How to maximize value before retirement

FLAGSTAFF REGION SUCCESSION SERIES

Flagstaff region

For many family business owners, retirement may seem like a pipedream. Even if you ideally want to hang your hat within the next five to ten years, it's often difficult to identify a clear path toward that end goal.

There are likely a few different reasons for this. Maybe your presence is still critical to your business's success - either because of your well-developed client relationships, a unique understanding of proprietary processes or the absence of a strong management team. Or perhaps you haven't yet taken the time to thoroughly plan out your exit.

Whatever the case, all is not lost. With a bit of planning and foresight, you still have time to boost the value of your business and enjoy your retirement years.

Maximize your business value

While there are a few ways to ensure your business will continue after you retire, most family business owners must decide between two options: keep the business in the family or sell to an outside party. Regardless, your ultimate goal is the same: to maximize your business's value and give the next owner the best start possible.

There are a few ways to do this in the years leading up to your retirement:

1) Update your business plans. A future buyer will value your business based on expected future cash flows and any risks that could impede those future cash flows. With this in mind, they'll be looking for a business plan that clearly articulates this information.

2) Clean up your corporate records. Depending on how long you've been in business, or how thorough you were in your bookkeeping efforts, your corporate records could probably use some tender loving care. A new buyer will want to make sure all tax filings are up-to-date and readily accessible, and that any contingent liabilities or litigious matters are taken care of (a process that can take a while).

3) Implement an appropriate management structure. Your ultimate purchaser wants to make sure the business won't fall apart when you leave. You can alleviate those concerns by taking the time to build a capable management team that will be able to run the show when you're gone.

4) (Tax) plan ahead. Depending on your end goals, tax planning can help reduce potential future taxes, without relinquishing control of your company. If this is something that would fit into your ideal succession or estate plan, it's worth consulting an advisor well in advance.

5) Optimize financing and operating assets. When a company is under-leveraged, a purchaser must raise more capital than would otherwise be needed. Similarly, too many non-operating assets (such as excess securities and real estate) have a negative impact on business value. Finding the right balance is essential.

Success is in the planning

While it's never too late to plan for retirement, the more time you have to prepare your business, the more options will become available to you.

Whether you choose to pass your business down to a family member or sell it to an outside buyer, the key is to make the process as seamless as possible.

For more information on how to start your transition, contact Jordyn Prior, Economic Development Coordinator by phone: 780-384-4151 or email: jprior@flagstaff.ab.ca, about the Flagstaff Succession Program and how you can become involved.

Michael Wetsch

Senior Manager, Grant Thornton

Grant Thornton