Ensure Your Business is Always Exit Ready

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Preparing to exit from your business is similar to the process of preparing to sell your house. Your house is more than a roof over your family's head; it is your home and forms part of your identity. Building or purchasing a house is an investment in your family's future. Each year you invest time and money into your house to maintain or increase its value through general maintenance, repairs, and improvements or additions. Your business is the same, whether you built it from a start-up or purchased it as an investment for your family. It requires annual maintenance and investment to maintain or grow in value.

Working on your business requires an understanding of how it is valued, the value drivers and detractors, and the inherent risks. Every business owner will eventually transition their business, so it is prudent to continually work on the business in a proactive and focused manner with the view of continuity and value maximization. This article explains exit planning and three important elements to take into consideration for a well thought out exit plan and also includes a Business Exit Planning Checklist.

Exit planning is good business strategy

Regardless of the transition timeframe, it makes good business sense to always be prepared to exit. Being "exit ready" mitigates business and personal risk. It also ensures a business is in its most valuable state should a transition arise at an unexpected time. This may be due to unforeseen personal events, business and market risk factors or the receipt of an opportunistic offer to sell.

Exit planning involves risk mitigation, continuity planning throughout the organization, a focus on growth, and striving for (unattainable) perfection due to a constantly evolving marketplace and goals. Always being exit ready allows you to weigh various keep or sell options and adjust contingency plans, as required.

A transition plan, in conjunction with legal documents such as Wills and unanimous shareholders' agreements, outlines all the business, personal, financial, tax, estate, and legal items involved in transitioning a privately owned business. It includes contingencies for illness, burnout, disability, divorce, distress, disagreements, and death.

From a business perspective, where do you start? Review, assess and improve your capital accounts by considering the following:

Structural Capital – Do you have defined processes and policies, as well as business and strategic plans? What about technology, systems, and intellectual property?

Human Capital – Have you identified and prioritized A, B and C employees through talent and skill set assessments? Do you have key employees who hold knowledge and experience in your business? If so, are they engaged and compensated appropriately to retain their expertise?

Customer Capital – What is your customer concentration risk from a revenue perspective? Who manages important client relationships? Is it just the owner or are there others who can step in as required?

Social Capital – What is your brand and culture, both internally and externally?

Lack of work being done on exit plans

Research shows that having a transition plan is normally viewed as important for business owners, yet the majority have not done any formal planning and have no written plan. Here is some reasons why this may be so:

- Don't know where to start;
- Don't feel they have time to put in the work;
- More pressing items or procrastination;
- Don't want to exit, so don't want to think about the plan or do the preparatory work; and
- Makes owners face fears of the unknown (retirement or death).

Benefits of exit planning

Consider these benefits of exit planning:

- Business risk reduction: common business risks include over-reliance on owners' roles, undocumented processes, undocumented policies and procedures, customer concentration, supplier concentration, legal contracts, key employee departures, technology changes or underinvestment, key industry shifts, and no written contingency plan.
- Creation of a more saleable business: by reducing business risks, a business may become more saleable and valuable.
- Improved culture and employee morale: engage management and employees with a focus on strategic initiatives.
- Protect business value and ultimately, family net worth
- Minimize tax and clarify estate planning.

Exit planning has three elements

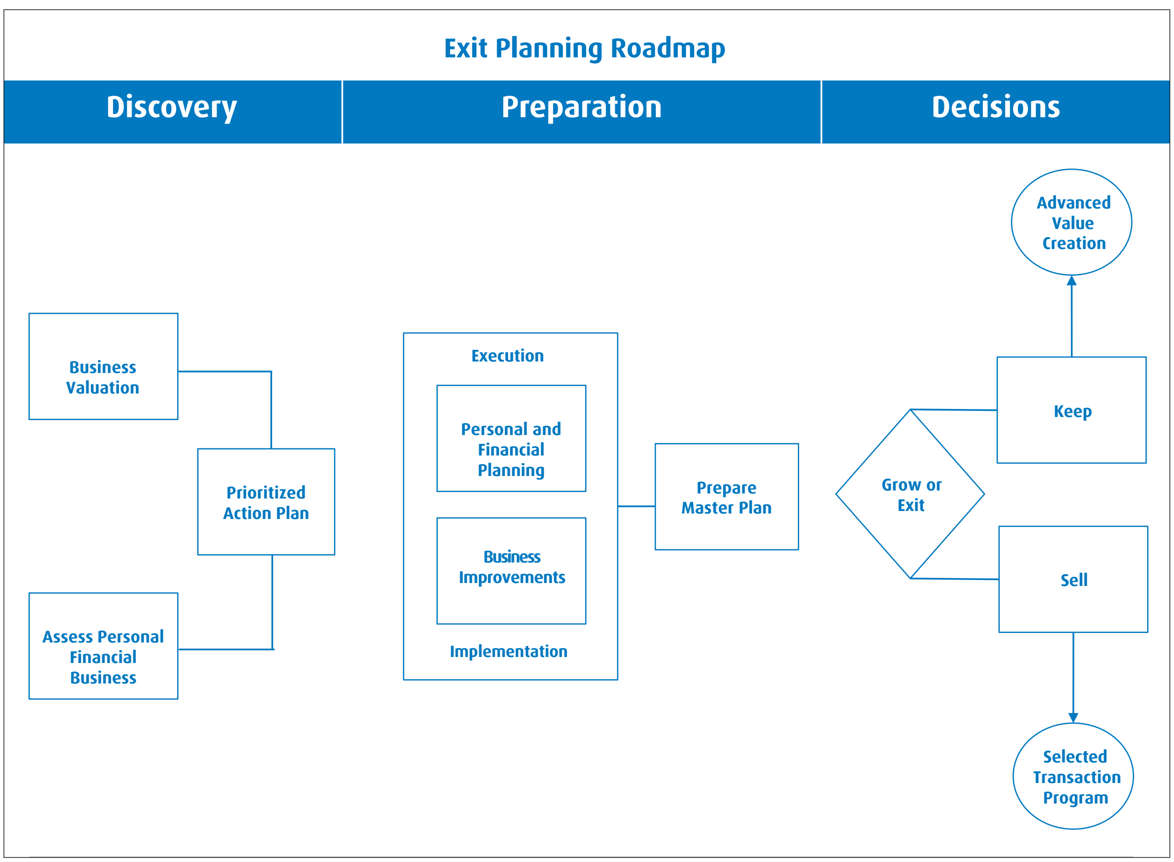
Think of exit planning as a three-legged stool:

1. **Business** - Maximize transferable value
2. **Financial** - Ensure owner is financially prepared
3. **Personal** - Ensure owner has a plan for what is next

Planning and execution on all three can lead to informed decisions and better outcomes.

1. Business – Maximize transferable value

- **Hire a Chartered Business Valuator ("CBV")** to complete a formal business valuation report to understand how your business is valued, what the current value is, and identify risk factors that may be mitigated.
- **Review corporate ownership structure** for transition and tax efficiency based upon your goals and objectives.
- **Identify management and key employees** to form a business improvement team.
- **Brainstorm critical areas of the business that need de-risking** (total estimated time needed – 6 to 12 months):
  - De-risking is a one-time phase that builds processes and procedures to achieve goals. This phase builds team unity and forms a foundation for success when moving onto strategic goal identification and execution.
  - Note, team morale may be at the lowest during this phase due to additional accountabilities and lack of corporate growth. De-risking achievements may be less fulfilling than achieving tangible organizational strategic goals. Recognize this from the outset and manage expectations.



- **Undertake de-risking** to address any gaps identified during brainstorming (areas that could affect a smooth transition and reduce business value).
- **Identify top strategic business goals** and execute (total estimated time needed – 12 months):
  - Executing on strategic goals is about building business value. This is a continuous process of setting goals and execution. The more experienced your team becomes, the better the outcomes.

The goal is to create a culture of relentless business improvement.

2. Financial – Ensure the owner is financially prepared

- Complete a comprehensive wealth plan. BMO Private Wealth has experienced wealth planners across the country that focus on this work to help you.
- A wealth plan will incorporate all your personal and business assets, make certain assumptions, and provide clarity around how much income is required to meet your lifestyle needs in retirement. If there is a gap between projected income and lifestyle spending needs, personal and business adjustments may be required.
- The plan will incorporate the estimated value of your business, transition timeline, and associated taxes and fees.
- This process should be started at the same time as business planning (i.e., the first element mentioned above) and should take approximately one to two months depending on the complexity of the plan and capacity of the financial planner.
- Update this document every three years, or if a significant change warrants updating sooner.

3. Personal – Ensure the owner has a plan for what's next

- This is often the most overlooked area of exit planning but is critical to a positive outcome.
- Owners should consider spending time and energy thinking about life after business transition and figuring out what that plan is for themselves.
- Note that there are no hard and fast rules when it comes to transitions; some may be quick and have significant change, while others may be slow and include a more gradual phase out of the business.
- If owners do not plan for what is next, they run the risk that the transition may result in negative outcomes such as feelings of regret and remorse, aimlessness, or depression and can lead to bad habits.
- There are consultants that focus strictly on guiding retiring executives and business owners as it relates to their personal lives and finding "that something" to look forward to, creating a passion for the next chapter of their life.

Alignment and accountability

- Plans are created with the best intentions; however, most plans are never actioned beyond the planning stage. Some reasons for this are a lack of alignment in planning, insufficient execution plans, and no accountability in the process.
- Execution requires alignment on vision and goals. These should be created by the team and include accountability measures to track progress.

Seek professional advice

A BMO Business Advisory and Transition Planning Specialist can be a trusted resource in navigating critical and difficult conversations as they relate to your exit plan.

For more information, please speak with your BMO financial professional.

Business Exit Planning Checklist

Your exit plan requires a roadmap with a team of internal and external professionals to guide the process, execute on priorities and ensure an integrated and coordinated approach. Starting early will enable you to break down the process into manageable pieces so that you can take the necessary time to prepare. Take the following into consideration and speak with your BMO financial professional to address them in more detail:

Business

☐ Define values, vision, and purpose;

☐ Establish goals and objectives (short and long-term);

☐ Provide recommendations for Chartered Business Valuators to perform a valuation;

☐ Review your business valuation and discuss your strengths, weaknesses, opportunities and threats ("SWOT") and include capital accounts identified earlier;

☐ Review corporate ownership structure for alignment to your goals and tax efficiency;

☐ Establish a team of professional advisors and business improvement team;

☐ Determine timeline to retirement or exit;

☐ Have succession, transition and continuity discussions with key stakeholders;

☐ De-risk and make required improvements – to ensure accountability and create a timetable; and

☐ Review suitability of business structure (ongoing).

Financial

☐ Complete a comprehensive wealth plan through your BMO financial professional to identify areas where you are well positioned to achieve your goals and areas that will require attention;

☐ Complete a diagnostic of cash flow, net worth, tax, estate, insurance planning with your team of advisors, as required; and

☐ Ensure alignment between personal planning (Wills) and business planning (shareholders' agreement and business succession plans).

Personal

☐ Take time to become comfortable with your new identity – explore ideas and possibilities;

☐ Determine what the next chapter looks like (passions, interests, family, philanthropy, angel investing/mentoring, board member – determine how you will spend your time);

☐ Have essential conversations with stakeholders – who is involved, impacted; and

☐ Address the non-financial implications of a life transition.

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