DEVELOPING AN EXIT STRATEGY
Exploring options that deliver a return on investment

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THE PRESENTER
Since 1999, Daphne has been the Program Director for The SuccessCare® Program, a unique process for enabling the transition of entrepreneurial and family businesses. In 2010, SuccessCare merged with BDO Canada to help businesses across Canada prepare for the inevitable change in leadership and ownership.

Daphne uses her background in education and training to help business owners understand, plan and implement a transition. She has developed a variety of workshops tools and techniques to help entrepreneurs and business families learn, gain and meet their objectives for the three key areas of their business: the family/personal relationships, the preservation/distribution of wealth, and the profitability of the business operation.

Daphne has a certificate in Advanced Family Business Advising from the Family Firm Institute and is a certified Kolbe consultant.

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THE IMPENDING CHANGE
• 3 of every 4 business owners will have reached the traditional retirement age in the next 5 years
• Most of these business owners are relying on the sale of their business to fund their retirement
• Yet less than 50% currently have an exit strategy or a succession plan in place
• It can take 10 years to adequately plan for, and implement, a business transition
ONE DAY YOU WILL SELL

- Death / disability
- Disagreement / divorce
- Disenchantment
- Decline in profitability

Inside the family / business

Lifestyle changes

Outside the family / business

Involuntarily Voluntarily

Ensure a Return on Your Investment
Be Proactive in Creating the Choice

WHEN YOU DON'T PLAN FAR ENOUGH AHEAD . . .

- 3 partners in a professional services firm — late 50's to early 60's
- All wanted to exit the business within 5 years
- One wanted to pass his ownership share to his daughter who had recently joined the practice
- Early in the exit planning process, they all realized that:
  - There was no one in the firm with the required skills and experience to lead the practice in 5 years
  - It would take close to 10 years to groom an internal buyer
  - They had failed to allow enough time to create the choice

THE NUMBERS CONFIRM THIS

2005 2012

Too early to plan for succession 60% 52%
No time to deal with issue 24% 18%
Can't find adequate advice/tools to staff 17% 21%
Too complex 12% 16%
Other 1% 12%
Don’t want to think about leaving 8% 13%
Conflict with family/employees 5% 5%

Source: CFIB 2005 2012
MORE THAN A TRANSACTION

- Think transition – a transition is more positive
- A business transition focuses on building a bigger future
- What can you gain by engaging others?

NEED TO BUILD AND TRANSITION ALL THE ASSETS

- Principles and Values
- Personal Relationships
- Individual Reputation
- Staff Engagement
- Culture of the Practice
- Shares
- Cash / Working Capital
- Equipment
- Property
- Vehicles
- Education/Competencies
- Experience and Wisdom
- Leadership/Management Skills
- Business/Client Relationships
- Business Reputation

THE LINE OF CONFIDENCE™
1. PROTECT THE PHYSICAL CAPITAL

- Preserve and Protect:
  - Asset Protection
  - Tax Management
  - Estate Plan
  - Ensure Liquidity

2. TRANSITION THE INTELLECTUAL CAPITAL

- Enhance the sustainability:
  - Ensure the practice is efficient and growing
  - Develop next gen leadership
  - Transition relationships

PROTECT AGAINST THE INVOLUNTARY SALE

1. Asset Protection through holding company, estate freeze, family trust, etc.
2. Tax Management strategies
3. Wealth Plan with investments outside the business
4. Estate Plan with Wills, Power of Attorney (POA), Shareholder Agreement
5. Additional Liquidity through permanent insurance
TRANSITIONING FROM ONE STAGE TO ANOTHER

You might choose to exit at any stage in the lifecycle but exiting during the consolidation stage is most common.

FOCUS ON THE VALUE DRIVERS

3. SOCIAL CAPITAL IS CRITICAL

Build trust and engagement:
- Create a "we focus"
- Enhance communication
- Clarify the philosophy
CREATE A “WE FOCUS” FOR A POSITIVE OUTCOME

- 96% fail to find a positive outcome when there is a WIIFM focus
- 70% find a positive outcome when there is a WE focus or common interest

COMMUNICATION IS THE KEY

- Build trust and engagement
- Get alignment - avoid collisions
- In fact - 80% of transition planning is communication

GOOD GOVERNANCE

- A process for decision making
- The process by which decisions are implemented
TRANSITION PLANNING IS STRATEGIC

DEFINE:
Determine your preferred direction

ALIGN:
Ensure all stakeholders are going in the same direction

START NOW AND BE PREPARED

• Gather input from all stakeholders around their vision of the future
• Define a common interest and set your objectives and goals
• Develop a game plan that prepares the practice for its eventual sale

REMEMBER THE KEY OBJECTIVES

- Strong Culture
- Solid Reputation
- Engaged People
- Principles and values
- Team engagement
- Cohesiveness
- Connectedness
- Commitment and accountability

- Build and Protect Equity
- Saleability
- Return on Investment
- Big picture thinking
- Long-term planning
- Shareholder alignment
- Shareholder accountability
- Entrance / exit strategies

- Efficiency
- Profitability
- Strong Leadership
- Sustainability
- Clear mission / direction
- Skills and competencies
- Effective management
- Systems and processes
- Clearly defined roles / responsibilities
- Solid business relationships
WHERE ARE YOU NOW? - TRANSITION PREPAREDNESS

1. Guiding Principles
2. Business Values
3. Connectedness
4. Estate Planning
5. Ownership
6. Business Planning
7. Compensation Plans
8. Contingency Planning
9. Future Uncertainty
10. Communications
11. Decision Making
12. Harmony
13. Succession Planning

SAMPLE INDIVIDUAL RESPONSES

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COMPARISON BY CATEGORY
TYPICAL EXIT STRATEGIES

1. Strategic plan for the operation that addresses sustainability (and saleability)
2. Future ownership plan including Estate Plan and Contingency Plan
3. Communication plan to improve governance, connectedness and communication (applies to all circles)
4. People plan around future leadership and mentoring program for successors / management team

HOW CONFIDENT ARE YOU?

1. Where do you see your business in 3, 5 or 10 years? (with regards to sales, value, etc.)
2. Where do you see yourself in 3, 5 or 10 years? (ownership, lifestyle)
3. How do you know / what process do you use to ensure all stakeholders are aligned in their vision of the future / with yours?
4. What have you done so far to protect your equity / physical assets?
5. What have you done to prepare your executor to step into your shoes? (When did you last update your shareholder agreement and your personal wills to ensure they are aligned?)

6. How current is your strategic plan? (How well do the assumptions / strengths, weaknesses, opportunities and threats (SWOT) reflect the current situation and environment?)
7. What actions do you take to ensure your management team is actively engaged in reaching the company vision? (How do you measure progress towards your ultimate goals and objectives?)
8. What have you done to ensure someone has the ability to lead your company should something happen to you?
9. How do you evaluate, measure and manage the performance of your management team?
10. What plan do you have in place for the succession of your key management team members?
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