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BABY BOOMERS ADVISED TO PLAN FOR SUCCESSION

- Experts share tips to maximize company value prior to sale -

(TORONTO – APRIL 12, 2006) – Over the next five years approximately 41 percent of small to medium-sized businesses owned by baby boomers will transition to new ownership. Yet, only one third of these business-owners have exit strategies in place according to a report from the Canadian Federation of Independent Business.

The report also states that small to medium size businesses represent 75 per cent of all Canadian businesses and 43 per cent of the country's economic output. Chartered Business Valuators (CBVs) are experts specializing in determining company value based on 'value drivers' and risk assessment. CBVs also help to improve organizational worth prior to sale. Trevor Hood is a CBV and Senior Valuations Manager at SB Partners LLP who offers the following advice:

1. **Evaluate likely successors**: Before creating a plan, determine if the successor will be a family member, management or a strategic buyer such as a competitor.
2. **Focus on business growth prior to sale:** Valuations are based on multiples of earnings or cash flows and growth in these areas translate to higher sale proceeds.
3. **Maximize profit:** While improving growth, re-evaluate any unnecessary or discretionary expenses.
4. **Reduce tax minimization tactics:** Purchasers will only pay for what they see, so if things are buried in financial statements perceived value will be lower.
5. **Develop a good management infrastructure:** Reduce reliance on owners and key management and ensure knowledge is not overly concentrated with a handful of individuals. Document all business decisions and operational systems so the purchaser can make an easier transition.
6. **Diversify customer/supplier bases:** A buyer will not pay as much if the business is dependent on one or two customers because if lost, the company is not nearly as valuable. The same rationale applies to supplier relationships.
7. **Remove all non-operating assets:** These assets, which can include excess cash, investments or personal-use assets, can be sold or transferred into other companies. If not, not only will they possibly not receive their proper value, they may impact on an owner's ability to claim their $500,000 capital gains exemption. To qualify for the exemption, over 90 percent of a company's assets must be considered to be operating assets.
8. **Consider restructuring the company to minimize taxes on sale:** For example, by adding a spouse or family trust as shareholders, additional individuals may qualify for the $500,000 capital gains exemption, thereby multiplying the available exemptions.
9. **Ensure competence of next generation:** During transition to the next generation, ensure that the business will succeed so parents receive full value.
10. **Benchmark the industry prior to sale**: Assess the company's performance and prospects relative to other companies in the industry to help assess the success of the business operations and determine value.

Currently, there are only approximately 1,100 Chartered Business Valuators across Canada who have passed a rigorous set of courses and exams and met lengthy professional experience requirements. The designation is managed by The Canadian Institute of Chartered Business Valuators, which also regulates its members with Practice Standards and a Code of Ethics.

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