



CIBC PRIVATE WEALTH

BUSINESS SUCCESSION PLANNING

Preparing for the future



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When you own a business it often represents years, if not decades of hard work and entrepreneurial drive. Still, even if you're a very astute business owner, you may be unfamiliar with the complexities and meticulous preparation needed for a succession strategy. Whether you're contemplating a transfer of your business to family members, a management buyout, or selling to an outside party, you have decisions to make and complex issues to address.

There are over one million employer-owned businesses in Canada, excluding the self-employed.¹ Many of these business owners haven't prepared their business to succeed after their exit. In fact, when it comes to succession planning, only 19% of Canadian family businesses have a comprehensive, formalized plan in place.²

What is business succession planning?

Business succession planning is a multidisciplinary process which prepares owners, family members and management for the eventual change in control and ownership of a family business. It deals with a number of potential issues, with the goals of maintaining family harmony, maximizing value and ensuring that the business is transitioned unscathed through this process. While tax and legal planning are very important, studies show that how well a family is prepared to deal with this change is equally, if not more important to ensure a successful transition.

A business succession plan needs to strike a balance between technical and relational considerations, some of which are:

 <p>What do you want for yourself, your family members, your employees and the business itself? Do your family members share these same views?</p>	 <p>How much is your business worth? What can you do to increase its value and liquidity if a third-party sale is likely?</p>	 <p>What does your business need to ensure its longevity beyond a change in management and ownership?</p>	 <p>Which transaction structures are important to your specific circumstances and goals? And what are the tax implications of the options available to you?</p>	 <p>What are the first steps of business succession planning?</p>
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A formal business succession plan can help you answer these important questions. A plan can allow you to fulfill your short- and long-term business goals, significantly increasing the chances of your business's continued success after your departure.

Planning allows you to determine how, when and to whom you will transfer your business (assets and/or shares). It also offers ways to preserve and enhance your company's value through tax planning, and by being better prepared for a transition, potential sale, or any unforeseen event. By being proactive, you gain peace of mind that you and your company are prepared for the future.







A good succession plan is the best way to ensure your wishes are respected and your business continues to grow and prosper.

Start planning now

Ownership of your company will change at some point and it's far better to be proactive than reactive. Just like retirement planning, it's best to begin preparing for the transition of your business early, and to review your plan often. Planning for your business's succession at least two to three years in advance of transitioning is essential, but planning five years in advance is optimal.

Understand your options

Deciding how and when to pass on ownership and control of your business involves careful thought and planning. There are six main options to consider when arranging for the eventual transfer of your business.

 Keep option	 Sell option
Groom a family successor This involves choosing someone in your family to be the business's next owner and operator. This is a common way to pass on your legacy. Identifying individuals who want to be included in the business and are a good fit to run it, requires a great deal of consideration.	Sell to management This involves identifying key people in your organization who are interested in being owner and management successors. Already involved in your business, your successors likely have an intimate understanding of its operations. It's still important to mentor them before the transition so they fully understand the business and are prepared to take over.
 Keep option	 Sell option
Owner-investor option There may not be a suitable successor within your family or employees. However, families may still have an attachment to the business and want to continue to own it, so they hire an experienced management team to run the company going forward. ³	Sell 100% to a strategic buyer Selling to a strategic buyer can reduce the potential for family conflict. Potential buyers can include competitors familiar with the industry and market, or buyers seeking to benefit from a new geography, product, technology or increased scale. They may offer the highest valuation and allow for a smooth transition.
 Keep option	 Sell option
Hybrid approach A hybrid approach, means some family members hold shares but don't work in the business, and other family members are involved in the day-to-day business. This approach requires careful planning and compromise to help reduce the chance of family conflict. ⁴	Sell a stake to a private equity firm Selling to a private equity firm can allow you to tailor the transaction to meet the objectives of shareholders regarding their ongoing role and ownership stake. This option allows you to partially cash in your investment and decrease risk, but still retain a stake and participate in the business's upside potential.

Each scenario has pros and cons—we can help you choose the right option for you and your business. Once you've determined the right business succession plan, it's important you share it with family members and key employees at the appropriate time to ensure your wishes are honoured.

A systemic approach and process

We believe that a family business is best understood as a constantly changing, interactive system, comprised of the Family System, the Business System and the Ownership System. A single change in one system can impact the other systems.

We help families consider the preparation that needs to occur before and after succession by focusing on the needs of the family, the business and its owners. The process is dynamic and continuous, led by your family and facilitated by your CIBC Business Transition Team, working together with various experts including lawyers, accountants and business strategists.

Selling or transferring a business is an intricate process that involves a coordinated approach in order to be successful. This process, and its success, is borne out of early preparation, defining your goals, creating and implementing your plan, monitoring its progress and reevaluating and modifying your plans if necessary. The planning framework may include technical and human aspects.

Human aspects include:

- Family harmony issues
- Successor development
- Communication
- Governance strategies

Technical aspects include:

- Business valuation
- Methods of transfer
- Tax and legal implications of each transition option
- Debt financing
- Readyng the business for its sale, and executing the sale, if applicable

Preparing for succession—our process

Identify goals and objectives:

We ensure there are open lines of communication with you, your family and key stakeholders. We work with you to help understand and identify goals and objectives within each system.

Analysis of information:

As well as conversations with family members and key stakeholders, we review important documents like ownership and business structures, financial statements, shareholder agreements, estate plans and retirement plans.

Evaluate options:

Your CIBC Business Transition Team will work with your authorized experts, to identify potential issues and evaluate options that affect the family and the business including:

- Valuation and value drivers
- Methods of transfer
- Successor identification and development
- Tax and legal implications of a sale
- Insurance, retirement and estate planning

Review preliminary recommendations:

We review our preliminary findings and recommendations based on our analysis, to ensure we're on track and aligned with your objectives. This helps us identify priorities and develop an implementation strategy.

Final report:

We prepare and present you a final report, which includes a summary of our discussion, establishes timelines and responsibilities for implementation.

Implementation and monitoring:

As lifecycles and business cycles are always changing, constant review, monitoring and adjustment are needed to achieve your objectives. Your CIBC Relationship Manager along with the CIBC Business Transition Team conduct plan reviews and updates based on your needs.

An integrated approach to business succession planning

Leaving the business you've built and nurtured over the years is not a simple task—financially or emotionally. It needs to be an important part of your business strategy and operations.

Some business owners put off succession planning because they don't know what they want to do. About 29% of small-to-medium-sized business owners say they have no time to deal with succession planning for their business.⁵ A great solution is to engage a team of professionals to assist you in establishing a framework.

When developing and managing your transition strategy, collaborating with a team of experts helps ensure your success. At CIBC Private Wealth, your team starts with your advisor, and through our integrated approach to wealth planning, you have access to a wide range of experts to help you achieve your goals.

Private Banking

Experience sophisticated banking expertise and services that deliver your unique financial vision and strategy.

- Full-service banking with a dedicated team
- Multi-currency credit solutions
- Cash and liquidity solutions
- Cross-border banking solutions
- Financial fluency for the next generation

Wealth Planning

Access specialized expertise to structure, preserve and optimize your wealth.

- Retirement and cash flow planning
 - Tax and estate advisory
 - Strategic philanthropy
- Business succession and family enterprise planning
- Planning for multi-generational wealth transfer

Investment Management

Benefit from rigour and discipline through market cycles with a suite of investment solutions aligned to your goals.

- Discretionary / Managed portfolios
- Full-service investment advisory
- Exclusive and customized Capital Markets solutions
- Cross-border investment counsel
- Self-directed investing

Estate and Trust

Access solutions for some of life's most significant decisions and shape your lasting legacy.

- Professional executor and trust administration
- Executor and power of attorney appointments
 - Agent for estate, trust and power of attorney
- Insurance counsel and solutions



Access to expert advice

We understand that your business is unlike any other. You face unique business challenges and can benefit from unique business opportunities. With an intimate understanding of your needs, goals, opportunities, and challenges, your business transition team is ideally positioned to draw upon subject matter experts across CIBC including commercial banking, mid-market investment banking and capital markets experts, as needed. Timely advice can help put in place the right strategy for your succession plan.

Commercial Banking

CIBC Commercial Banking experts can help create end-to-end financial solutions to address every business need at each stage of a company's development and operation. Their comprehensive approach helps companies finance growth, manage cash flow, increase efficiency and mitigate risk.

Mid Market Investment Banking

Whether planning an eventual sale or future acquisition, CIBC Mid Market Investment Banking experts provide insights and guidance on, market intel specific to your industry, valuation analysis, business positioning to maximize value, and acquisition ideas.

CIBC Capital Markets

For large corporations or institutions, CIBC Capital Markets experts can help develop customized solutions to enable access to capital, expand operations and actively invest.

After the transition, what next?

Retirement? Your next business? Whatever your goals, take the time to think about your future. Continuing to work with your advisory team helps ensure that your wealth plan supports your financial goals and personal objectives as they evolve over time. Specifically, you may want to revisit certain aspects of your wealth management strategy to reflect your new circumstances, including:

- Retirement planning
- Estate planning
- Philanthropic planning
- Intergenerational wealth transfer
- Financial fluency – Preparing the rising generation
- Investment policy formulation
- Tax optimization

As many of these planning areas are interdependent, this underlines the importance of utilizing a collaborative advisory team, with various technical skills, to work with your family to achieve your objectives.

Contact your advisor to get started and meet your business succession planning team.

¹ Key Small Business Statistics, Statistics Canada, Survey on Financing and Growth of Small and Medium Enterprises, 2014; and Innovation, Science and Economic Development Canada, June 2016. https://www.ic.gc.ca/eic/site/061.nsf/eng/h_03018.html.

² PwC Canada's family business survey 2018. <https://www.pwc.com/ca/en/private-company/family-business-survey-2018.html>.

^{3,4} Changes to the taxation of private corporations came into effect in 2019 that could impact the tax treatment to some shareholders using this structure.

⁵ Passing on the Business to the Next Generation, Canadian Federation of Independent Business, November 2012.

The information contained in this brochure, including any opinion, is intended to provide general information only and should not be construed as specific advice. Since a consideration of individual circumstances and current events is critical, anyone wishing to act on information should seek independent advice regarding their particular circumstances from a professional experienced in legal and tax matters.

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