to run it, requires a great deal of consideration. As the expert on your business, you can continue to share your skills, knowledge, plans and visions for your company's future with your family members on an ongoing basis. Determining which family members are interested in the business and their strengths and weaknesses can be crucial to both the business and family harmony.

Family Harmony

There's a very fine line between family matters and business matters in a family business. Open communication is often the best way to make sure everyone's voice is heard and that your plans are conveyed effectively. To that end, it can be beneficial to have an objective mediator present when discussing the transition of your business. Even if your family is not currently experiencing conflict, addressing concerns in the early stages of succession planning can keep misunderstandings and disputes from occurring.

Only 16% of Canadian owners plan to pass the family business on to the next generation.

Source: CIBC/Leger Marketing Survey, July 2012.

The Family Business

Family businesses are unique in that most business decisions ultimately affect the family members and their relationships. The following explains in more detail how the relationships can coincide when dealing with a transition of ownership.

The Family / Personal Circle

This circle represents the emotional capital of the family business. A successful family business must have strong communication channels and deal with areas of conflict and emotions. The objective is to help build a strong family unit.

The Ownership Circle

The Ownership Circle considers the management of wealth within the family business. Owners must include contingency and continuity plans, using such tactics as tax planning, estate planning and personal financial planning, to ensure an equitable balance that is fair to both the family and the business.

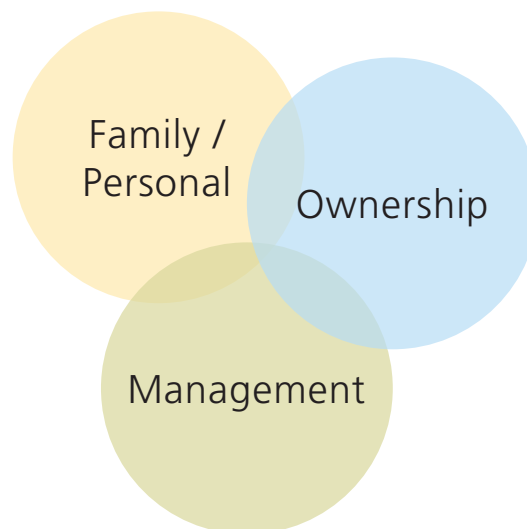
The Management Circle

The Management Circle symbolizes the building and continuation of a competitive and profitable business that creates wealth and equity for both the family and the business owners.

The 3-Circle Overlap

Problems arise because all matters pertaining to the business get mixed up in the overlapping areas. It is in these overlap areas that confusion reigns.

The Integrated Transition Plan



Source: The SuccessCare® Program.

The overlap among the three groups often leads to differing points of view among individuals depending on their position within the three circles. Effectively managing business, family and ownership concerns requires communication and decision making within and across the three groups. Your CIBC business advisor can help you manage this overlap by providing you with expert advice, or by helping you find the experts who can work with you throughout your business transition.

Determining The Price Tag

Regardless of what transition option you choose, you should have a good idea of what your business is worth and what amount would be sufficient for you to sell and retire. However, determining the fair market value can be a complex process, as tangible assets are likely to comprise only part of the price tag – intangible assets, such as goodwill, also come into play.

This process generally begins with hiring an objective business valuator, who will review the books, financials, credit history and other information on your company to determine its fair value.

Financing The Sale Of Your Business

Selling your business is a complex transaction. Financing options can include cash, bank loan, vendor financing, or a combination of the three. During negotiations it is more likely that several financing options will be used depending on who you sell to.

Sell To A Third Party: For an external sale, a cash / financing option is generally the method used. If any type of interest paid loan is available to negotiate, it will likely be at a higher interest rate.

Management Buy-Out: The buyer is likely to provide you with a combination of cash and financing, or make use of interest paid loans from the business as well as a set amount of income provided to you.

Keep It In The Family: There is generally more flexibility in options and the timeline surrounding the transfer to a family member. A plan could be set up where you are paid an income for a set number of years.

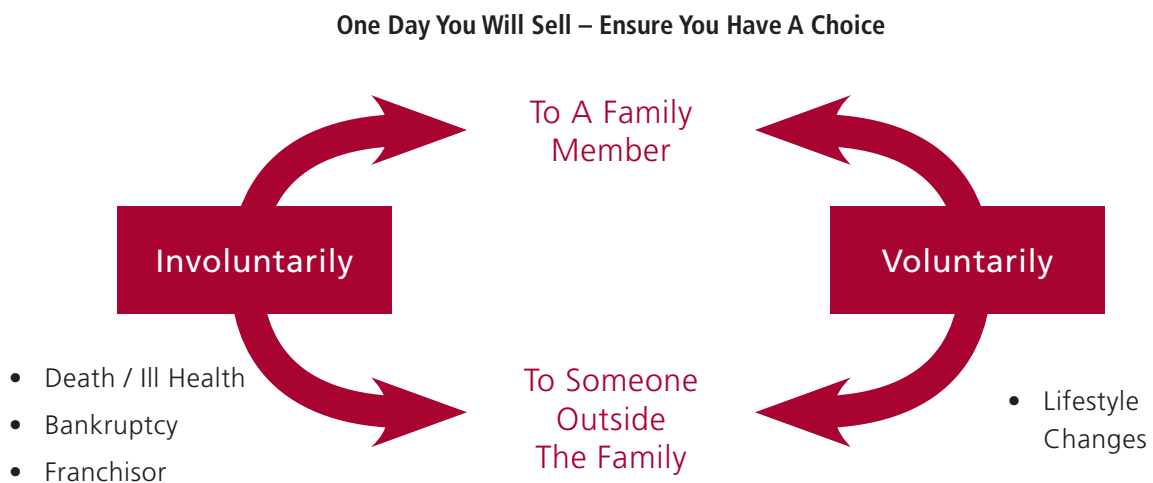
Your business advisor will work with you and your accountant to discuss financing options that are suitable for the objectives set in your plan.

Planning For Contingencies

While arranging for the smooth transition of your business, it's important to plan for unforeseen circumstances, such as death or disability. A lack of planning for contingencies can lead to:

- Forced sale or take-over by the competition or unqualified buyers
- Family conflict between heirs regarding direction of the company and positions within the company
- Overall disruption to your business, employees, clients and family

Shareholders' Agreement (including Buy / Sell clauses) are one way to protect your personal and professional interests.



Source: The SuccessCare® Program.

Retirement And Financial Planning

Establishing your retirement income objectives can be challenging. As a business owner, you may find it difficult to consider the idea of retirement or giving up control of something that defines you. If you remain a shareholder, the company may provide you with retirement income. However, if you sell the business, you'll need to make sure the sale can support your retirement needs when combined with your retirement savings.

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.

Preparing For Retirement

Ideally, retirement planning should begin early in your career with continuous evaluation and adjustment as your objectives and financial circumstances change. While the sale of your business may provide you with retirement funds, it's essential to consider additional savings vehicles, as well as investment opportunities that may protect your retirement income from creditors.

In addition to your personal registered savings plan, there are a broad range of retirement preparation strategies that can help you generate retirement income and/or defer or minimize taxes through your corporation, including:

- Individual Pension Plan
- Retirement Compensation Arrangement
- Estate Freeze Strategy
- Holding Company

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

Financial Planning With CIBC

Once you've developed your business transition plan, it's important to look at your personal financial plan to ensure your future needs will be met. Your CIBC business advisor can provide a holistic approach to your financial planning needs.

Meeting Your Philanthropic Objectives

With proper planning, your generosity can have an impact beyond your expectations. Giving back to the community is often important to business owners and can be worked into your transition plan. There are several strategies for charitable giving that not only provide funds to your favourite causes and enhance your firm's reputation, but also offer tax benefits.

CIBC Wood Gundy Giving Back

The CIBC Wood Gundy Giving Back program has made it easier and more efficient to donate to the causes that are important to you. Simply open a donor advised fund with a contribution of \$25,000 or more, and recommend the charities that you would like to receive grants from your Fund. We take care of the rest. Benefits include:

- Ability to continue your legacy by naming your foundation after your company
- Immediate tax receipt for donation
- Potential to avoid capital gains taxes on gifts of appreciated securities
- Legal, philanthropic and accounting work is done for you
- Ability to donate a variety of assets including cash, stocks, bonds, mutual funds and life insurance

A CIBC Wood Gundy Investment Advisor can help you incorporate charitable giving strategies into your business transition plan to benefit both your chosen causes and your business.

Your Trusted Advisor

For more than 140 years, CIBC has been providing business owners with the advice, services and support they need to thrive and grow. Our advisors are committed to fostering relationships based on trust through attention, guidance and delivery of financial solutions that meet the unique needs of your business, your family and your estate.

Get started today on your business transition plan or review the one you currently have in place with your CIBC business advisor to confirm that you are on the right path to a smooth transfer of your company and start of your next adventure. We'll help you create, update and maintain a plan that meets your needs for today and tomorrow.

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