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# Retiring in good company

## Small biz owners must plan early to avoid headaches

Ottawa Sun - By TARA PERKINS, CP

TORONTO -- More than half of Canada's 2.5 million small business owners are expected to retire in the next 15 years, and experts caution that few are prepared.

"More and more, clients are coming up to us with a big look of helplessness on their face, saying, 'I've reached 64 and my kids don't want to take up my business, what do I do?' " said lawyer John Godber.

This country is about to undergo the largest turnover of economic control in generations, said CIBC World Markets economist Benjamin Tal. About \$1.2 trillion in business assets will change hands between 2005 and 2010.

### NO CLEAR EXIT PLANS

But, according to Tal, only two in five small business owners have a clear exit plan.

National Bank senior vice-president Tony Meti said business owners must first set out their objectives.

"How many years down the road do you plan to retire? Have you built up enough wealth in your company to enjoy the type of retirement you want? Are you planning to pass the reins on to one of your children? Is he or she ready to take over? Will he or she need to develop certain skills first? Do you intend to continue to play an active role in managing the company? Do you want the company to continue to employ members of your family and local workers?" Meti said.

Martin Guestier, a senior manager of structured succession and acquisition financing with the Bank of Montreal, said the earlier you start planning, the more options you have.

If your plan includes transferring the company to a new manager -- as opposed to selling it to a third party -- you want a period of overlap to gradually hand off responsibility.

"When you're creating a company, you're usually first creating a job for yourself. Then you create a company. What you want to do as a third step is turn your company into an investment," Guestier said.

Suppliers should begin to communicate gradually with a replacement, while clients wean their dependence.

### MANAGEMENT BUYOUT

"A lot of the value that's built up in these businesses, goodwill, is often because the founder is an excellent salesperson or business leader," Godber said.

If a new management team has been put in place early, one option is a management buyout, where the new team buys out the founder, usually with financial help.

A bank or other institution generally loans the company money to buy back some shares from the founder. Or a financier may take a direct equity stake in the business by buying shares straight from the founder.

Management can be issued new shares, and the remainder of the founder's shares are bought over time from the company's cash flow.

By having a new management team that has proved its worth ahead of time, the entrepreneur is decreasing the risk the company won't generate enough cash for the full buyout.

And financiers are more confident about getting involved.

"Often, you'll see a father just pass it to a child. That's a natural, easier way to pass off the business, but sometimes the founder has to stay at risk," Godber said.

"If you can find a buyer for the business, that's obviously a way to get your money at less risk."

## **FAMILY TRUST**

But because the company's value depends on the goodwill created by the founder, entrepreneurs are often disappointed in the price offered by third parties.

Whichever strategy you choose, Godber points out that Canada has a \$500,000 capital gains tax exemption on small businesses.

One option to make the most of that is the creation of a family trust, which takes ownership of the shares in the company and can name multiple family members as beneficiaries, Godber said.

"So with that, you can triple, quadruple, the \$500,000 capital gain. But you have to do that quite early in the company's value growth, because if you do it later there's a gain when the founder transfers his or her shares to the family trust," he said.

Another possibility is an estate freeze, where the founder converts his or her shares to preferred shares at a fixed value.