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SALE VERSUS FAMILY SUCCESSION

**M&A Article by Cal Cochrane
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One very noticeable trend within privately-held Canadian businesses over the last two decades has been to exit by sale to a third party rather than passing the business on to family members. In a recent survey the CFIB (Canadian Federation of Independent Business) found that the majority of business owners (51%) considering an exit program plan to sell to a third party while only about one-third plan to sell or transfer to family members. Based on our experience at Geneva Canada we would confirm that the actual results are skewed even more toward sale and that this option has been by far the more likely choice for most business owners.

This article discusses several reasons why this trend has been taking place and may help the reader to better understand the dynamics of these two options and assist in your own deliberations. For nearly all privately-held businesses these two options are the only choices an owner has to create an actual exit plan, the exception being owners who are able to exit through a sale to other partners or an employee group – but these situations are clearly exceptions and not available to most owners.

We see four main reasons why business owners in today's business environment will be more attracted to an outright sale to a third party rather than a sale or transfer to family members.

1. Next Generation – All About Balance

The upcoming generation (whether Gen X or Gen Y or somewhere in-between) has by and large a much more balanced life than their parents. Many are prepared to work very hard but definitely do not intend to make the extreme sacrifices, and take on the attendant risk, that their parents did when building the family company. Their lives revolve around work, family, health and social activities rather than just the grinding work routine of their parents. So in many cases it's the child or children that reject the possibility of succession and prefer instead to carve out their own career rather than carry on the family business.

We have had several clients who had children in senior roles in the business, obviously being groomed for succession. When the time came to declare their intentions these children advised their parents it would be a better option for them to sell than to expect the children to fund a retirement plan for them from the business.

2. Parents – Needs and Expectations

For most owners of mid-sized businesses the business is their most valuable asset and will be required to fund their retirement program. They have the added (enjoyable) problem of having ever-lengthening life expectancy so the retirement fund has to be that much larger.

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Most owners have been successful enough with the business to enjoy a very comfortable lifestyle and, not surprisingly, they intend to continue that lifestyle through their retirement years. At the same time, the parents will have much less appetite for risk post-retirement as they well know that the risk element creates a large part of the stress of business ownership. When you put these factors together – larger retirement fund required with little or no risk – it means that family succession is likely not a viable option. Most children are not prepared to mortgage their homes and futures and would plan to pay their parents over an extended period of time. Often both parents and children conclude that it would not be worth risking their relationship as parent-children by putting the heavy responsibilities of retirement funding for parents on the heads of the children.

3. Competitive Environment

In today's business world competition in virtually every sector is much more intense than a few decades ago and comes from all corners of the globe. Parents know first-hand how difficult it is to survive and compete effectively in the modern business world. Even with the most capable of offspring they may be extremely nervous if their retirement funding is dependent on the future cash flow of the business under the management of their children in this highly competitive environment.

4. Expanded Base of Buyers

Most mid-sized business owners that have an interest in exploring the sale option will have access to one or more experienced and capable investment banking firms. A professional firm will ensure that the business is exposed to a wide range of buyers and in many cases international buyers from around the globe. In today's world of M&A the intermediary knows that a thorough and extensive buyer search is required to ensure the best deal is made available to the seller. The buyer base has been significantly expanded in the past ten years by the activity of a growing number of financial buyers or Private Equity Groups (PEG's). They have grown rapidly and now number more than 3,000 active PEG's in North America. The knowledge that there is an expanded base of well-financed buyers interested in considering their business as an acquisition opportunity is a compelling factor for business owners to decide on the sale option versus family succession.

We at Geneva Canada have had extensive experience dealing with family-owned companies and would be more than pleased to review your situation and provide direction on deciding between these options of third-party sale or transition to family ownership.