

Considerations for Exiting Your Business

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Business transition may involve a generational transition, management or shareholder buyout, or an outright third-party sale. The BMO Business Advisory and Transition Planning team is committed to understanding the personal and business objectives of business owners – through candid conversations and education about the options available – so they can help them make an informed decision on the transition of their business. This article outlines considerations for business owners who are planning to transition their business or are dealing with unsolicited acquisition offers.

Transitioning your business to the next generation

Planning for an orderly exit from your business involves considering both quantitative and qualitative elements. Often, the focus is on quantitative elements, such as contractual matters or tax planning strategies, with qualitative aspects such as family dynamics taking a backseat. While important in any transition scenario, the qualitative aspects of transition are especially important in the context of a generational transition.

Transitioning a business to the next generation is complicated and often requires years of planning and preparation to ensure that succeeding managers are equipped to run the business. For more information, please ask your BMO financial professional for our publication, *Business Succession Planning: Preparing for the Next Generation to Take Over the Family Business*.

The following should be considered when contemplating a generational transfer:

- Is there an alignment in vision, goals and values across both generations?
- What is the ideal exit timeframe and is this consistent with that of the next generation?
- What skill and leadership gaps exist between current leadership and next generation leaders? For more information, please ask your BMO financial professional for our publication, *Management Succession Planning*.
- Do family members have the requisite skills and desire to own and operate the company?

This requires an objective view of the next generation in terms of the following:

1. Readiness:

- Are they fully prepared for the responsibility of taking over the business?
- Do they understand the potential impact on their personal lives?

2. Willingness:

- Do they want to own the company?

3. Capability:

- Do they have the ability to effectively run the company? The necessary skills, experience, knowledge, training, etc.

It is important that all three of these factors are addressed to avoid potential problems and conflict.

Other Considerations

- How do you communicate as a family, both inside and outside of the business? Can communication be improved for the benefit of the business and family?
- How are strategic business decisions currently made? And, how may this need to change over time to ensure a successful transition?
- Do you want the next generation to pay for the business at fair market value? Gift the business? Or, a combination of both?
- Is there transparency in the transition process with regards to timelines, goals, vision, and documentation?

- Have there been open and honest communications with family members who are not involved with the company? Have you considered an equalization within your estate? Are you planning a family meeting as a forum for communications?

Executing a business sale

You have decided that it's the right time to sell the business, but you aren't quite sure where to start. Business owners routinely wrestle with whether or not to hire a transaction advisor or sell the business personally. The following are some considerations for each option:

Selling the business on your own

- **Time commitment** – Selling a business takes considerable effort and time to successfully close the transaction. Under normal circumstances, it may take between six and twelve months from start to finish, with some transactions taking much longer. Owners and management should ensure they stay focused on running the business and achieving strong financial results, even as they are looking to sell. Strong financial results leading up to, and during the sale process are vitally important.
- **Experience** – Generally, owners of privately held companies do not have experience in selling and managing the sales process. Be honest about your skillset and experience in approaching an often complex transaction. Ensure to enlist help where needed.
- **Information management** – At what stages in the transaction should you provide certain information? And, what information should you hold back? Controlling the flow of information is critical throughout the sales process.
- **Team** – Your team may not have experience in selling a business, and they will still need to perform regular work duties. They may feel overwhelmed, so it's important to have open and transparent conversations about the work involved and the importance of maintaining confidentiality.
- **Cost versus deal proceeds** – When you sell the business on your own you avoid transaction advisory fees, which usually consist of nominal monthly work fees and a contingent percentage fee payable on a successful closing. The percentage depends on the value of the company, and must be weighed against achieving a potentially higher selling price. You need to decide which works best for you and your business.

Hiring a transaction advisor

- **Expertise** – In general, transaction advisors (“advisor”) are experts in selling businesses and negotiating terms with potential buyers to meet seller objectives.
- **Process and information management** – Experienced advisors provide expertise from start to finish, and can create competitive tension amongst buyers, often driving up price and putting sellers in a better negotiating position.
- **Momentum** – Transaction advisors run a tight process and know when to push or delay potential buyers. Advisors spend a lot of time preparing for the sale process prior to approaching potential buyers and they promptly respond to questions and requests. Keeping the deal moving towards closing is critical, as you do not want a potential deal to fall apart due to buyer fatigue from a process dragging on due to unnecessary delays.
- **Buyer universe** – With a seller's input and an advisor's connections and research, you will have a comprehensive list of buyers that the advisor will approach. The goal is to have multiple credible buyers submitting offers to buy your company, which will allow you to maximize your “transaction wants” with competing bidders (i.e., staff retention, highest price, payment terms, transition period, building sale or retention, etc.)
- **Purchase price** – Advisors often claim that the fees they charge are more than covered off by the increased purchase price attained on a deal through hiring an advisor.
- **Appearance** – Engaging a reputable firm to sell your company may be helpful from purely an appearance perspective. Buyers feel confident knowing that the sellers are serious, and information is properly vetted before disclosure to potential buyers.

Many sellers will try to manage a sale process on their own because they are already engaged in conversation with an interested buyer. Sometimes the transaction will close successfully, and other times the process ends with a buyer who walks away and a company that suffers because its owner was distracted by the sales process. Either way, you should ensure you have a thorough understanding of the

work that goes into the sales process with a third-party buyer, and consider a contingency plan if things do not go as planned.

Whether you hire an advisor or not, you will likely need to hire a lawyer to negotiate the purchase and sale agreement. Give careful consideration as to which lawyer you choose, and ensure that you hire a lawyer who specializes in this type of work. An experienced lawyer will know where roadblocks are likely to arise and how to navigate them, while ensuring you are protected and that the transaction closes successfully.

Unsolicited offers to purchase your company

Business owners may be approached directly by potential buyers (or hired business brokers) interested in purchasing their business. Having a plan in place will prevent surprises and avoid making wrong decisions. For more information, please ask your BMO financial professional for a copy of our publication, *Receiving an Unsolicited Offer to Sell Your Business*.

The following are some questions to consider in case you are approached with an unsolicited offer to purchase your company:

- When and how will you respond?
- What information will you provide, if any?
- How will you know if it is a credible offer/buyer? What questions will you ask, and what information will you request to vet the ability of a potential buyer to purchase your company?
- Do you have a trusted advisor you can contact for advice and guidance? This person should have considerable experience in selling a business, including experience and credentials in order to properly advise you on the sale of your business.

Consider the following in determining if your current advisor will be able to assist you, or whether you should engage a transaction advisor, should the need arise:

- Do they have substantial experience working on business transactions?
- If this is your accountant, do they perform work on transactions every day or is this a one-off service offering performed as the need arises?
- Do they have the necessary experience in selling a company in your industry?

Prior to disclosing any information or having detailed discussions with any potential buyer, it is recommended that a non-disclosure agreement is reviewed by your lawyer and signed by both parties. For more information, please ask your BMO financial professional for a copy of our publication, *Non-Disclosure and Confidentiality Agreements*.

Seek professional advice

Selling your business is a complex process and will likely be one of the largest transactions of your life. Carefully consider all of your options prior to rushing into anything. First impressions and preparedness in entering into a transaction are extremely important. Utilize your trusted advisors and ensure that they have the necessary experience to properly guide you in your decision making.

A BMO Business Advisory and Transition Planning Specialist can be a trusted resource in helping to navigate from planning through to the ultimate sale; working alongside your trusted advisors to complete your chosen transition.

For more information, speak with your BMO financial professional.



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