

# Transitioning your business



Royal Bank





Selling your business isn't just a matter of handing over the keys, cashing the cheque and walking away. Depending on who'll be holding the reins after you, there are a number of steps to take to make sure the transition goes as smoothly as possible.

It's also wise to have planned the next stage of your life in advance, taking into account all the things that matter to you: lifestyle, home, family, health – and even the future of the business you're letting go of.

Your RBC Business Advisor will work with you to:

- Understand your transition plans and timeline
- Help you complete a complimentary business owner plan
- Set up the right financial products and solutions to take you to the next stage in your journey

This resource focuses on seven essential elements of transitioning, with advice on how to deal with each one.



## 1: You're making major changes to your business. RBC can help ease the transition.

As with anything in business, a smooth and successful transition involves preparation and planning. Whether you're selling to a third party, passing it on to a family member or winding down your involvement until you're ready to transition, the better prepared you are, the easier the process will be.

Whatever the reason for the change, leaving something you've built up and dedicated yourself to is never easy. There are a number of factors that you will want to consider – your employees, commitments to financial partners and even family – not to mention your own business legacy.

Your RBC Business Advisor can work with you (and any business partners) to create a business owner plan that helps you manage the expectations of all parties. You can tailor the plan to ensure that everyone's needs are met. It can also be a great way to outline firm expectations, in terms of the timing of the transition, so everyone's on the same page.

### Next steps

- Contact your RBC Business Advisor to start creating a business owner plan that will help you realize your personal and business goals.
- Get your business documents in order and make them easily accessible. To prepare for your discussion with your RBC Business Advisor, source any documents you don't have from professional advisors such as your lawyer or accountant.
- Involve your family members and trusted sources as appropriate in key decision-making.
- Set dates to review and update your plan as needs and regulations change.
- If required, put your transition management team in place. Choose people who can add value to your business, or to grooming the next owner.



## 2: Do you know how to accurately value your business?

Getting the most out of the sale of your business means making sure it's accurately valued. It's best to get professional help such as a business broker, accountant or industry advisor to help you do this.

The value of a business comes down to two basics: what someone's prepared to pay for it and what you're willing to sell it for. To get an idea of either, and find the right balance, you need to figure out what area of the ballpark you're playing in.

### 1. Net assets valuation

This is pretty much exactly what it sounds like. Add up the value of all your assets – equipment, furniture, vehicles, stock, accounts receivable or cash in the bank. Then subtract any liabilities, such as money owed to others, and possibly any taxes owed if someone is buying the company shares. This gives you your net asset value, and you base the sale figure of your business on what it's worth from an asset point of view.

### 2. Net assets plus goodwill

Take the above amount and add on goodwill, a payment for the assumption of ongoing sales and profit. When you're working it out, it's important to consider that you'll get more goodwill if the sale includes:

- Great relationships with customers and suppliers
- Protected intellectual property that gives the business an advantage in the marketplace
- A brilliant location with a secure, long lease
- Good cash flow and no debt

- Documented business systems and processes a new owner can pick up
- Loyal, knowledgeable and experienced staff who'll stay on

### 3. Market value

This method compares your business to others that have sold recently, usually guided by the broker network or industry guidelines. For example farms may be based on production capacity, software companies on recurring revenue, etc. The main problem is that, similar to house buying, the price at times isn't dictated by the actual value, but by demand. If similar businesses in a similar industry are selling at a certain price, that doesn't mean yours should. You could have better clients, products, staff and future business opportunities.

Having professionals value your business helps if there are any family complications. If it's been professionally valued, everyone will know the pricetag is a fair market value.

#### Next steps

- Talk to your RBC Business Advisor to help start the valuation process.
- Search for similar businesses for sale to get an idea of the possible price.
- Determine if there are any industry guidelines for selling your particular business.
- Meet with your advisers to start discussing how to add value to your business.



### 3: How do you maximize the value of your business?

Getting the best price for your business requires you to have it in excellent shape to sell. When you're preparing your business for sale, it's important to:

- Forecast your expected net profit over the coming year so you can determine how healthy your business is. Then you can take steps to improve it, so it becomes more attractive to potential buyers.
- Try to show stable financial cash flows throughout the year. Delay or bring forward major purchases to help achieve this.
- Improve your working capital position by selling under-used equipment and assets. Efficient stock management and tighter credit control will also improve working capital.
- Improve customer loyalty – you want to be able to reassure buyers that customers will stay. Focus on improving your customer experience so they keep coming back.
- Make sure your systems and processes are at an excellent standard and are well documented. Buyers will see more value in your business if you have good systems and can obtain accurate information quickly.

Tax implications, financial and legal options and obligations will depend on the type of business you own and the way you want to transition from the business.

For most businesses, there will be a capital gains tax on any gain you've made over and above the net asset value of the business. However, there is an exemption (known as the lifetime capital gains exemption (LCGE)) you may be able to claim. Other complexities exist if you've been splitting income with members of your family, the business has locations or assets outside Canada, if you operate a trust, etc.

#### Next steps

- Contact your RBC Business Advisor to better understand how to maximize the value of your business, including legal and tax implications.
- Inform your accountant and lawyer that you intend to transition out of the business so they can also prepare to assist you.



## 4: How much do you need to retire?

Have you thought about your post-retirement lifestyle, and will you have the funds to support your goals? It's important to estimate what you think you'll need each month once you've stopped earning a regular income. The shortfall needs to be covered by savings or other investments.

It's a useful wake-up call to calculate this now to find out if you are on track, or how much longer you'll need to work to retire with the lifestyle you'd like. If the business can be sold for a lump sum, will the investment returns provide enough income to support your expected lifestyle? If not, then you'll need to reconsider your income expectations, or keep working and build more value in the business so you can sell it for a higher price, or leave some equity/shareholding in the business and rely on business dividends.

See how your savings add up over time with [our investment chart](#). It shows just how quickly you can save over time.

We're also on hand to help you protect and invest the proceeds from the sale of your business with a diversification plan. We can help you to put together a plan that's tailored to the amount you've received, your age, your investments, your risk tolerance and your personal and business future plans.

We also have [wealth management](#) and [business investment](#) solutions to help you manage the proceeds from your business sale. Your RBC Business Advisor can introduce you to the right experts to help create a retirement plan that works for you, analyze your liabilities and investments and advise you on ways to create increased value to meet your future needs.

### Next steps

- Talk to your RBC Business Advisor, who will put you in contact with RBC specialists to calculate what you will need as monthly income to retire with your expected lifestyle.
- Identify any shortfall and develop plans to cover this amount.



## 5: How are you transferring leadership and management?

One of the most important parts of a business owner plan is how you manage the transfer of leadership, decision-making and management responsibilities to ensure the business continues to do well and grow.

If you've spent years working with family in the business, you've probably got a very good idea of who your successor will be. Selling to your business partners or employees who know the business is equally beneficial as a leadership team may already be in place.

Regardless of who will be taking over from you, the better you prepare them for their new role, the more successful the handover will be. Your first task is to document everything so that the new owner can run the business without you.

- Create manuals that outline all your operating processes.
- Let them watch you work and give them responsibility. They need to learn as much as they can. Continually explain why you do things a certain way and how you make decisions.
- Encourage and empower them so that they are truly ready to run the business without you.

We can help you groom the new business owner and ensure business continuity with your financial services.

### Next steps

- Introduce the new management team to your RBC Business Advisor to ensure you maintain the continuity of banking and business services and have a comprehensive onboarding plan.
- Document the various components of your business.
- Provide an outline of how you've done business in the past. The new owner can then decide what they will maintain and what they will change.
- Engage your RBC team for support in onboarding the new business owner.



## 6: Plan for the unexpected

One of the reasons you might be selling the business is due to you or someone close to you falling ill. If your situation has required you to make major changes in your working future, you may need to:

- Cut down your hours and gradually hand over responsibilities
- Stay on as a business owner but leave the day-to-day operations to someone else
- Sell the business and stop working altogether

If the unexpected does occur, it's wise to be prepared.

We can help you complete wills and contingency plans that meet your personal and business needs as well as any unexpected circumstance or tragedy. Estate planning is more than just a will. It makes sure you're having the right conversations with the right people at the right time.

Talk to your RBC Business Advisor about your options in the event of an emergency, a decline in health or even death. You'll have peace of mind knowing that your business has a plan to move forward in the event you're no longer at the helm.

### Next steps

- Discuss your plans with your RBC Business Advisor, who will put you in contact with the right RBC specialist.
- Discuss various contingency plans with your family and key employees.
- Decide who will take over managing the business if you have to step down.





## 7: What's your plan for the future?

It will be easier to let go of your business if you're clear about what you're going to do next. You don't have to have a definite date in mind, and you don't need to have your plans fixed in stone, but it is useful to start thinking about your next options.

For example you could:

- Buy another business. The proceeds from the sale could be invested in a new business (if you have a great idea) or you may have found a competitor or supplier you're interested in purchasing.
- Help other businesses by becoming an angel investor. You may have run across a promising new start-up you're keen to help get off the ground, especially if you think you'll get a worthwhile return on your investment.
- Work part-time. You may have had your fill of being the boss, along with all the stress that goes with it, and are ready to find your hobby job in a low-stress, limited-hours position in a business that's interested you.
- Volunteer. There may be charities you've previously given money to, and now you're ready to give them your time as well.
- Go back to school. You may have a degree you want to finish, or post-graduate work you want to undertake. It's never too late to continue your education.
- Retire totally. You could travel, take up a new hobby or sport, or get involved in the community.

### Next steps

- Make a decision. It's like anything else – the better prepared you are, the more successful you'll be.
- Get in touch with your RBC Business Advisor to see how we can help you with your complimentary business owner plan to help you prepare for your next adventure.

## Help and resources

We have specialists who can help you through every stage of your business transition, whether it's creating your team of advisors, maximizing the value of your business, financing the transition, implementing tax strategies or planning your retirement. Contact your RBC Business Advisor and get access to the right experts to help you transition.



Royal Bank

The content of this publication is provided for the general guidance and benefit of our clients. While efforts are made to ensure the accuracy and completeness of the information at the time of publication, errors and omissions may occur. This publication is for informational purposes only and is not intended to provide specific financial, investment, tax, legal, accounting, insurance or other advice for you and should not be relied upon in that regard. Readers should consult their own lawyer, accountant or other professional advisor when planning to implement a strategy. This will ensure that individual circumstances have been considered properly and that action is taken on the latest available information. Interest rates, market conditions, tax rules and other investment factors are subject to change. Any examples used in this publication are for illustrative purposes only and do not represent actual events or people. Any resemblance to actual events or people is purely coincidental.