Preparing Your Exit Plan

A Guide for Entrepreneurs

Summary

1.

Planning your exit

All entrepreneurs know that they will have to leave their business one day, but too few devote the time and effort necessary for a smooth transition. Did you know that it takes at least three years to develop and implement an exit strategy?

Whether you are considering a family succession or a sale, passing the torch begins with reflecting on your motivations and personal circumstances. With clear goals in place, you will be ready to objectively assess your business: is it ready for a change of ownership? Are your successors sufficiently trained?

2.

Transition scenarios

As an entrepreneur, you have three choices: family succession, management buyout or sale to a third party. Each has its own pros and cons. While a third-party sale process is long and demanding, don’t underestimate the steps you need to take in the other scenarios; skills development and financing will require your full attention.

3.

Properly managing the transition

Transition is not downtime by any means. Rather, it is an opportunity to ensure business continuity, create value and communicate effectively to ensure buy-in from all stakeholders.

You will have a lot of work to do before you can hand the reins over to a new team. You will also need help. But by getting started now, you’ll contribute to the future success of the business you’ve built. What could be more motivating?

Why pass the torch?

What are your motivations?

Creating an exit plan starts with introspection.

Do you feel the need to leave? Will you still be as driven and healthy in three years? How about in five years? If you are used to being in the thick of things, take a step back to review your state of mind. Understanding your motivations will allow you to prepare your roadmap and establish a harmonious climate during the transition.

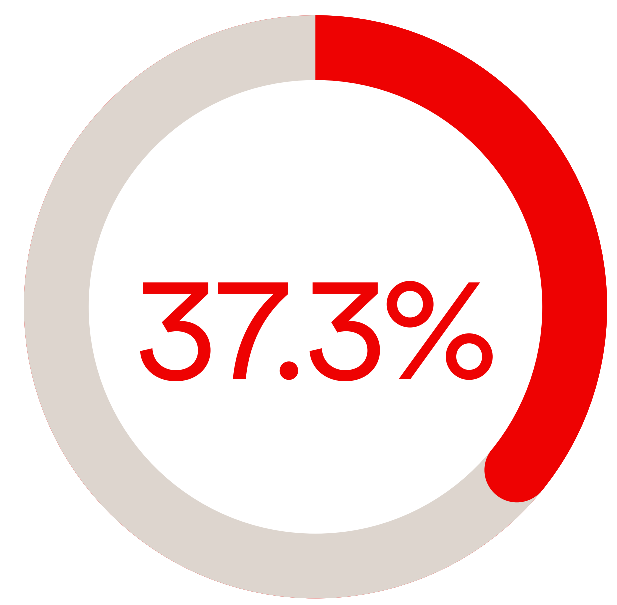
Whatever your situation, don't rush. A successful transition takes time.

Everyone has their own trigger for an exit. Here are some common ones:

- It's time to hand over the reins.
- I want to take care of myself and my loved ones.
- My partner wants to buy my shares.
- My health is an issue.
- I want a transfer that ensures sustainability.
- I've received an offer.

A question that needs to be asked

Succession issues will affect many Canadian businesses in the coming years due to an aging population.



of entrepreneurs were over 55 in 2023

Source: Statistics Canada, Labour Force Survey, October 2024

An exit plan is often considered, but rarely prepared in detail.

of entrepreneurs have a formal written succession plan in place

Source: Canadian Federation of Independent Business

Assess your personal goals

While emotion is a key factor, selling your business also requires a pragmatic approach.

Take time to set your expectations during and after the transaction, both from a financial perspective and for your day-to-day involvement.

Time

What role do you see for yourself during the transition? Do you want to start gradually? Keep some cases? Or do you want to simply move on?

Value

How would you value your business? It is important to understand that the value you have in mind may not equal actual market value.

Income

What lifestyle do you want to maintain after the transaction?

Are these expectations realistic? Feel free to call on experts for an objective opinion.

Expectations vs. reality: Post-transaction personal financial needs

What is the business value that will allow you to secure the lifestyle you want?

Expected value

Is your business worth what you think it is? A professional valuation establishes transactional value.

Current salary

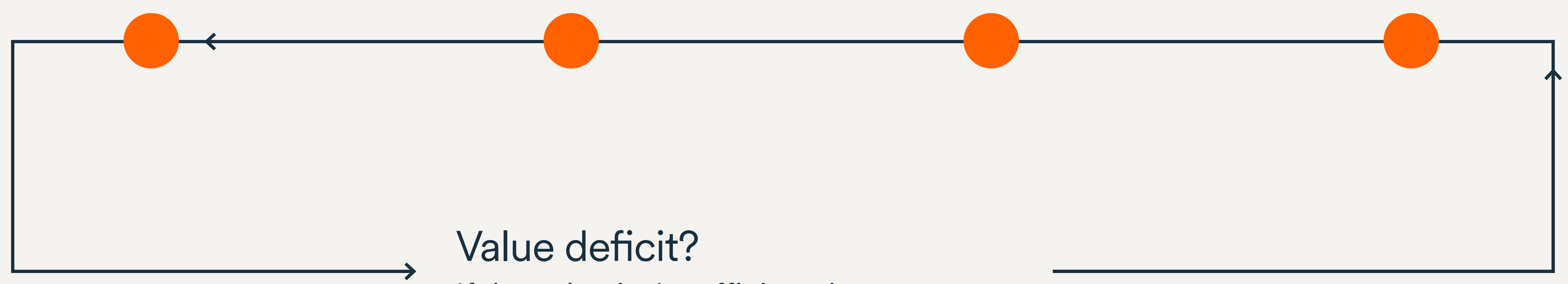
To what level does your company contribute to your current financial situation? How much will you need after the transition?

Pre-tax value of your business

The true value of your business before taxes as a result of this sale.

Net value after taxes

The economic value after any tax considerations.



Value deficit?

If the value isn't sufficient, how many years do you have to postpone your project?

Estimate your readiness level

You've made your decision and set your expectations. But what are the chances your project will succeed? To find out, be prepared to analyze your stakeholders' situation in depth.

Will your business be able to withstand the changes caused by a transition?

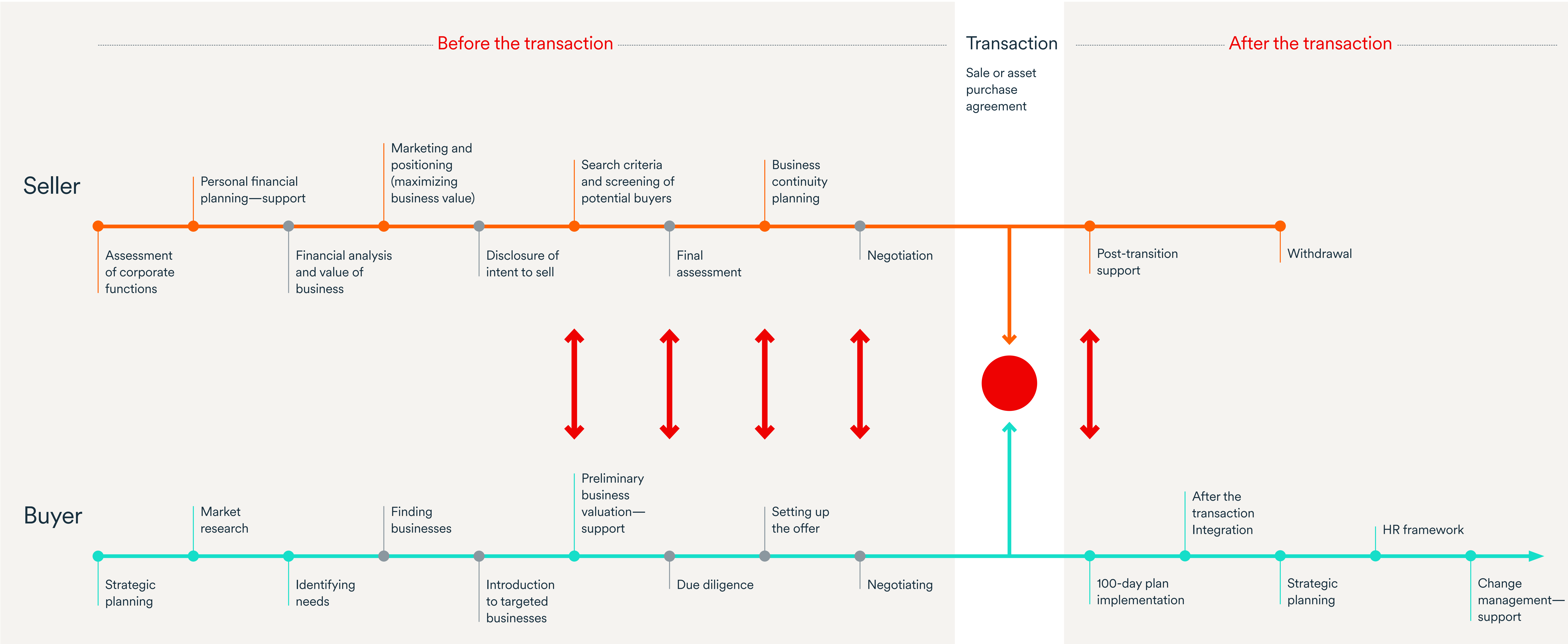
- How is your company performing? Can it thrive in the current economic environment?
- What is its market positioning? Can your business outlook attract potential buyers?
- Are the assets of the business transferable? Do you need to change its corporate structure?
- Does your exit schedule give you enough time to put the necessary measures in place?

Are your successors ready to take over?

This is particularly the case in succession and management buyout cases.

- Have the roles and responsibilities of key staff for the transition plan been established?
- What is the new management team's level of tolerance to risk?
- Is the business too dependent on you?

Understanding the transition process



The typical transition journey lasts over three years and extends beyond the transaction itself.

Having the right people

You shouldn't hesitate to reach out for help to navigate your transition process. Transitioning is a team effort! Who can you turn to at each step?

Preparation

- Tax expert: strategies to minimize fiscal impact
- Lawyer: corporate structure and reorganization

Assessment | Strategy

- Business advisor: transition process, mergers and acquisitions
- Expert accountant: optimal financial statement presentation
- Business valuator: enterprise value determination

Transition | Transaction

- Business advisor: negotiation support
- Lawyer: advice for negotiations, document preparation
- Financial planner: managing your investments

Increasing the value of your business to better sell it

The market value of your business is affected by several factors, including your industry and economic conditions, over which you have little control. However, you can influence other factors that impact your company's valuation.

Tangible valuation factors

The focus here is on showing sound financial health and market positioning through ratios.

- Financial performance:
  Earnings before interest, taxes, depreciation and amortization (EBITDA) is a key figure in determining your market value.
- Cash flow:
  Indicates your ability to finance your own growth and investments.
- Revenue recurrence:
  Regular revenues limit the perception of risk.
- Excessive dependency:
  Too much concentration, both from customers and suppliers, can erode your value.

Intangible valuation factors

These factors are just as important, as they differentiate your business and reveal its ability to grow

- Financial function:
  Is your accounting clear and efficient beyond simple numbers?
- Market positioning:
  Is your business strategy optimal?
  Does it help you stand out across markets?
- Operational excellence:
  Is your know-how proven?
- People:
  Are your teams strong and their responsibilities clear?
  Is the business too dependent on you?

New valuation factors

- Information technology:
  Do your current IT systems need an upgrade?
  Do you have a data and AI business strategy?
- ESG positioning:
  What is your carbon footprint?
  Do you have an action plan?
  What is your social commitment?

Read our *Business Valuation* guide to learn more.

Finances and operations: How to showcase your rigour and effectiveness

Some good habits will help you make your business more efficient, while increasing its value.

Strengthen your financial function

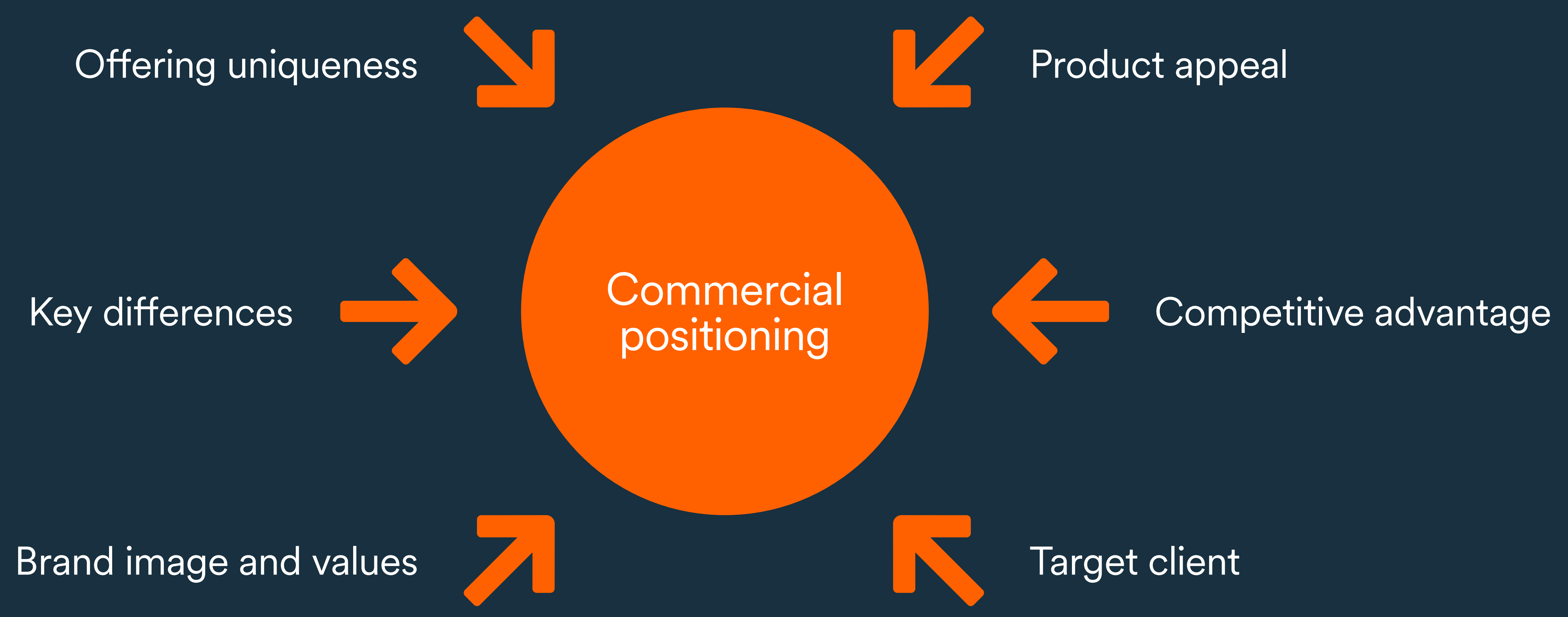
- Establishing rigorous and consistent accounting practices, while complying with applicable standards, ensures a better interpretation of your company's profits. Outsiders should be able to easily understand it, with the main expense and revenue categories clearly defined.
- Prepare dashboards for each major business category, which will quickly illustrate the positive developments you want to promote.
- You must have a financial history that can be easily analyzed for at least the previous three years.

Strengthen the quality of your operations

- Are your clients happy? Aim for a level of quality that generates little to no complaints.
- Make sure you have the capacity to increase production.
- Identify and address sources of waste and implement a continuous improvement approach.

Business positioning and human resources: Building on your strengths

Business strategy: focusing on different areas to stand out



Your business will gain in value by:

- developing a dominant commercial position in at least one of its market segments
- offering unique and innovative products
- relying on direct and intermediary sales
- avoiding any strategic dependence upstream and downstream
- holding a lucrative niche with the potential for expansion
- building a structured and well-managed sales team

The human factor: A strong leadership team, skilled employees

Don't underestimate the importance of your team. They are the ones who will support your transition plan.

- Your business must not depend on just one person. Building a decentralized management structure or making room for shareholders in the decision-making and operating process enables you to gain market value. You may want to consider, for example, establishing an advisory committee or a board of directors if you want to open up your capital to minority shareholders.
- Build strong business and operational teams. Be sure to clearly define the roles and responsibilities of your team members.
- Establish a dedicated human resources department that manages performance and has operational data. A weak HR function can pose a risk to buyers.

What are your options?

In terms of transition, there is no standard solution. It's up to you to define the formula that reflects your situation and priorities, and then make the right changes in your business.

You have three options as a business owner:

Succession to one or more family members

Buyout by management or through an employee stock ownership plan

Sale to a third party

- Whatever you choose, approach it as a multi-step process—the transition does not begin and end with the transaction or strategic planning.
- You need to consider all of the elements required for a smooth transition, including the terms of sale, the definition of stakeholder responsibilities, as well as your exit schedule.

Family succession: A rewarding solution that requires good planning

Pros and cons

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Passing the torch to the next generation is exciting for many entrepreneurs, both for the sustainability of their business and their pride as parents.

Internal succession also makes it possible to streamline legal and administrative procedures. When done well, it facilitates business continuity.

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Financing a succession sale is often one of the tricky parts of family succession. Owners may have to agree to spread payments over several years or only sell part of the business.

What steps should you take before your exit?

Who in your family will succeed you? Sometimes, entrepreneurs have to choose between several of their family members. If so, take the time to have a group discussion to explain your decisions.

After deciding who will take the reins:

- Identify priority roles and people who have the potential to take on more responsibility after you leave. Explore their career aspirations.
- Develop the skills of those taking on new roles, including your successor.
- Create an action plan for new leaders.
- Estimate when transitions may occur and integrate it into a timeline.
- Manage change: Make the necessary changes within your organization to meet the needs of the transition plan and ensure buy-in.

Management or employee buyout: Building on continuity

Pros and cons

Most of the time, the management team takes full control and ownership of the company, relying on its expertise to develop it. Based on mutual trust, this internal solution makes it possible to simplify the process and reassure staff and business partners.

As with family succession, the issue of financing requires planning and collaboration among owners, who may have to accept multi-year payments to bridge the gap between financing capacity and price.

Good to know

- By engaging in discussions for an executive buyout, you risk losing key management team members if the project does not succeed. The choice of shareholders who will take over the business is crucial, and it must also convince the financial partners that will fund the operation.
- Even if the new leadership team knows the business, don't overlook the operational transition. This includes building relationships with customers, suppliers, financial institutions, etc. Focusing on skills development in the years leading up to your departure is also a good idea.
- Even if you work together daily, future shareholders must demonstrate a concrete commitment by raising funds and producing a formal letter of intent. For your part, have the value of the business assessed.
- While the company's usual financial institution is often involved in this type of buyout, it is not uncommon for a private equity fund to invest in the business to make up the equity balance.

Selling to a third party: A lucrative, but demanding process

Pros and cons

Financing the sale is not an issue. Your future income is guaranteed and you can have peace of mind and move on more easily.

The process is longer and more segmented than with an internal succession or buyout. In addition, the economic environment plays a major role in the sale's outcome. This option can also be emotionally difficult as you will not have the power to protect what you have built, nor guarantee the employment of your current teams.

Adopt the right attitude

- Be transparent by sharing relevant information.
- Build trust through clear, open communication, which will also facilitate negotiations.

Transition plan: From diagnosis to action

The transition plan begins with a diagnosis, which identifies gaps, to establish a roadmap including key steps over several years to complete the exit.

Transition plan

For family succession or internal buyout

In this case, the seller and the buyer (children, managers, etc.) work together to prepare the company for future success, with particular attention paid to skills.

Examples of actions:

- Redefine the company's organizational structure
- Validate roles and responsibilities
- Build professional development plans
- Recruit externally

For a third-party sale

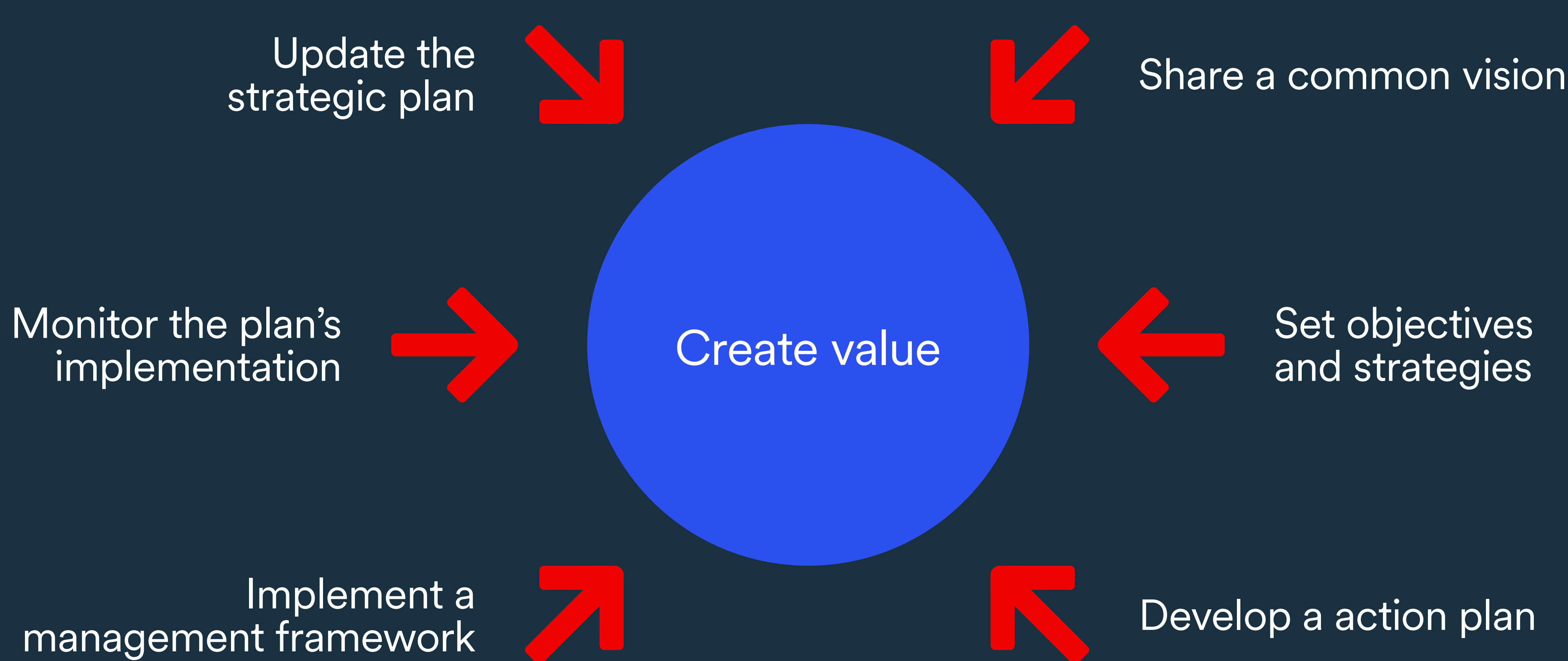
In this case, the objective consists in strengthening the organizational framework and increasing the value of the business to prepare it for sale.

Examples of actions:

- Work as a team to implement a management model
- Develop a communication structure
- Implement or update a strategic plan

Ensure business continuity

Value creation takes time: reflection, planning and execution



During the transition, a strategic plan ensures business continuity.

Don't have a strategic plan? Start by working on a shared vision and goals.

Once you've set your goals, move on to execution.

It's now time to align your organization to your goals.

Make the transition easier: State executives' new roles and responsibilities. Clarify the decision-making process.

Define performance indicators (dashboards, management information) that will allow you to monitor progress and evaluate results.

Communication is the key!

A change in ownership often leads to uncertainty and even anxiety within the company and among its partners. Focus on transparency and consistency to reassure them.

The objectives of the transition communication plan are to:

- Foster buy-in from all stakeholders
- Emphasize the transaction's strategic compatibility
- Demonstrate potential benefits to both staff, customers and supply chain businesses
- Improve business visibility

Communication tools

- FAQs (frequently asked questions)
- Press release(s)
- Transition timeline
- Social media posts

Keep investing

The prospect of an impending exit could lead you to reduce or even suspend your investments. This would be a mistake that could drastically reduce the value of your business. Whether you've opted for succession or a sale, making targeted investments during the transition will help you in many ways.

Why is it important to maintain valuation efforts for your tangible and intangible assets?

Maximize business value

- Improve performance metrics
- Optimize processes
- Increase profitability

Ensure sustainability

- Train the new management team
- Implement a continuity plan
- Manage risks

Maintain competitiveness

- Retain talent
- Attract potential buyers
- Increase the perceived value of the business

Prepare successors

- Ensure a smooth transition
- Ensure the business continues to operate effectively under new leadership

Meet buyer expectations

- Prove that the business is healthy and ready for a successful transition

We're here to help

In addition to financing, BDC offers a coaching service to business owners. Our experts can help you develop a transition plan to smoothly hand over the reins.

- Find out how we can help you transfer your business.
- Discover how we could help finance your transition.

For more information, contact us or visit your nearest BDC business centre.

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ISBN : 978-1-990813-78-8
EB-PREPARINGEXITPLAN-E2507

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