ATB Entrepreneur's Edge

Transaction Advisory Solutions

ATB Financial

Exit strategies for business owners

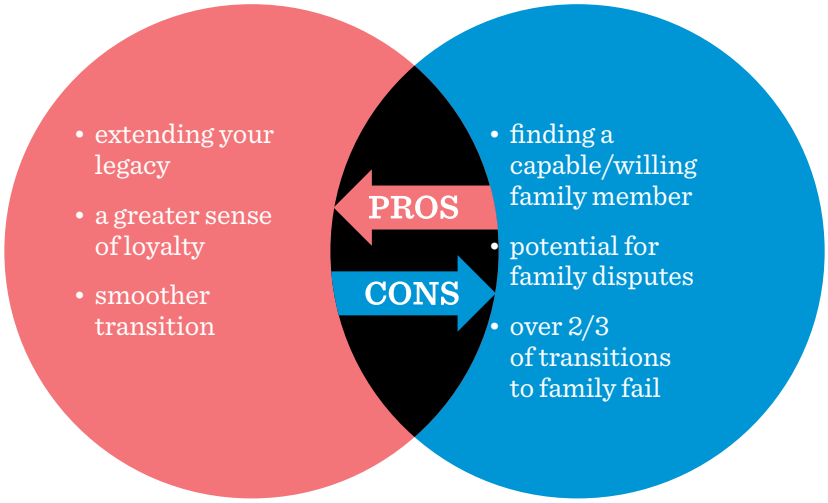
Planning to retire from your business? Where do you begin? What happens to the company you've built? Will your legacy be protected? Will you and your family have the financial security you're looking for? We've spotlighted a number of exit strategies to consider. But this is just a starting point. We recommend that you seek the advice and guidance of experienced professionals before embarking on one of the most important business decisions of your life. And start planning early as it could take up to five years to fully implement your succession plan.

The three main exit strategies include succession to a family member or members, transitioning your business ownership to your management team and employees over time, and selling your business to another company or private equity firm. There are pros and cons to each scenario, and as every business is unique so is the solution you arrive at.

Keeping it in the family

While the owners of many family businesses would like to see their company passed on to the next generation, success is not always guaranteed. Far from it. About 70% of these transfers do not survive into the second generation, and even fewer make it to the third generation.

Before going down this route, business owners need to first evaluate if there are any capable and interested family members who are ready to take on the mantle of ownership. Many business owners try to push the business onto one or more of their children. It's important to engage family members in discussions to determine if they have the skill and the willingness to carry on the business, as your retirement income may depend on their success.



MORE THAN NINE OUT OF 10 (91%) ALBERTA SMALL AND MID-SIZED BUSINESSES WE SURVEYED BELIEVE SUCCESSION PLANNING IS IMPORTANT, YET ONLY 58% HAVE A SUCCESSION PLAN AND OF THAT ONLY 21% HAVE A FORMAL PLAN.

— ATB Business Beat, October 2016

59% OF BUSINESS OWNERS ARE OVER 50 YEARS OLD

For the transition to succeed, it's a good idea to establish goals and objectives. Establishing an independent board or retaining professional advisors can also help the business move into the next generation.

Selling your business to management and employees

For many business owners, selling their stake in their company to the management team and employees is a very attractive option. These are the people who know and believe in the company, who have been there in the trenches (often from the very beginning) and who want to see the business continue and thrive.

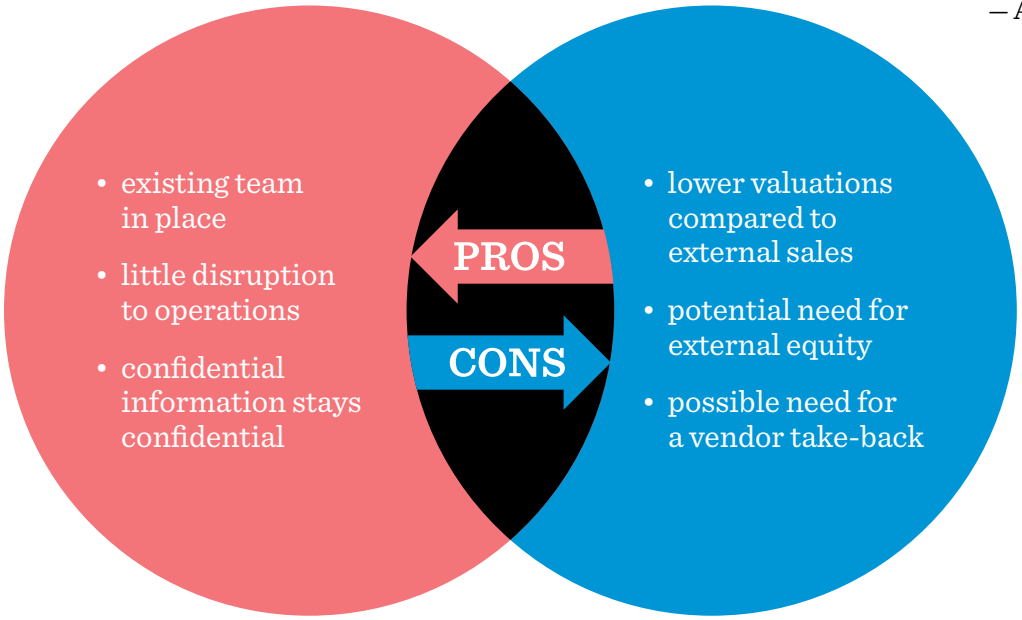
Selling, in whole or in part, to management and staff allows for a smoother transition with minimal disruptions. Also of note, the risk of exposing confidential company information and business advantages to outside buyers is eliminated. Owners will first need to identify which members of their staff are best suited to take the company forward, and whether they have the willingness and financing to undertake such a purchase.

The structure of the buyout is also critical in the future of the business. Business owners should consider if the purchasers would use outside funding to complete the sale, or if they are seeking a leveraged buyout where the sale is funded by using company assets as collateral and which shows up as debt on the business balance sheet. Or it could be a hybrid of both external and internal funding. It is important that a shareholder agreement is established to protect all parties in the sale and provide a resolution mechanism or shotgun clause in case of dispute or the death of one of the parties.

48% OF BUSINESS OWNERS EXPECT TO EXIT THEIR BUSINESS WITHIN FIVE YEARS

BUSINESS OWNERS REPORTED THEIR SUCCESSION PLANS ARE GENERALLY FOCUSED ON SELLING THE COMPANY TO SOMEONE ELSE—WHETHER THAT BE FAMILY, A THIRD PARTY OR EMPLOYEES—AS OPPOSED TO CLOSING THE BUSINESS ALTOGETHER.

— ATB Business Beat, October 2016



Historically, management buyouts and employee share ownership plans are usually done at lower valuations than compared to selling the business to a third party. On the plus side, the timeframe for the sale is usually shorter than going to a third party, and the potential risk of a deal falling through is much lower.

Selling your business to an outside interest

After reviewing their options, some business owners may find that selling their company to a third party may be the best option. This could be to a corporate buyer, perhaps a competitor or to a private equity firm. This allows the business owner to exit the company, usually within three to five years, and can yield a high rate of initial return.

Consulting professional advisors can help business owners identify potential candidates within their industry or related fields, provide guidance in regards to keeping sensitive business information confidential, outline any tax implications and help verify that the buyers have the resources needed to make the purchase.

AS WITH SUCCESSION PLANNING, THE MAJORITY OF SMALL AND MID-SIZED BUSINESS OWNERS IN ALBERTA (78%) BELIEVE A CONTINUITY PLAN IS IMPORTANT. HOWEVER, SLIGHTLY LESS THAN HALF (47%) HAVE FOLLOWED THROUGH AND ENACTED A CONTINUITY PLAN.

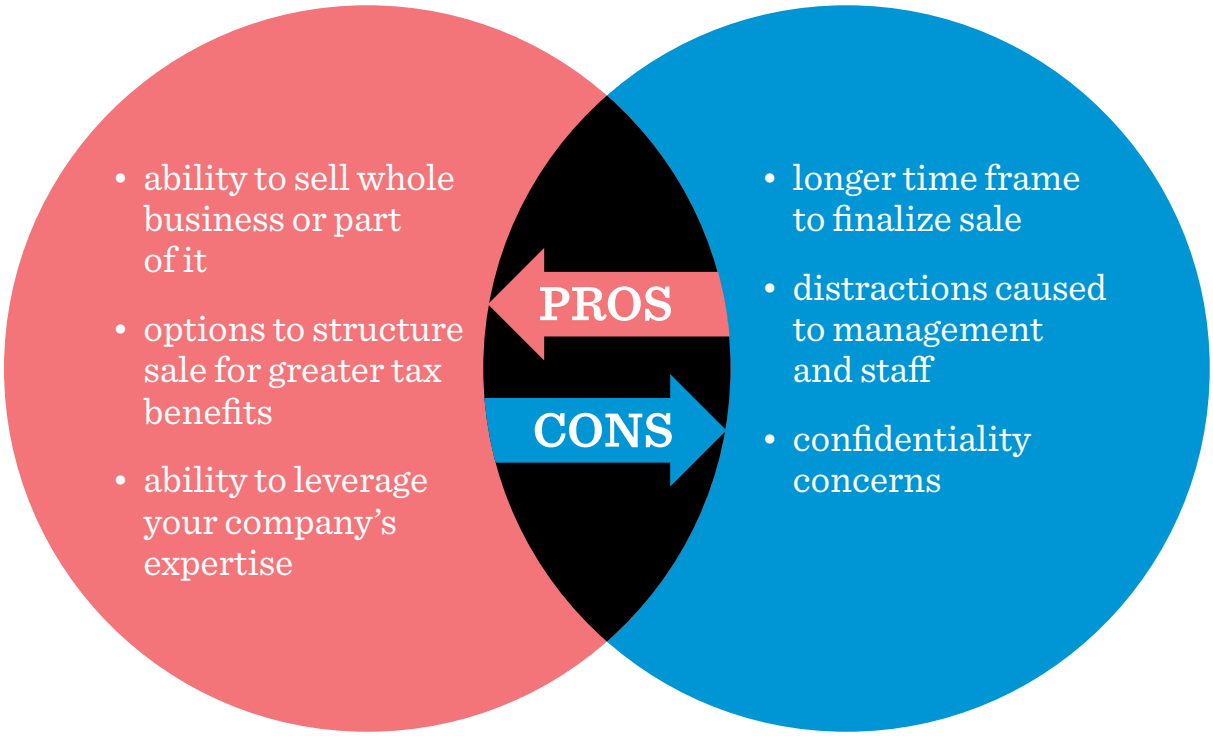
— ATB Business Beat, October 2016

50%

OF BUSINESS OWNERS WILL RELY ON THE PROCEEDS OF THE SALE OF THEIR BUSINESS AS A MAIN SOURCE OF RETIREMENT INCOME

85%

OF BUSINESS OWNERS EXPECT TO RETIRE UPON THE SALE OF THEIR BUSINESS



Other avenues to explore

A couple of other succession strategies to consider include liquidation of the business and going public via an IPO. Liquidation involves selling off the business' assets and closing the doors. This is usually done when all other options have been exhausted or in the situation where the health issues or death of the owner dictate it. Liquidation does not usually provide the best return, as there are many costs involved in this route.

Offering your business for sale through an IPO is an option that is primarily limited to larger companies. It can help secure the legacy of the business, as well as provide ready capital for the seller. Though sellers should take note that there are a lot of legal hoops and costs to consider before proceeding with this option.

Three steps for success

1 Assess your options

What's the best move for you and for your business?

2 Seek expert advice

An experienced advisor will help in navigating the road ahead.

3 Make a plan

Outline your course of action, set timelines and communicate with the people involved.

About entrepreneur's edge

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About ATB Financial

ATB Financial (www.atb.com) is the largest Alberta-based financial institution, with assets of $43.1 billion. ATB offers retail financial services, business and agriculture financial services, corporate financial services and investor services to more than 710,000 Albertans and Alberta-based businesses in 244 communities in our province.

ATB M&A Advisory Services

ATB M&A (Mergers & Acquisitions) Advisory Services provides tailored advice and solutions to help you with any stage of the business cycle. Whether you're looking to grow, transition or transact, the Advisory Services team can help you on the journey with smart, simple and helpful advice.

ATB M&A Advisory Services has a large, established network of capital providers, corporate buyers, sellers and other financial advisors necessary to successfully get things done.

Growth	Transition	Transactions
Recapitalizations	Succession planning	Business sale mandates
Mergers and acquisitions	Employee share ownership plans	Management buy outs

To find out how ATB Financial can help your business, please contact:

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