

LEGACY MATTERS

Exit Right - Strategy and Preparation Key for Business Owners

Things to look for when planning to sell or pass along the family business

by Josephine Nadel, B.A., LLB

A study conducted by Canadian Federation of Independent Business shows 41 percent of current business owners plan to step aside within five years, and 71 per cent say they will be retiring within 10 years.

Only about a third of these transitioning have given any real thought to who will take over. And even among the minority who have pondered this issue, most have neither discussed it with their chosen successor nor drawn up any kind of formal succession plan.

As critical as it is to build the business, it is equally and perhaps even more important to plan a timely and appropriate exit strategy. In planning this strategy, there are a number of alternatives available to be considered along with the objectives and goals of key family stakeholders, tax minimization, and availability of a successor.

Guiding Principles

In formulating an exit strategy/succession plan, the following principles should be adhered to:

- ensure founder's financial security after transition;
- articulate the family's values and mission and develop forums for discussion to foster harmony and synchronicity among stakeholders and family; and
- develop a proper estate plan - a plan which deals with ownership of the assets and safeguards them from taxes.

"It requires a great deal of boldness and a great deal of caution to make a great fortune; and when you have got it, it requires ten times as much wit to keep it."

Meyer A. Rothschild

Consider the alternatives for your business - What is the starting point?

Firstly, you may wish to clarify the goals and objectives of family members, both those who are active and non-active. Then you may wish to hold family meetings to allow the family to reach agreement on the option ultimately chosen. Once the alternative is selected, the planning begins:

Relinquish Management but Retain Ownership - requires competent and experienced management whether it is an existing employee, family member or new recruit;

Sale of the Business - management buy-out ("MBO") or sale to outsider: Under this option the owner may need to finance a portion of the purchase price. In this case, appropriate security would be granted in favour of the owner, although this may rank behind the buyer's senior lender's security/charge. In any sale, the Vendor must provide representations and warranties and the Purchaser undertakes a due diligence process. Both aspects are usually less onerous in an MBO than a sale to an outsider.

Sale to a Third Party - the purchaser may be a consolidator, independent financial buyer or strategic buyer. Accessing the \$500,000 capital gains exemption on a sale of shares of a "Small Business Corporation" may reduce the tax burden significantly.

Inter-generational Transfer - Transfer to children or grandchildren - tax considerations are key. Undertaking an estate freeze and utilization of a family trust structure may make it possible to

transfer ownership and participation in future growth to the next generation on a tax-deferred basis.

Whatever option you select, determine your objectives:

- maximizing total value or price;
- maximizing cash received on closing;
- desired retirement age or freedom to pursue a new venture;
- securing long or short-term employment; and
- receiving a cash infusion to expand or improve current business.

Factors You Control and Factors You do not Control

Remember in transition planning - you can control certain factors, not others. The process and selection of options and type of exit strategy are within your control. Factors you don't control include: death, disability, illness, marriage breakdown and, in some cases, franchise termination, brand disappearance, market shifts and legislative changes. You never know when the need or the opportunity for a sale may arise. Contingencies, which are unpredictable, may cause you to consider a sale earlier than you had planned.

Action Plan - Prepare the Business for Sale or Transition:

- prepare a business plan with projections
- prepare a SWOT Analysis (Strengths, Weaknesses, Opportunities and Threats)
- prepare a brief description and summary of your

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A Word from the Chair

Lorraine Cunningham, Business Families Centre



Spring is the season of change and this is certainly true for the Business Families Centre! It is with pride that I officially accepted the position of Chair of the BFC Board of Advisors at their April 3rd meeting. In this period of transition for the BFC after the exceptional leadership of David Bentall, I look forward to the continued support and advice from all constituents of this truly wonderful entity. I know that by continuing to provide top quality educational programming and events, we are moving rapidly towards realizing the full vision of the Business Families Centre that was established only five short years ago.

The other momentous change that occurred this past April was that the administration of the Vancouver Chapter of the Canadian Association of Family Enterprise was taken on by the Sauder School of Business. The long and productive association between these two organizations is sure to develop into even more valuable programs and services for families, researchers, and advisors. We are busy developing both the short and long term educational and social activities that will occur as a result of our combined effort in this area.

In this regard, the staff and I are very interested in your opinions. You will see various initiatives over the summer to gather your input and opinions about potential programming activities for the 2006 / 2007 season. Please take the time to provide your feedback regarding both BFC programming and CAFE activities and services. Although we can't guarantee that we can implement all ideas immediately, we will do our best to design a rewarding set of activities to meet the needs of our diverse stakeholders.

The Spring also brought with it a fantastic evening of insight and social interaction at the fourth annual Family Legacy Series dinner, this year featuring Ted Rogers. The great success of this event is due to many people and is a testament to the valued service provided by the Business Families Centre and its supporters. Thank you to everyone involved in this wonderful event!

As we transition into the Summer and the Centre activities are winding down, I hope that you enjoy the updates and views in this newsletter and that it provides some insight and guidance for your family. I also look forward to September and to another great season of business family programming.

Lorraine Cunningham - Chair, Advisory Board

Continued from Page 1

- business and industry
- ensure your financial statements are audited or at least reviewed
- financial statement presentation may involve normalization of earnings and such things as eliminating inter-company loans and extraordinary management bonuses
- structure of sale - assets vs. shares - a buyer may prefer a purchase of assets rather than shares due to the fact that liabilities of a corporate vendor do not affect the business (eg. latent income tax liabilities) and it is likely to produce greater tax shield for the buyer due to greater base or value against which to claim capital cost allowance (depreciation)
- prepare a management development and succession plan
- prepare employment contracts to formalize relationships with key management and executives
- ensure third party contracts (customers and suppliers) are in place and assignable
- ensure intellectual property is protected through patents, trademarks or copyrights
- business documents, records and contracts should be organized and accessible
- ensure that disclosure of proprietary information and processes is monitored closely and that all prospective buyers sign non-disclosure and confidentiality agreements
- ensure that approvals and consents are identified and where appropriate relevant parties have been approached e.g., minority shareholders/partners, trustees, creditors and regulatory authorities
- eliminate or transfer redundant or extraneous assets
- coordinate legal, accounting, tax and financial advisors.

Valuing Your Business

It is important to be aware of the realistic value of your business by reviewing industry comparables and applicable valuation approaches, for example, multiples of earnings. In the current climate there is a strong appetite and keen interest in quality enterprises, thus, enhancing value for sellers. Low interest rates, available capital and pools of private equity are contributing to attractive pricing for sellers.

Begin with the End in Mind - When preparing for a sale or transition do so with your strategy and your prospective buyer or successor in mind.

Josephine M. Nadel, is a partner in the Vancouver office of the law firm of Borden Ladner Gervais LLP. Josephine is also Chair of the Professional Advisory Committee of the Business Families Centre.

Join a Personal Advisory Group (PAG)

A PAG is a group of 10-12 individuals, each from a CAFE member company, who agree to meet regularly to share personal and business ideas and help each other overcome problems. It provides the group's members with expert, objective and intimate advice in an atmosphere of mutual trust and support. PAG's are open to all family members who are active in the business.

This highly successful program is designed to help our members gain new perspectives and better understanding of the challenges of family business, to share experiences and to seek information.

Contact us to find out how you can join a PAG.



Business Families Centre forms Alliance with CAFE BC

Do you or your family own a family business? Are you prepared for ownership transition to the next generation? Do you or your family have adequate governance, ownership or family support to face the unique challenges involved with family enterprise?

The Canadian Association of Family Enterprise (CAFE) is a not-for-profit national organization established in 1983, dedicated to promoting the well-being and understanding of families in business. Through a stimulating program of social activities, educational programming, and peer support, CAFE provides the best source of assistance, information and professional advice distinctly designed for family business.

There is no need to act in isolation. The statistics are clear - 70 percent of family businesses do not survive the transition to a second generation; 90 percent do not make it to a third generation. CAFE has become a powerful resource for families wanting to overcome these challenges and beat the odds.

As of April 2006, the Business Families Centre is proud to provide programming and administration of the CAFE Vancouver chapter and will be working over the next few months to integrate programming and services for our collective audience.

CAFE also provides services and programming for advisors to business families. Find out more about the many benefits to joining CAFE as either a family member or as a family advisor, contact the Business Families Centre.

2006 FAMILY LEGACY SERIES FEATURING TED ROGERS

CAFE MEMBER UPDATE

Last May, guests at the fourth Family Legacy Series dinner were treated to a Canadian business icon's first speaking engagement in Western Canada.



Ted Rogers and Philip Lind

On May 18, Rogers Communications President and CEO Ted Rogers addressed a sold-out crowd at a fundraiser for the Business Families Centre. After a short film profiling the company and its founder's history, Mr. Rogers was joined by Vice-Chairman Philip Lind and moderators Philippe and Nan-b de Gaspé Beaubien.

After his father's untimely death at age 38, Mr. Rogers assumed his legacy when the eight-year old boy's mother told him his job was to guide the family back to the Communications business. After co-founding Baton-Aldred-Rogers Broadcasting at age 26, Mr. Rogers set a demanding personal pace and redefined Canada's communications industry.

"The founder [of a business] never wants to give up," he said.

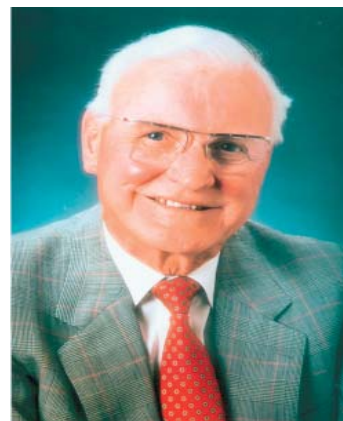
Mr. Rogers discussed his family member's role - from his "tough as nails" mother to his wife Loretta, who was named to the board immediately after their marriage. He spoke of the difficulty of balancing his desire for his children to join the business against their personal aspirations, and the challenge of keeping a family together over generations.

Every family business needs a trusted advisor, and for Ted Rogers, that advisor is Philip Lind, who spoke about establishing relationships between a family business and its eventual successors, and the importance of institutional knowledge. "Always give advice on what you think is right, not what you think he wants to hear," he said.

The evening concluded with the presentation of a cheque for \$25,000 to the Centre by the Rogers Group of Companies

In the words of Ted Rogers, who becomes an honorary fellow of the Sauder School of Business next fall, "If you're going to donate something, do something long-term that's going to last," he said. "We have an emotional commitment to education."

Thomas Foord, founder of Kal Tire, has been inducted into the Business Laureates of British Columbia Hall of Fame.



The Business Laureates of British Columbia Hall of Fame recognizes BC citizens who have shown a vision unique amongst their peers, provided leadership to move others to achieve their goals, demonstrated integrity throughout their lives, and built a legacy in this province that will enrich all those that follow. Junior Achievement of BC sponsors this annual award and inducted Tom Foord into this prestigious group at a recent event this past May.

Tom, a resident of Vernon, BC since 1945, is an unselfish community volunteer and an exceptional business leader. His company, Kal Tire, is the largest independent tire dealer in Canada. Founded over 50 years ago, it has expanded to provide service to BC's forestry and mining industries. Kal Tire has been a CAFE BC Member since 1998.

Congratulations Tom!

Do you or your family have great news to share with BFC and CAFE community? Submissions are readily accepted for review.

Board Members - The following people have generously donated their time and leadership to our success

Business Families Centre Advisory Board

Lorraine Cunningham, BFC Board Chair - The Cunningham Group
Michael Bentley - M64 Management Inc.
Katherine Bright - Sauder School of Business
Dr. Robert Helsley - Sauder School of Business
Dr. Nancy Langton - Sauder School of Business
Dee Miller - JJM Group

Christine McDermott - Muscular Dystrophy Canada
Michelle Ong - Keefer Holdings
Dr. Marc-David Seidel - Sauder School of Business
Peeyush Varshney - Varshney Capital Group
Rick Wagner - Maxwell Floors
Garry Zlotnik - ZLC Financial Group

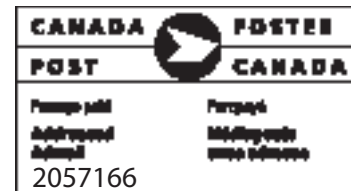
Canadian Association of Family Enterprise - Vancouver, Board of Directors

Marty Zlotnik, CAFE Chair - ZLC Financial Group
Charles Flavell - Purdy's Chocolates
Nina Henriksen - Toucan Properties

Georgia Marvin - Spruce Products
Kelly Peterson - Preferred Service Customs Brokers

Rick Wagner - Maxwell Flooring
Ted Zacks - Greenbrier Holdings

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Campaign For Tomorrow

To reach the next level of academic excellence, the Business Families Centre has embarked on a major campaign, a \$5 million initiative for the Sauder School of Business. The theme of the fundraising campaign is the "Campaign for Tomorrow" and is driven by a list of approved, academic, research, and programming priorities.

Family enterprise is at the heart of Canadian business, and these same enterprises in Canada will face unprecedented transitional challenges in the next decade. The transfer of wealth and leadership from one generation to the next is a complex task for business families, and succession is not an easy process due to the intrinsic and unique issues facing a business family.

The vision of the Business Families Centre is to provide real-world preparation for the next generation of family business leaders that is based on solid research, critical thinking, and an uncompromising dedication to the ever-changing needs of business families. The purpose of the Centre is to offer education opportunities, conduct research, and provide resources to help business families prosper into the future.

There are three key pillars to the Business Families Centre's strategic plan:

- Relevant research
- Academic growth
- Public education

The Business Families Centre *Campaign for Tomorrow* seeks a community investment of \$5 million and our appeal is instep with this initiative.

Results To Date

As of June 1, 2006, we have committments of \$1,550,000 from organizations, individuals, and foundations towards our campaign goal (a \$1,000,000 lead gift from CIBC, raised to establish *The CIBC Professorship in Business Family Studies*, is included in the \$1,550,000).

For more information about investing in the future of family business, please contact us.

Call for Submissions

Legacy Matters is always interested in news, articles and ideas from business families and their advisors. If you would like to contribute in anyway please contact us with your ideas.

Road Map Program

Navigating the Business-Family Relationship: The Road Map, is designed to provide business families with a transformational experience that helps all family members - whether they are involved in the business or not - to develop the insight and abilities to contribute to a more successful and cohesive family enterprise. This intensive seminar focuses on relationship and communication issues unique to the family business and does so in a safe environment that has proven successfull for families from across Canada. You'll engage in thought-provoking discussions and interactive video-case analysis, share ideas with other business families, and learn from the experience of experts in the family business field.

Road Map Part One
Vancouver, BC
September 15-17, 2006

Instructors:

Dr Nancy Langton, Professor, Sauder School of Business, University of British Columbia

David C Bentall, Adjunct Professor, Sauder School of Business and President, Next Step Advisors

Learning Outcomes:

- Examine new ways to handle the unique challenges of the family business enterprise
- Create an action plan to build on strengths and address weaknesses in your family business
- Develop communication skills that will help you negotiate family conflicts and reach a consensus
- Create a long-term plan for change and growth in your family enterprise
- Learn to identify and separate business from personal concerns
- Identify and assess issues within your own family business
- Explore and learn from the experiences of other family businesses
- Define your family values and beliefs

Visit our website or contact us to find out more or to register for this valuable seminar.

Business Families Centre & CAFE Vancouver

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Sauder's activities in the Family Business community are comprised of The Business Families Centre and the the Canadian Association for Family Enterprise (BC). We are committed to assisting business families, their advisors, and their enterprises through research, programs and academic education.

Contact us to find out more about:

- how you can become involved in the Business Families Centre
- joining CAFE Vancouver
- how to make your tax deductible contribution to the Business Families Centre