

# Business Succession Planning: Preparing for the Sale or Transfer of your Business

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**McGill**

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# Objectives

- Understand the steps involved in the sale or transfer of a business;
- Plan for the sale or transfer of a business;
- Better understand the legal and tax issues in the sale or transfer of a business;
- Understand the key factors considered in valuing and pricing a business;
- Identify financing alternatives for the sale or transfer of a company;
- Maximize the proceeds of the sale or transfer of a business.

# Agenda

Subject	Presenter	Time
Intro + M&A Overview	Marc Deegan	9:00 – 10:30
<b>Break</b>		<b>10:30 – 10:45</b>
Legal	Angelo Noce	10:45 – 11:45
<b>Lunch</b>		<b>11:45 – 1:00</b>
Business Valuations	Steve Harrar	1:00 – 2:00
Tax	Jonathan Bicher	2:00 – 3:00
<b>Break</b>		<b>3:00 – 3:15</b>
Financing	Patrick Latour	3:15 – 4:15
Panel Discussion & Wrap up	All	4:15 – 5:00

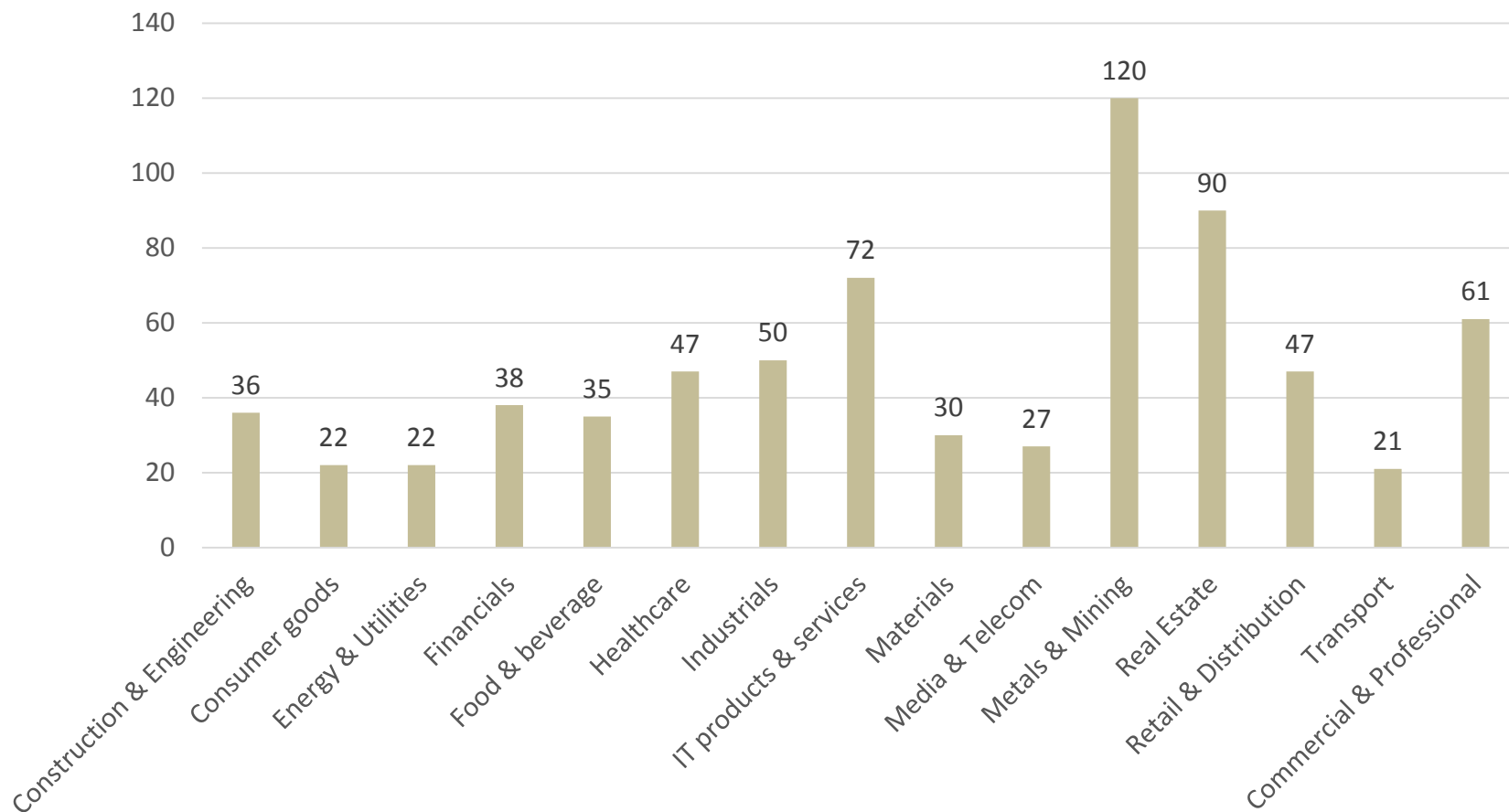
# Topics to Cover

- Quebec M&A Landscape
- Types of Sellers
- Types of Buyers
- Contrasting Buyer/Seller Mindset
- Types of M&A Advisors
- Sell Side Process
- Wrap up

# MIDMARKET M&A LANDSCAPE

# Transactions by Industry

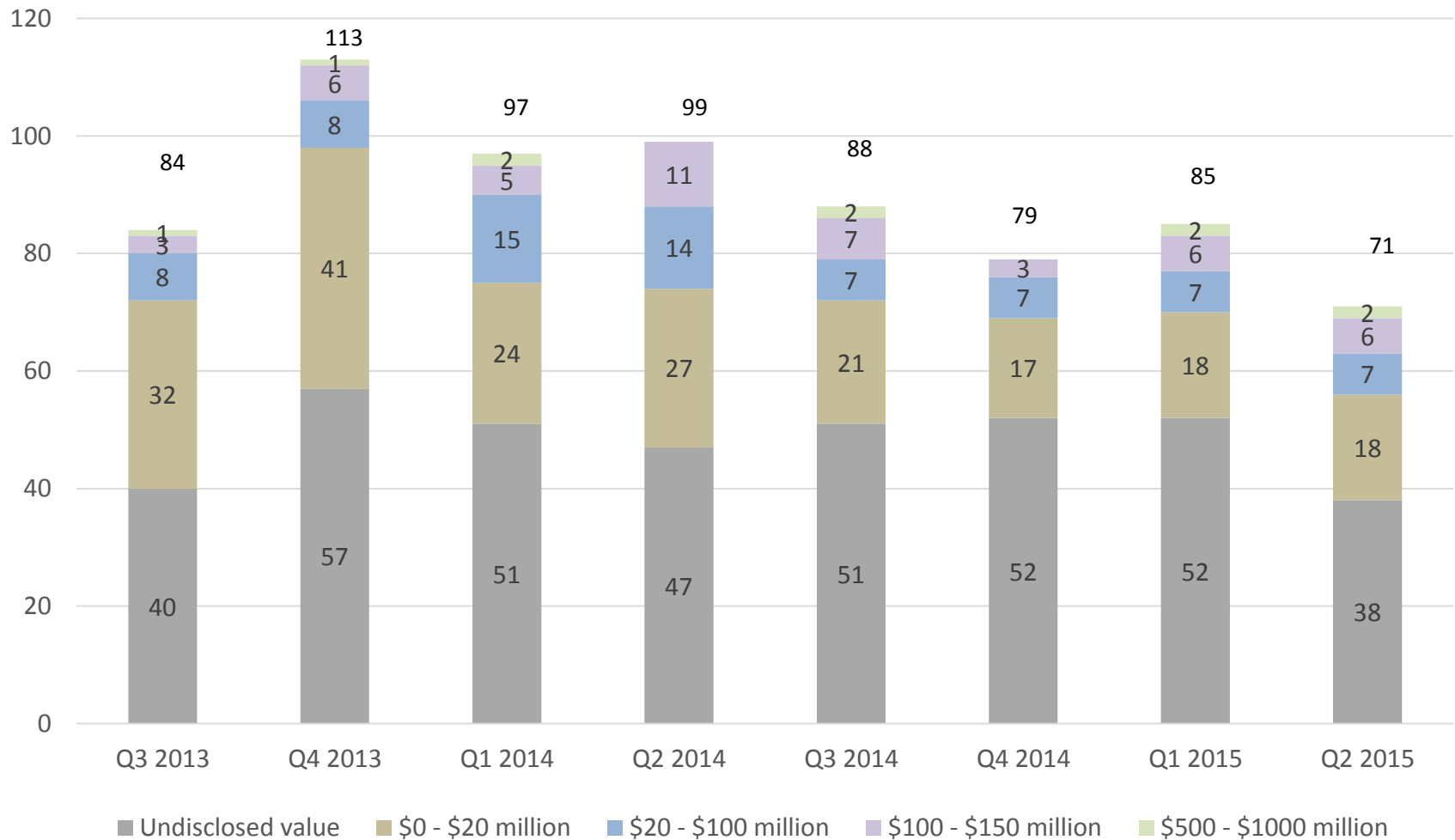
Quebec transactions by industry over the last eight quarters



Source: S&P Capital IQ  
EY Q2 Quebec Transaction Snapshot

# Transactions by Deal Size

Quebec Based Company transactions by deal size (in C\$ millions)

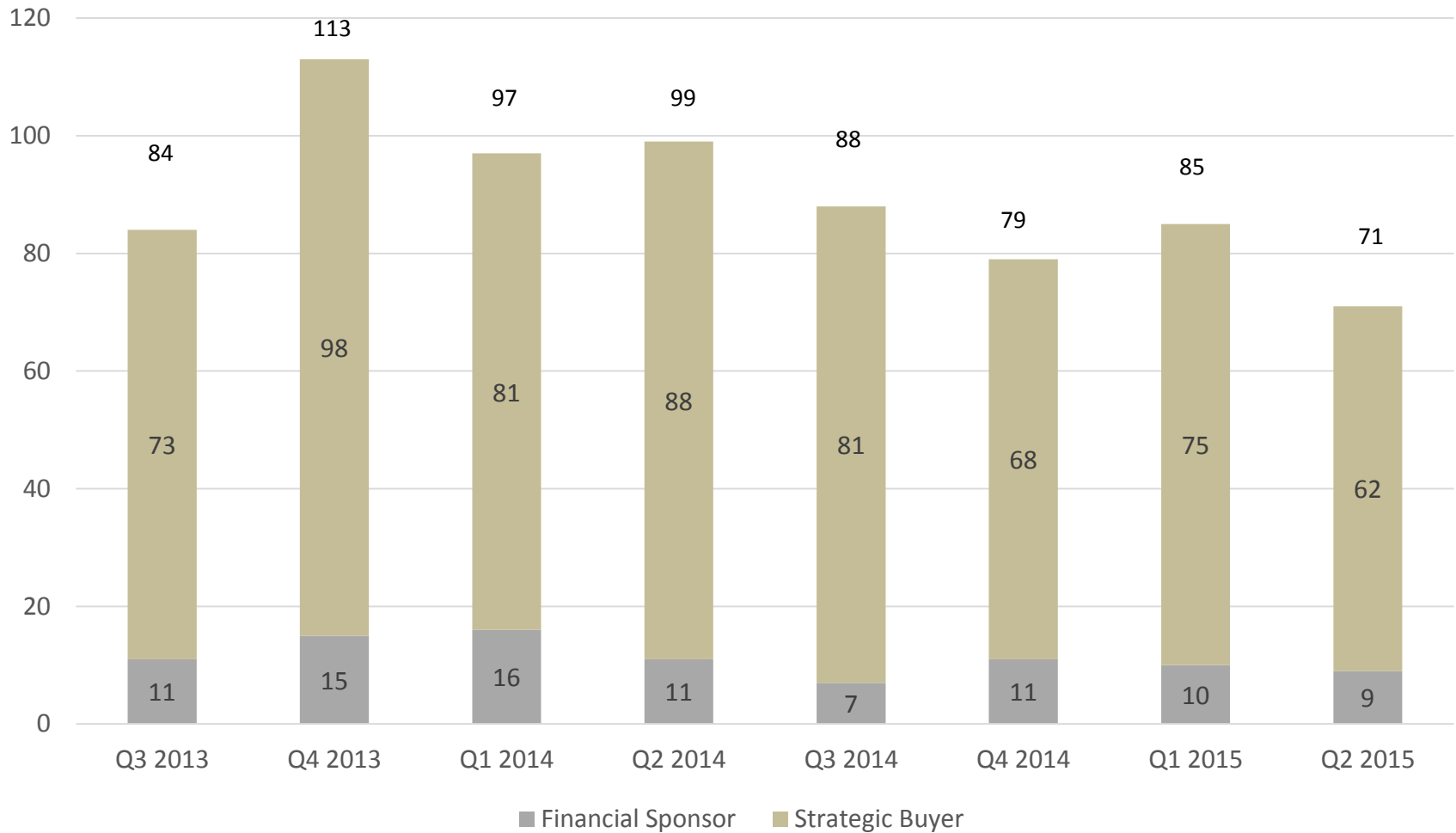


Source: S&P Capital IQ  
EY Q2 Quebec Transaction Snapshot



# Financial vs. Strategic Buyers

Quebec Based Company transactions – Financial vs. Strategic Buyers



Source: S&P Capital IQ  
EY Q2 Quebec Transaction Snapshot



**IS IT A BUYERS OR SELLERS MARKET?**

# M&A Drivers

- Demographics
  - Baby boomers (born between 1946 and 1964)
- Global market
  - Competitors
  - Buyers and Sellers
- Economy
- Availability of financing
- Pricing expectations of business owners

# Types of Sellers

- ***The Umbrella Drink Seller***
  - No rush
  - Waiting for a great offer
- ***The Health Motivated Seller***
  - Health problems
  - Motivated
- ***The Distressed Seller***
  - Business challenges
  - Motivated
- ***The Retirement Seller***
  - Looking forward to other projects
  - Motivated

# TYPES OF BUYERS

# Types of Buyers

- Entrepreneurs/Individuals
- Competitors
- Management
- Family
- Private Equity
- Search Funds

# Entrepreneurs/Individuals

- Represents a growing % of the buyers market
- Business continuity can be a concern
- Buyer Profile:
  - *Senior manager looking to own his/her own business*
  - *Successful entrepreneur looking to get back in the game*
  - *Wealthy family looking to purchase a business for kids*
- Often looking at multiple opportunities at the same time
- Individual = Financing could be a challenge, looking for a gradual buy in
- Entrepreneur = typically quick exit for you
- Individual = will need you to remain in the business for the medium term

# Competitors

- Represents a large % of the buyers market
- Business continuity is always a concern
- This buyer will likely pay the **highest price** for your business
  - *Synergies*
  - *Economies of Scale*
- Very structured approach
- Confidentiality is always a concern for the seller
- You may or may not be required to remain in the business

# Management

- Represents a large % of the buyers market
- Business continuity
- Business = quick learning curve
- President's role = can be a steep learning curve
- Lack of funds = a common challenge
- Many financing programs available for MBO's (bankers like these types of files)
- You may or may not be required to remain in the business



# Family

- 1<sup>st</sup> choice for many entrepreneurs
- Business continuity
- Does the individual have the skillset and grit to take over?
- Business = quick learning curve
- President's role = can be a steep learning curve
- Lack of funds = a common challenge
- Many financing programs available for business transition
- You will probably be required to remain in the business for the medium term

# Family Business Succession

## The situation in Québec (as per CFIB\*)

90% of businesses in Quebec have:

- Fewer than 20 employees
- Family run businesses
- 80% of owners wish to transfer the business to their children
- 67% of family run businesses:
  - Do not successfully make it to the 2<sup>nd</sup> generation
- 85% of family run businesses:
  - Do not successfully make it to the 3<sup>rd</sup> generation

\* Canadian Federation of Independent Business [www.cfib-fcei.ca](http://www.cfib-fcei.ca)

# Private Equity



Caisse de dépôt et placement  
du Québec



CLARIDGE

- Strong partner for Management Buy Out (MBO)
- Business continuity can be a concern
- Strong Financially
- Structured approach
- Strong management team and international network
- Structured governance – may not appeal to all entrepreneurs
- You may be required to remain in the business for the short-term

# Search Funds

- Relatively new in Quebec
- Fund that has a 1- 2 year window to purchase a business and transition to President
- Typically young professionals (25 yrs – 35 yrs) with limited operating experience
- Well funded
- Business and President's role = Steep learning curve
- You will probably be required to remain in the business for the short/mid-term
- Business continuity can be a concern

# My Advice

- Understand that your motivating factors will lead you to different buyers:
  - Highest price
  - Business continuity
  - Keep it in the family
  - Quick exit vs. continued involvement
- Important to share this with your advisor(s) early on in the process

# Criteria Grid

BUYER	HIGHEST PRICE	QUICK EXIT	CONTINUITY	WELL FUNDED
Entrepreneur Individual		★		
Competitor	★	★		
Management			★	
Family			★	
Private Equity		★		★
Search Fund				★

# Contrasting Buyer/Seller Mindset

## Buy Side

- A long term investment
- Try hard to figure out the real underlying issues of the business (risk)
- Try and structure a deal that protects them, often to the detriment of the seller
- Wants the seller to finance a portion of the transaction

## Sell Side

- Take the money and run!
- Try to figure out buyer's motivations
- Concerned about deal structure, terms and conditions
- No interest in leaving money on the table!

# Contrasting Buyer/Seller Mindset

## Buy Side

- Wants to buy at a low price
- Looking for any opportunity to lower the price
- Business as usual approach
- Where are the growth opportunities?
- Synergies are mine

## Sell Side

- Pricing expectations may not be realistic
- Lots of effort to substantiate price
- Emotional attachment to the business – It's my baby!
- Try to set the stage for the buyer to understand the potential of the business
- My share of synergies



# M&A ADVISORS

# Overview Midmarket M&A Advisors

- Little if any regulatory oversight
- Low barriers to entry for this profession
- No standard designation or educational curriculum
- Codes of conducts vary depending on the individuals
- Matchmakers and Dealmakers
- Often difficult for entrepreneurs to decide who to work with

# Midmarket M&A Advisors - Role

- Represent your best interests
- Create a market for the business
- Quarterback process with accountants and lawyers
- Understand what's important to you besides price
- Educate you on:
  - Sell side process
  - Deal terms
  - Valuation
  - Common traps – LOI, Surprises in due diligence
- Evaluate the alternatives
- Work closely with you through out the process

# Midmarket M&A Advisors

- Accounting firms
- Banks – Mid-market M&A teams
- Real Estate Agents
- M&A boutique firms/Business Brokers

# Accounting Firms

- Most mid sized and large firms have a specialized M&A team
- Code of ethics/Professionalism
- May be difficult for an entrepreneur to seek a specialized service at another accounting firm – but it should be an option
- Leverage national and international network
- Range of transaction size:
  - Big 4 = \$10 million - \$100 million
  - Mid sized = \$2 million - \$50 million

# Banks – Mid Market M&A Teams



RBC  
Royal Bank



- Specialized M&A team
- Work with account managers and investment advisors to identify companies/clients looking to sell
- Leverage national and international network
- Range of transaction size = \$10 million - \$100 million

# Real Estate Agents

- Bring added value where there is a strong real estate component to the deal:
  - Restaurant
  - Retail
  - Motel/Hotel
- Limited involvement or visibility in the financial community
- Tend to be matchmakers
- Range of transaction size: \$0 - \$5 million

# M&A Boutique/Business Broker

- Typically range in size from 1 to 15 people
- Intermediaries with varied backgrounds
- A mix of matchmakers and dealmakers
- Tend to be senior with 15 + years of business experience **not necessarily M&A experience**
- Range of transaction size: \$1 million - \$50 million



# Fee Structure

- Based on success fee with a retainer
- Typical Range: 4% to 6% of sale price – retainer should be deducted from the success fee
- Different variations such as sliding scale depending on tranches of selling price
- Sale price established at \$5 million:
  - First \$3 million at 5%
  - Next \$1 million at 4%
  - Next \$1 million at 3%Fees = \$220,000
- You should be able to negotiate fees

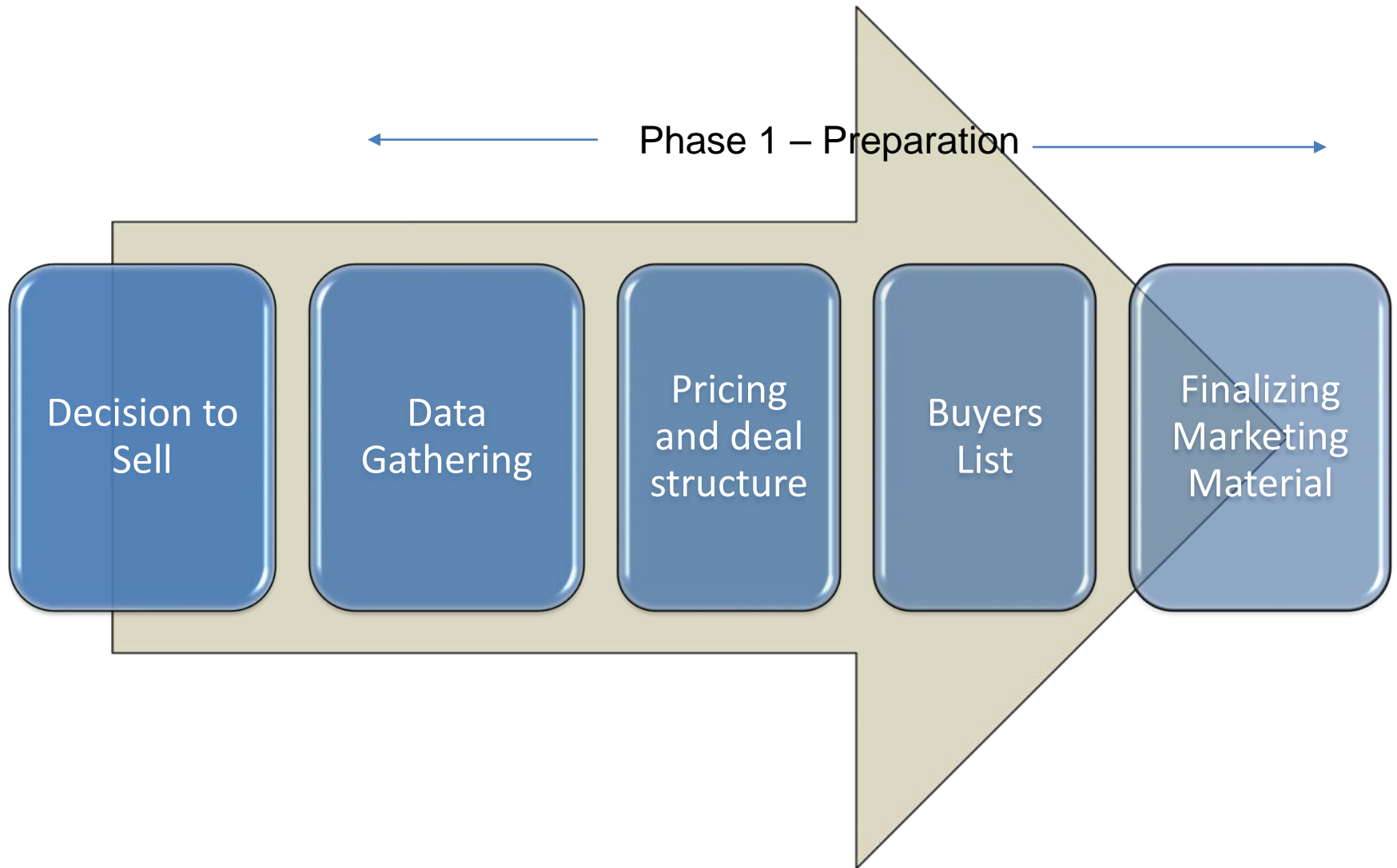
**HOW MANY OF YOU ARE THINKING THAT YOU  
CAN DO THIS ON YOUR OWN WITHOUT AN  
INTERMEDIARY?**

# My Advice

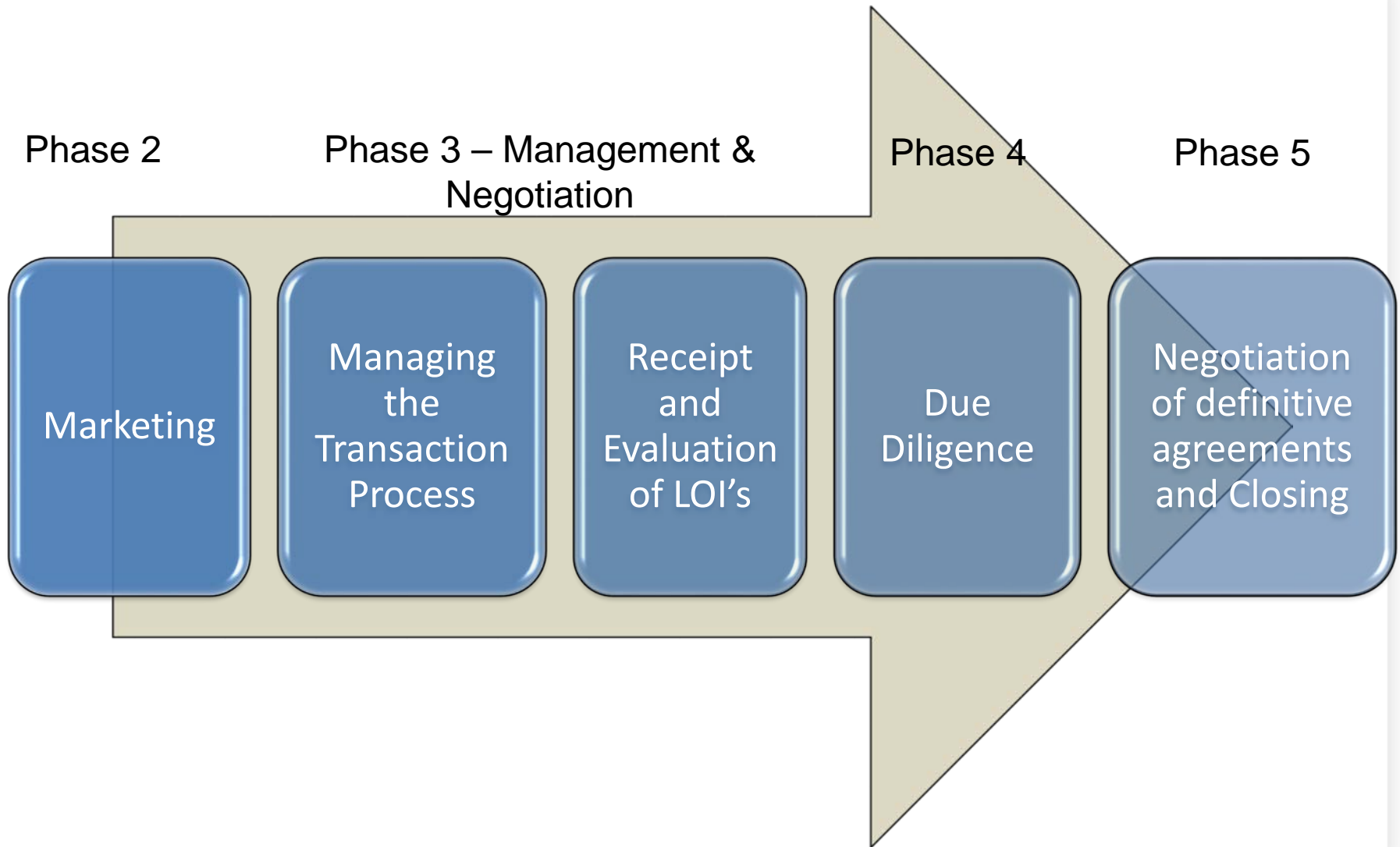
- Montreal is a relatively small financial community – should be able to obtain feedback on the advisor
- Advisor should have deal experience in your industry
- Ask for client testimonials
- Values and morals should be aligned with yours
- Avoid the situation where you get pushed to deal solely with one of their clients . Remember you need to create the market!

# SELL SIDE PROCESS

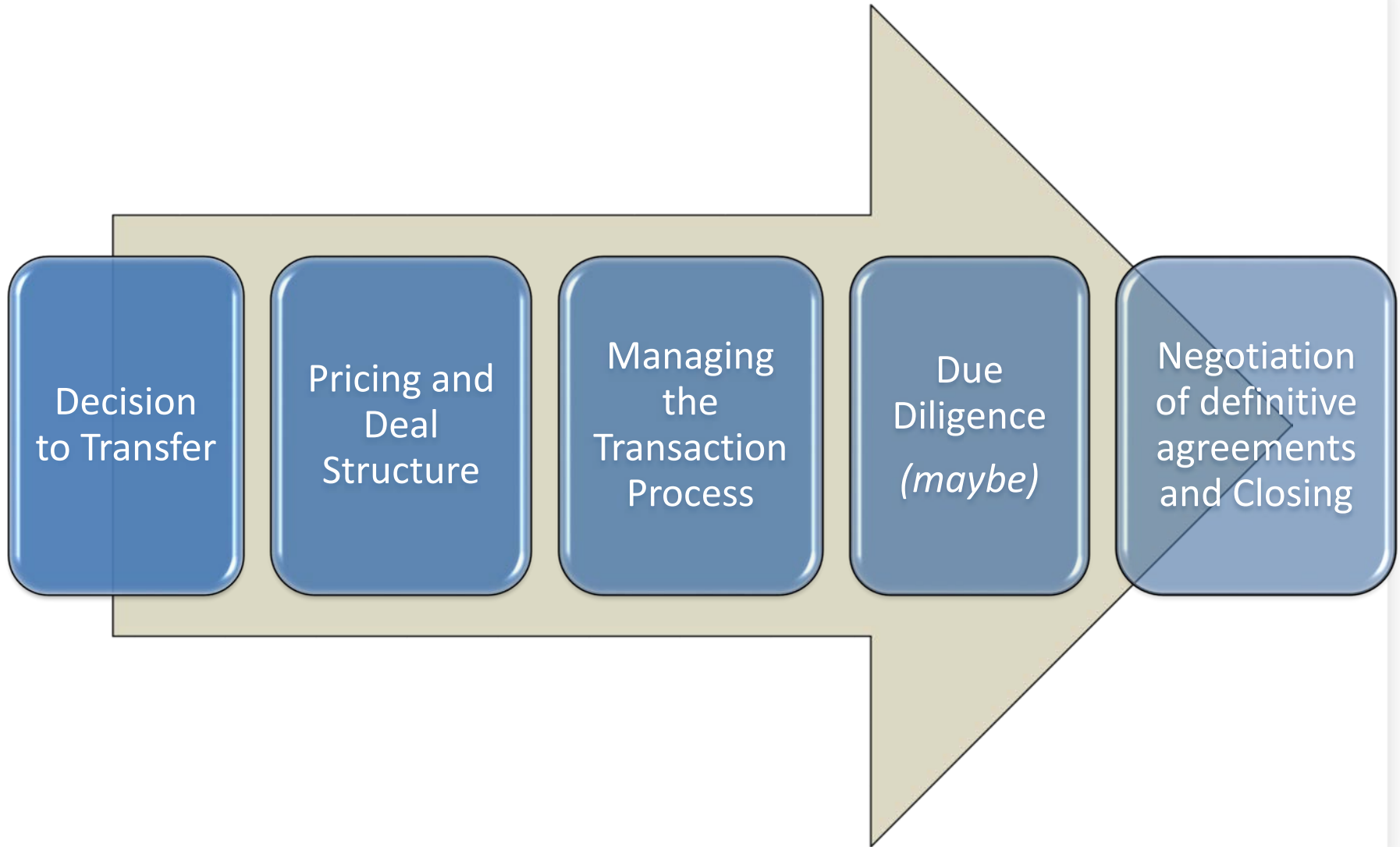
# Sell Side Process



# Sell Side Process – Cont'd



# Business Transfer Process



# Phases and Timeline

Average transaction 6 – 12 months , sometimes longer

## Five Phases:

Phase 1: Preparation ( 30 to 90 days)

Phase 2: Marketing ( 30 to 45 days)

Phase 3: Management and Negotiation ( 30 to 60 days)

Phase 4: Due diligence ( 30 to 45 days)

Phase 5: Closing ( 30 to 90 days)



# 1. Decision to Sell

## Process

- Making the decision
- Find an M&A advisor

## Your Involvement

- Can be a difficult decision to make – It's your baby!
- Most entrepreneurs need to keep busy. What happens after the sale?:
  - Travel
  - Projects
  - Purchase a business?
- Need to reach out to your professional network to find the right person
- Important to share your motivating factors and pricing expectations

# 2. Data Gathering

## Advisor's Role

- Gather information to gain a strong understanding of the business:
  - History of the business
  - Financial
  - Operational
  - HR and Management team
  - Market/Industry
  - Competition
  - Products and services
  - Customers
  - Corporate and legal
  - Strengths and weaknesses
  - Opportunities and threats

## Your Involvement

- Provide and coordinate the flow of information/documentation
- Many meetings
- Insure the advisor understands the business

# 3. Pricing and Deal Structure

## Advisor's Role

- Financial modelling to arrive at a **value**
- Research market comparable transactions to arrive at a range of **selling price**
- Good idea of desired deal structure ie. % of balance of sale required, financing available for buyer
- Coordinate with tax advisors, accounting, legal to make sure that everyone is aligned

## Your Involvement

- Need to agree on initial pricing and structure
- Coordinate communication between professionals on your team

# 4. Buyers List

## Advisor's Role

- Market research to arrive at a targeted list of buyers to proactively contact
  - Entrepreneurs/Individuals
  - Competitors
  - Private Equity
  - Search Funds
- Obtain client approval

## Your Involvement

- Provide names of companies/individuals
- Final approval of the list

# 5. Finalize Marketing Material

## Advisor's Role

- Preparation of a *Teaser* or blind summary of the business opportunity
- Finalization of the Non Disclosure Agreement (NDA)
- Preparation of a Confidential Information Memorandum (CIM) addressing the points in Step 2 Data Gathering
- Obtain final approval from client and or professional team

## Your Involvement

- Review and edit documentation
- Final approval of all marketing documentation
- Agree on the marketing process

# 6. Marketing

## Teasers sent out

- Mailing to all potential buyers on list
- Trying to interest buyers in taking the next step

## Screening

- Advisor to screen potential buyers for fit, motivation, financial strength etc..
- Communicate with client

## NDA

- Interested buyers to sign the NDA

## CIM

- CIM is sent out to buyers that have signed the NDA

## Follow up

- Advisor to follow up weekly to gauge interest

# 7. Managing the Transaction Process

## Advisor's Role

- Coordinate flow of information
- Set up meetings with buyers
  - Can be one step or two step
- Guide the buyers to submit Letters of Intent (LOI) at the same time
- Create a market
- Communicate progress with client

## Your Involvement

- Key role in initial meetings with buyers. You will be doing most of the talking
- Provide feedback to advisor on buyers
- Communication with advisor

## 7. Managing The Transaction Process – Negotiated Sale vs. Auction

### One at a time

- Only one buyer is in discussions with the seller at a time
- Maintain maximum confidentiality
- Easier to manage
- Seller does not have the leverage of multiple buyers

### Auction

- Buyer group is managed in an auction setting . Buyers receive information at the same time and are guided towards submitting a Letter of Intent (LOI) at the same time
- Potential risk of confidentiality break
- Pressure on buyers to compete for the best offer



# 8. Receipt and Evaluation of LOI

## Advisor's Role

- Letter of Intent (LOI) is a non-binding written document that establishes the framework of a deal
- Good opportunity to negotiate many of the key deal points at this time.
- Good time to bring in legal counsel

## Your Involvement

- Provide feedback to advisor on LOI's
- Communication with advisor

# Letter of Intent

## Non Binding Provisions

- Nature of the deal (share vs. assets)
- Price and terms
- Other requests (employment agreement, non-compete etc..)
- Definition of working capital position and formula
- Clear understanding of what will happen to key employees
- Definition of CEO role post closing
- Key dates or timelines for the deal to progress
- Basic understanding of the representations, warranties and indemnity caps

## Binding Provisions

- Exclusivity (no- shop provision)
- Confidentiality
- Due diligence expectations
- Deposits
- Break up fees ( if any)
- Expenses – both parties responsible for their own

# 9. Due Diligence

## Advisor's Role

- Coordinate legal, financial, operational due diligence
- Maintain a data room or online portal with key documents/information
- Identify and resolve discrepancies - typically where a buyer will try and reduce price
- Respond quickly
- Keep all parties on schedule

## Your Involvement

- Provide information when needed
- Communication with advisor

# 10. Negotiation of Definitive Agreements and Closing

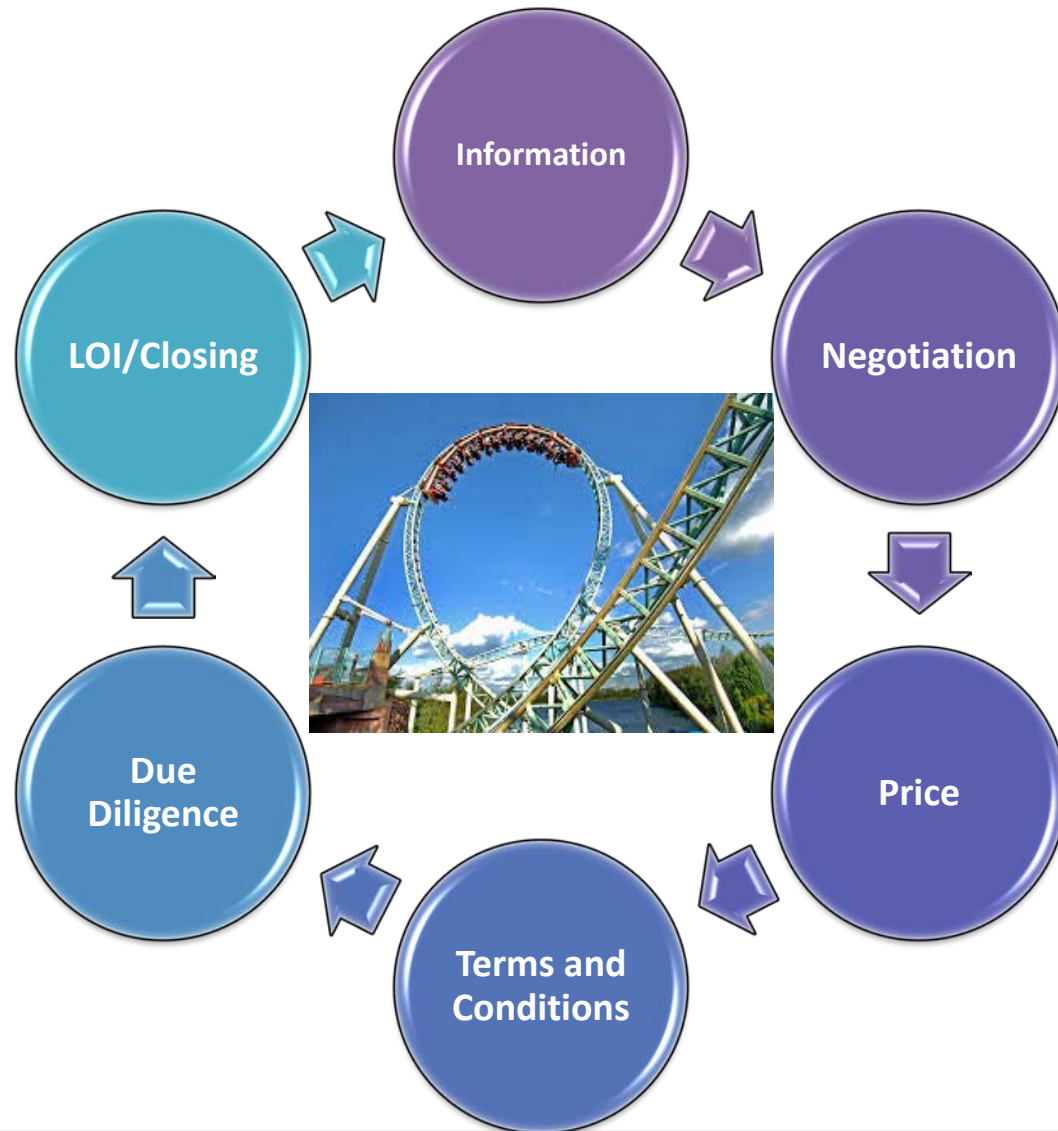
## Advisor's Role

- Final negotiation of representations, warranties and indemnities
- Final negotiation of agreements:
  - Non-compete
  - Employment
  - Earn out, if applicable
  - Balance of sale, if applicable
  - Disclosure schedules
  - Financing
  - Third party ie leases etc..
- Keep everyone on schedule

## Your Involvement

- Stressful time as there are many variables that can be delayed or go wrong
- Successful closing and signing!

# Transaction – It is never straightforward!



# Successful Closing – Time to Celebrate!



# Summary

- Understand your buyer's mindset and you will be better prepared for your transaction
- Your motivating factors will lead you to different buyers
- If you are going to sell or transfer, make sure you have something else to look forward to
- Choose your M&A advisor wisely
- Important to understand your role in the sell side process
- Be prepared, it can be a bumpy ride!

# QUESTIONS?



# Coordinates

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