

Canadian entrepreneurs say,
“Selling your business is an
emotional roller coaster and
life-changing event.
Be prepared and do it right.”

Survey Report: Unique perspectives and insights into the challenges and opportunities faced by Canadian entrepreneurs who have sold their businesses. From the need for pre-planning to adjusting to life after the sale, entrepreneurs caution: **Do as I say, not as I did.**



About Newport Partners

Newport Partners helps successful entrepreneurs tap into money, opportunities and advice to enhance their business and manage their wealth. We provide capital and corporate financial advice to help our clients realize their business goals. And, we provide money management and financial advice on all the business and personal issues entrepreneurs face. Newport Partners was established by a group of entrepreneurs and senior financial executives.

We have specialized expertise in assisting entrepreneurs with the sale and transition after the sale of their business. Fourteen of our partners have first-hand experience in selling their own businesses and bring deep understanding of the associated financial and personal issues. Our client base of 350 entrepreneurs is also a source of ideas, experience and counsel and we work hard to introduce our clients to each other to create opportunities.

Chapter I: The sale

You will only sell your business once; do it right.

An offer to buy can come along at anytime. Canadian entrepreneurs are not always prepared.

The entrepreneurs surveyed reported the primary reason they sold their business was because they received a very attractive offer, yet only a minority had methodically pre-planned for this possibility. And only about a third took steps to maximize the sale value, such as obtaining an independent valuation or hiring an agent to negotiate the transaction.

In dealing with the sale process, the overwhelming majority turned to their lawyers and accountants – professionals with whom they likely had long-standing and trusted relationships. Most did not hire an investment banker or review all potential buyers for their business. A minority had access to a friend/mentor or a personal advisor whose role was to look out for their personal interests.

Based on these findings, Canadian entrepreneurs may not be as prepared for the sale of their business as they could be and as a result, may be leaving money on the table.

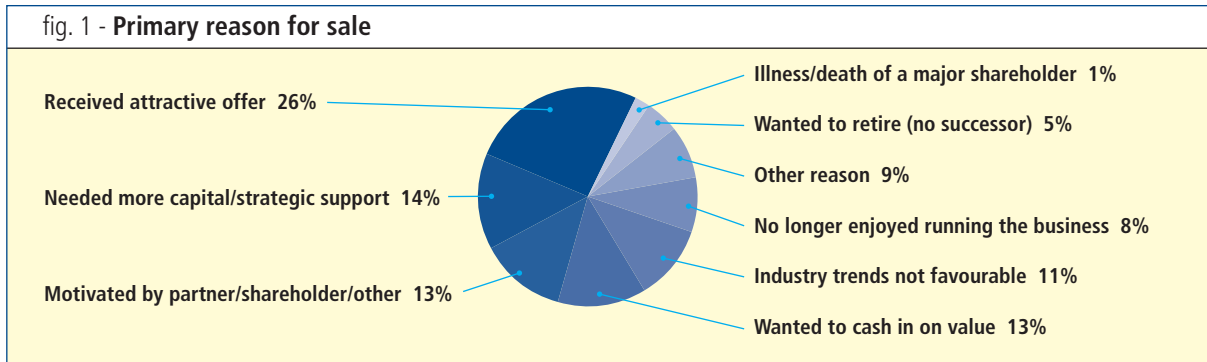
“I needed a friend...
and missed having
someone in my corner.”

Most entrepreneurs sold based on an attractive offer.

Entrepreneurs were most likely to sell because of a very attractive offer (26%).

14% of respondents indicated that the decision to sell was driven by the company's need for more capital and support than they could offer. 13% of

the respondents sold their business as they simply wanted to cash in on the value, while the same proportion (13%) was motivated to sell by others (their partners or other shareholders).



Lawyers and accountants most often consulted.

An overwhelming majority of respondents looked to their lawyers and accountants for advice.

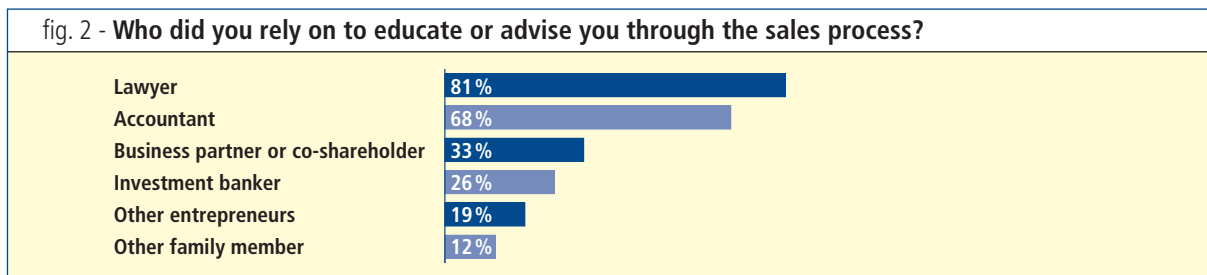
81% of entrepreneurs relied on their lawyers and 68% turned to their accountants to educate or advise them through the sale process.

About a quarter (26%) sought the counsel of an investment banker. A third (33%) relied on business partners or co-shareholders for advice.

Clearly, when faced with a moment-in-time transaction – one that is often unexpected – entrepreneurs turn to advisors with whom they

typically have long-standing relationships. While professional skills are important, the research revealed that trust is paramount and this takes time to build – making it challenging for new advisors to become involved in the transaction once it's underway.

While adding the skill set of an investment banker may help to maximize value, the majority of entrepreneurs did not do so, perhaps because of a lack of awareness and the fact that long-standing and trusted relationships are not typically in place.



By not methodically pre-planning, seeking outside advice and/or pursuing all avenues to increase value, sellers could be leaving money on the table.

Entrepreneurs could be leaving money on the table.

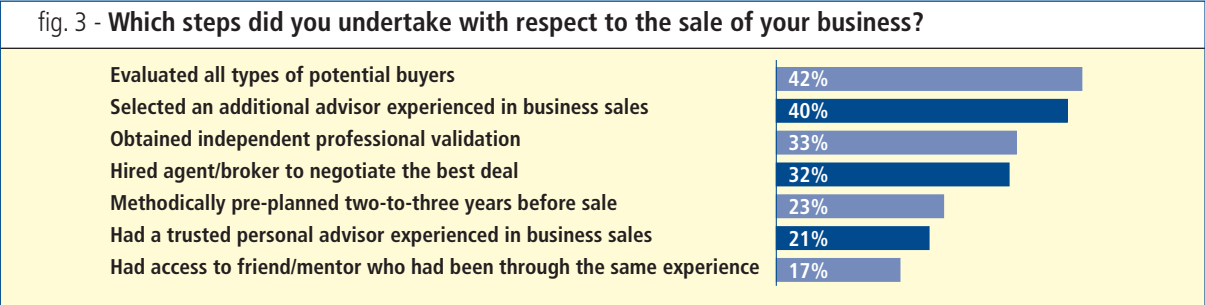
When asked about the steps they undertook with respect to the sale of their business, less than one quarter of respondents had “methodically pre-planned” for the sale two to three years in advance.

Approximately two thirds of respondents did not engage a consultant to negotiate the best deal. Similarly, 67% did not obtain an independent valuation to verify the value of their business. It is our experience that some entrepreneurs have a “number in their head” as to the value they want for their business and make the deal when that number is reached.

Surprisingly, given the importance of the transaction, an overwhelming majority (about 80%) of respondents reported neither accessing a trusted personal advisor nor a friend/mentor with relevant experience to address their personal interests.

Hindsight is 20/20!

When asked about the advice they would give to other entrepreneurs contemplating the sale of their business, the message was clear: **Do things differently.**



Sound advice related to business evaluation, taxation, sales strategies and post-sale planning is critical but so, it appears, is having trusted advisors who can help guide and coach the seller through what is an emotional and often life-changing event.

Business-sellers' advice to other entrepreneurs: Do as I say, not as I did.

While only 33% of respondents sought an independent professional valuation prior to the sale, nearly 74%, in hindsight, would encourage other entrepreneurs to do so.

74% of respondents recommend evaluating all types of potential buyers, while less than half actually did so themselves.

Despite a wide network of social and professional contacts, a mere 17% of the entrepreneurs surveyed

had access to a friend/mentor with relevant experience. Based on their experience however, more than 50% of respondents advise or strongly advise others to access a friend/mentor. Our qualitative research also suggested that those who had access to “someone in their corner” found this experience invaluable, and those who did not wished they’d had.



“I wished I had some people to speak with who thought like I did and had my emotional profile and who had been through the sale of a business.”

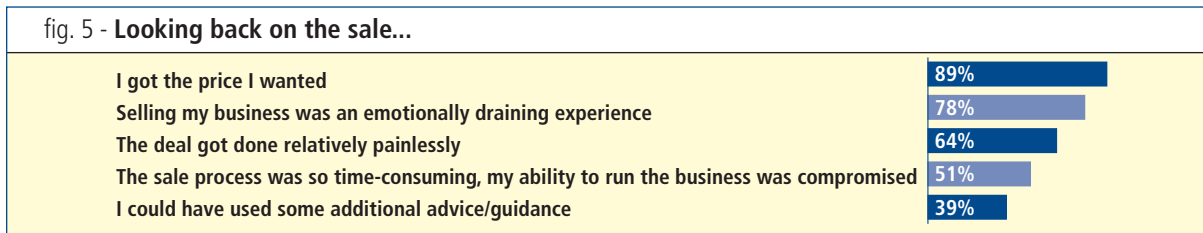
Sale process is time-consuming and emotional.

The emotional impact of the sale of a business may not have been recognized prior to the process but, reflecting on the sale of their business, 78% of these entrepreneurs indicated that it was an emotionally draining, often lonely and all-consuming process.

Over half of the respondents found the process so time-consuming that their ability to run the business was compromised during the sales process.

39% felt they could have used some additional advice and guidance to ease them through the process.

Ultimately, however, it’s worth it – with 89% saying they got the price they wanted for their business. This finding supports our experience that many entrepreneurs have a “number in their heads” about the value of their business and sell when they receive an offer at that price.



Chapter II: After the sale

Yesterday's success.
Today's opportunity.

New circumstances, new challenges... new opportunities.

Based on the responses of the survey group, entrepreneurs do not view the sale of the business as the last page of their story. In fact, most respondents discovered that the sale allowed them to start a new chapter in their lives and to achieve greater freedom.

In the short-term, however, most entrepreneurs appear to face a period of adjustment. Most said they experienced mixed emotions and uncertainty the first six-to-twelve months following the sale. Once they adjusted to their new circumstances, over 80% of these business sellers said that selling the business was personally and financially the best decision.

“I thought I was doing okay,
but my wife said
I was a ‘basket case’.”

“I was lost. All my peers were going to work and I was standing in my yard in my jeans.”

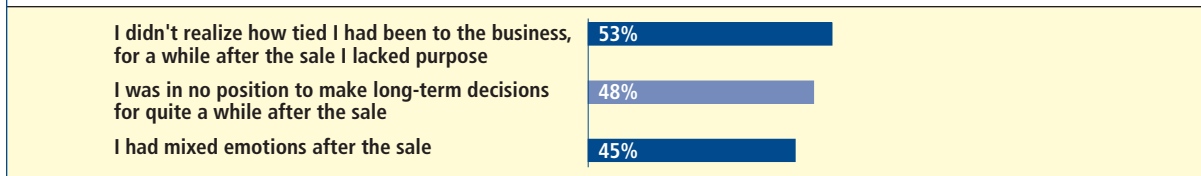
Short term, a period of adjustment.

Selling a business is an emotionally draining experience for entrepreneurs with nearly half the respondents reporting “mixed emotions” after the sale.

More than half of these business sellers (53%) ended up with some sense of loss of purpose and 48% found themselves in no position to make long-term decisions for quite a while after the sale.

Our experience suggests that the closer the entrepreneur is tied to the business and/or its brand, the more difficult the transition after the sale. A loss of legacy plagues many of these entrepreneurs.

fig. 6 - Reflecting on your experience – the first six-to-twelve months after the sale...



Longer term, life is good... but finding new purpose is difficult for some.

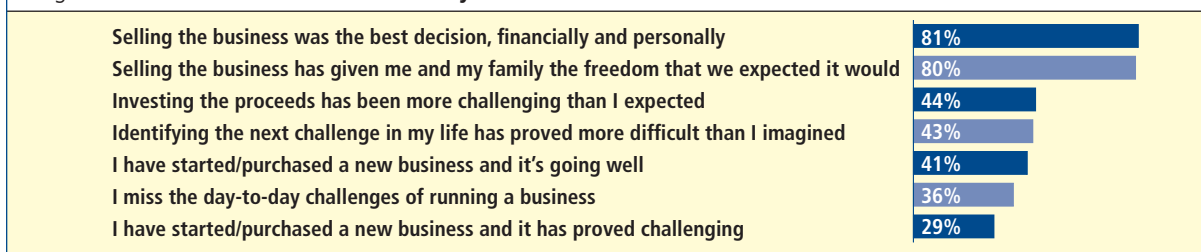
Once they adjusted to their new circumstances, over 80% of these business sellers said that selling the business was personally and financially the best decision. They reported that it was a decision that offered the “level of freedom” they expected.

Still, more than 40% have found it difficult to identify the next opportunity in their lives, and 44% reported that investing the proceeds from the sale was more challenging than they expected.

While many survey respondents have gone on to start new businesses, the results appear to be mixed. Some report that their new ventures are “going well”, while others report they are “proving challenging”.

Our experience is that the better prepared an entrepreneur is for life after the sale – personally, professionally and financially – the better the outcome.

fig. 7 - Which statements most reflect your life now?



“I carefully planned for the sale of my business... or thought I had. I should have had better advice about the emotional side of the sale.”

The new business of managing money.

New liquidity – achieved suddenly and often in abundance – brings about a new set of responsibilities. While many business sellers are proud, self-made

entrepreneurs, many also appear to realize that managing their business and managing their money require two very distinct skill sets.

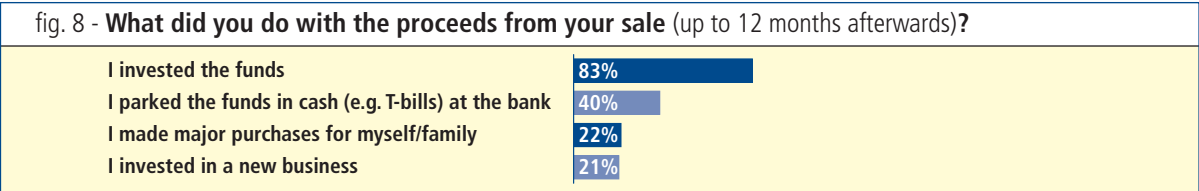
Lots of uses for the proceeds.

For many entrepreneurs, the one-year post-sale period is the time of greatest uncertainty as they consider what to do with the proceeds from the sale and adjust to what are potentially markedly different professional and personal circumstances.

83% invested at least some of the profits from the sale within the first 12 months, while 40% parked their funds in cash at the bank for a full 12 months. 22% made purchases for themselves and the

family, while 21% decided to try to do it all over again, investing the funds in a new business.

The six-to-twelve month period following the sale is an opportunity to take a breath, reflect on the many options available and determine future plans. Until entrepreneurs have taken these steps, we would advise postponing important decisions about the future.



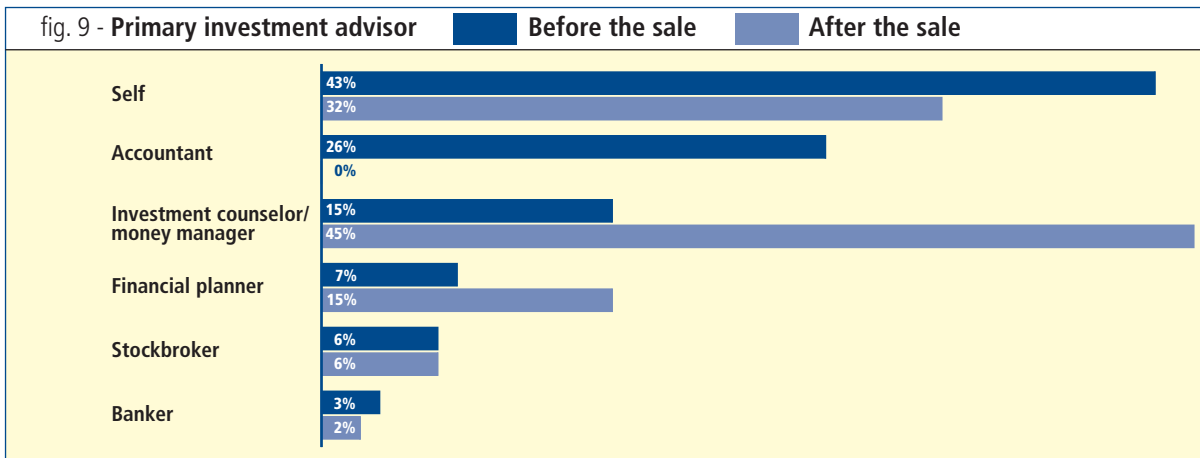
“When I first sold my business, I made some terrible financial mistakes. I had a financial advisor for my business but I didn’t trust him enough to have my personal interests in line.”

It’s time to get professional help.

Prior to the sale of the business, entrepreneurs tended to rely on their own ability to manage their investments – as 43% of the respondents reported they were their own primary investment advisor.

However, after the sale of the business, entrepreneurs were more likely to seek professional advisors who

could help them with their investment decisions rather than do it themselves. 45% of the respondents reported that they now have an investment counselor/ money manager in place – compared with 15% prior to the sale. And, only one-third of these entrepreneurs now act as their own primary investment advisor – down from 43% prior to the sale.



[“I didn’t want this money to manage me.”]

Protecting capital needs to be top priority of advisors to entrepreneurs.

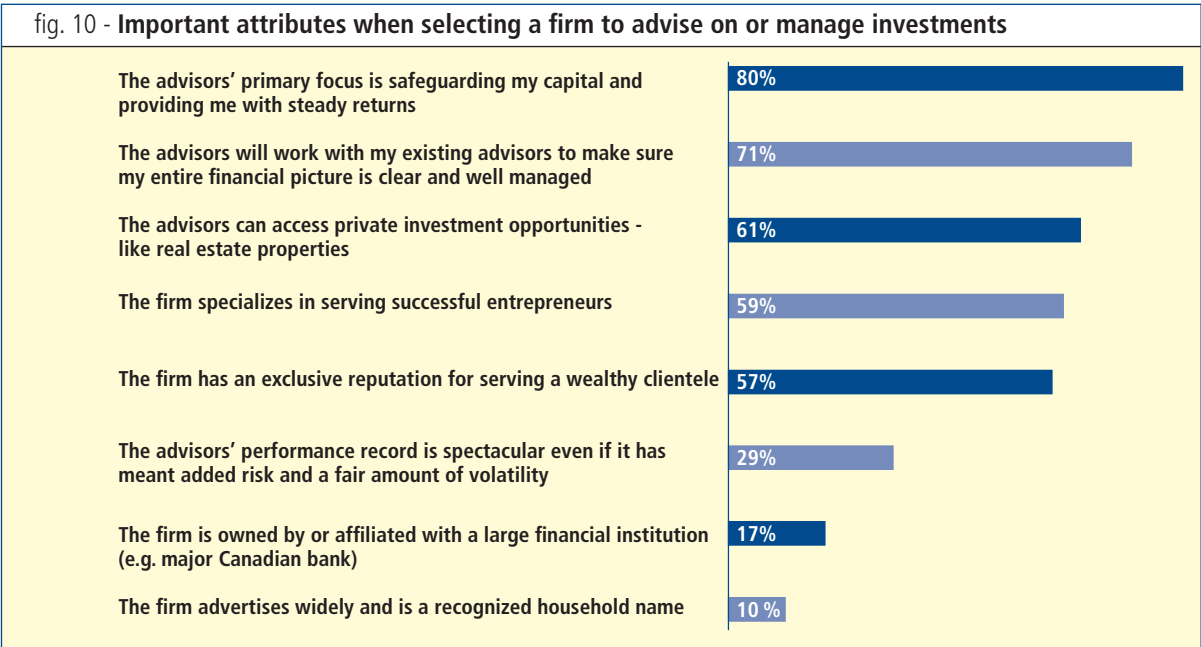
When it comes to managing the proceeds from the sale, 80% of the entrepreneurs surveyed indicated they want advisors who are focused on safeguarding their capital and providing steady returns in all market environments. Clearly, one of the ways they view this can be achieved is through diversification into alternative investments – such as real estate and private equity. 61% said it was important or very important for advisors to be able to access these types of opportunities.

Entrepreneurs also favoured investment advisors who could work hand-in-hand with their existing advisors (most likely their trusted accountants and lawyers) to deliver a clear and coordinated approach to their financial picture.

These findings also suggest entrepreneurs believe that their experiences and circumstances are unique and bring with them the need for very specific skill sets. About 60% of entrepreneurs said it was important or very important to work with an advisor who has a demonstrated focus on entrepreneurs.

An “affiliation with a large financial institution” was important to only 17% of respondents, while an even smaller number were motivated by advisory firms that advertise widely or are a “household name”.

Our qualitative research revealed that trust and fit are paramount. Technical skills are important but only meaningful if they are tied to an advisor who is trusted by the entrepreneur.



About the Research

Newport Partners commissioned the Research and Analysis practice of Capital C, powered by Kenna, a Toronto-based full-service marketing communications and relationship marketing firm to conduct this study. The purpose was to garner insight into the behaviour, key issues, challenges and needs of Canadian entrepreneurs, from pre-sale planning and handling of the sale of their business, through to the post-sale period of adjusting and managing their new circumstances.

The research was conducted in two stages employing both qualitative and quantitative techniques. One-on-one interviews were conducted with six business sellers to assess top-of-mind issues, behaviour and experiences. This learning was then translated into a quantitative survey, which was hosted online. Three hundred business sellers were invited to participate in the online survey via e-mail. More than 100 business sellers responded to the survey, yielding an excellent response rate of more than 30%.

About the respondents

- Sole proprietors accounted for less than 20% of the respondents; the majority (58%) had two to five shareholders.
- 71% of the respondents were also the founders of the business they sold.
- 81% were the chief decision-makers for the sale of the business.
- 60% of the respondents sold their business less than five years ago.
- 70% of all sales were to strategic buyers.
- 43% sold their business for over \$20 million and 29% between \$5 million and \$20 million.
- Service (41%) and Manufacturing (31%) are the predominant sectors represented in this study.
- Other sectors covered include Industrial (10%), Retail (9%), IT (5%) and Consulting (4%).
- All respondents were male with 75% between the ages of 46 and 65 and 15% 45 or younger.
- The survey participants included clients and operating partners of Newport Partners.

Notes



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