

# Business Transition and Succession Planning



SUCCESSION  
MATCHING



**ESOP  
BUILDERS**  
It's your legacy.

# Using an Employee Share Ownership Plan (ESOP) to Maximize Your Value and Your Legacy



# Baby Boomers: The good and ... not-so-good

- 1,200,000 SME's
- 54% of GDP
- 60% owned by Baby Boomers
- Only 9% have formal succession plan
- By 2022 - \$3.7 trillion to transfer

Statistics Canada





# Why Don't They Plan?

- Too busy
- Not sure how to start the process
- Daunting, costly, even scary!!
- Difficult to discuss financial matters and personal goals
- Afraid of what life might be like without the business





# What Do They Want?

- Exit
  - Getting your money out
- Succession
  - Sustaining the company
- Legacy
  - Preserving founder's core values
- Community
  - Impacts people

# What Are The Alternatives?

- Transition to family
- Sell to 3<sup>rd</sup> party purchaser
- Shut the doors
- Employee Share Ownership Plan (ESOP)



# What is an ESOP?

## Employee Share Ownership Plan



A formal plan made available to **eligible** employees which allows them to participate in the **long-term value growth** of a business through the purchase of an **ownership interest**.

# Why an ESOP?

- Founder exits on own time and terms
- Allows family participation
- Instant liquidity
- Employees become owners (more than financial investment)
- Engaged employees
- Shared risks and rewards

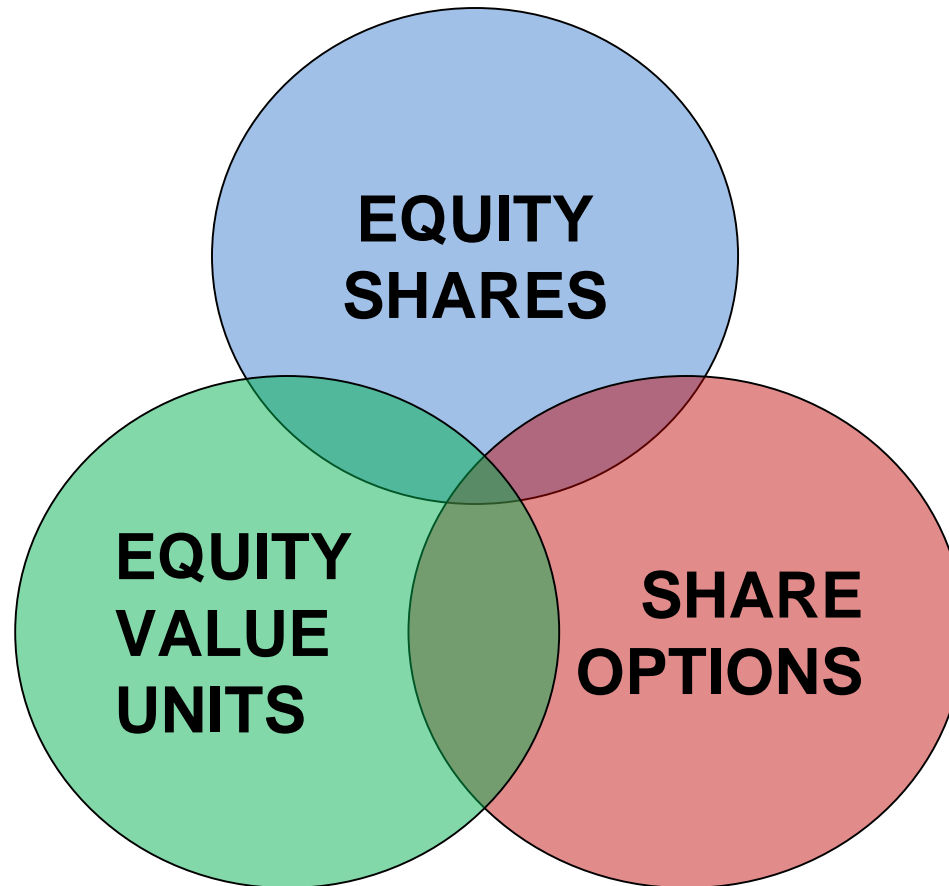




# Other reasons?

- Attract and retain employees
- Improve individual performance
- Increased growth and profitability
- Enable owner to share success
- Raise capital
- Foundation for 3<sup>rd</sup> party sale

# How Can It Work?



# ESOP Model

## Stage I

Will it work?

What are the alternatives?

**WHAT  
WILL IT  
TAKE?**

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# ESOP Model



## Stage 2

How to make it work?

Design, training, communication



# Key Factors

- Communication, communication, communication
- Technical and Cultural
- Owner's 100% support and be willing to disclose to employees
- Key-person or broad-based
- Company should have history of success (earnings and cash flow)

# Key Factors

- Independent valuation
- Keen employee group - capable and supportive - champions
- Employee participation in decision-making
- Employees must invest
- Manage employee expectations
- Training, participation, celebration



People support  
what they help  
create

# What it does?

- Financially rewarding for employees
- Easy to understand & administer
- Integrates into existing culture and incentive program





# What it does?

- Simplified financing of the purchase
- Tax-effective – Canadian Income Tax Laws
- High employee participation



# What it does?

Fosters:

- an engaged workforce
- higher productivity
- decreased turnover
- increased innovation & creativity
- increased sales
- job satisfaction



# The numbers?

- **Recruiting** – 3.5 X applications
- **Turnover** – significantly reduced (up to 200%)
- **Productivity** – 20% higher performance scores
- **Absenteeism** – significantly less
- **Customer loyalty** – 2 X
- **Resilience** - ??

NCEO Research

# Proof



CONSTRUCTION



iQmetrix®



CLARK BUILDERS



# Risks?



Absolutely – it's a business investment!!

- Business could fail
- Limited market for shares
- Tax laws
- Plan terminated
- Economic changes
- Lack of engagement
- ???

# Our Philosophy

- We put the people back into business
- Instill realistic employee expectations
- Importance of Culture, Education, and Communication
- Build trust, enhance interest, create structure
- Increase Goodwill
- Administrative simplicity
- Tax implications clarified and understood

# Can An ESOP Help You Achieve Your Goals?



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# Questions ??

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