

THE PLAN

*The Ontario Business Owner's Guide to the Decisions, Preparations,
and Documentation Required to Sell a Business*

Summary

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Pre-Sale Decisions

Build your project team, resolve shareholder and HR questions, choose assets vs. shares, and understand how you'll get paid.

2

Corporate Compliance

Keep your minute book current and pass the two resolutions required to authorize a sale.

3

Ideas and Opportunities

Show buyers a brighter future — an honest SWOT analysis, improvement ideas, and growth opportunities.

4

Documents

Everything required for your Engagement Agreement, your CIM, and full due diligence readiness.

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Preparing for Buyer Interviews

Your story, your market positioning, and the details that shape a buyer's first impression.

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FAQs and Reference

Pricing terms, EBITDA and SDE explained, the 10-step engagement process, and what due diligence covers.

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Pre-Sale Decisions

The critical early decisions that shape everything that follows — your team, your shareholders, and how you'll structure the sale.

Build Your Team & Address Shareholders

1 Choose a Project Team

- Legal: contract law is the core need, plus specialized HR or environmental advice where relevant
- Accounting/Bookkeeping: monthly reports and tax questions — ensure access to a taxation specialist
- We'll need contact information for whoever you choose

2 Don't Be Indispensable

- If you're the heart of the company, buyers will want a long-term employment contract or an earn-out
- Introduce alternate contacts to key vendors and customers now, so the business runs without you

3 About Shareholders

- Sole owner with 100% clear possession? You can skip the rest
- Two or more shareholders: you'll need a shareholder's agreement and clear consensus to sell
- Minority shareholders: Equitas represents only controlling-interest sellers, but can appraise minority value

HR and Employment Issues

1 Transition Assistance

- Buyers expect the seller to remain available post-closing to avoid disruption
- How long, how many hours, and at what cost are negotiated through your broker
- Consider limits on availability (travel, health) and interest in paid consulting or longer-term employment

2 Family, Shareholders & Other HR Issues

- Confirm family/shareholder employees are paid fair market wages and would qualify on merit alone
- Share sales keep employees in place with no immediate impact
- Asset sales raise a termination-notice vs. severance-cost trade-off — get current Ontario employment law advice

Selling Assets or Shares?

1 The Overview

- A fundamental decision — have a tax plan in place before we market your business
- Sellers generally prefer share sales (tax advantages); buyers often prefer asset sales (avoid liabilities, cherry-pick)
- Share sales keep customer/supplier agreements in place automatically

2 Asset Sale Considerations

- May trigger HST and, if property is involved, land transfer tax
- Allocation of value across assets affects tax cost for both parties
- Can generate significant paperwork and valuation disagreements

3 Share Sale Taxation Ideas

- Use your lifetime capital gains exemption (and family shareholders' exemptions)
- Consider a retiring allowance to RRSP, or a capital gains rollover into another Canadian corporation
- An earn-out can also help bridge a valuation gap

Working Capital & Getting Paid

1 Net Working Capital (NWC)

- Current assets (cash, inventory, receivables) less payables — always included in the sale price
- Calculated from trailing 12-month averages; adjusted at closing against the target
- Clean up the balance sheet: liquidate old inventory/unused equipment, resolve shareholder loans

2 Four Ways to Get Paid

- Non-cash payments: buyer's shares, royalties, consulting contracts — evaluate each carefully
- Holdbacks: ~10% held in trust to cover post-closing claims
- Earn-outs: tied to specific, unambiguous, measurable targets
- Vendor take-back loans: subordinate to bank debt; negotiate security and terms

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Corporate Compliance

Your minute book is a legal requirement — and it must be current before we can take your company to market.

Why the Minute Book Matters

1 The Risk of Neglect

- You are legally required to keep the corporate minute book updated annually
- You can't sell your company until it's current — gaps can be fixed with Rectifying Resolutions
- Shareholder disagreements can turn missing items into major liabilities, even exposing personal assets

2 What It Should Contain

- Real Property Register, Share Registers, and all Forms Filed with government
- Debt Obligations Ledger and meeting Notices
- Director/Officer changes and the Director's and Officer's Register
- Resolutions & Minutes, Annual resolutions, and Share Certificates

Two Resolutions to Authorize the Sale

1 Step 1 — Special Resolution of the Shareholders

- Confirms that 100% of shareholders agree to offer the corporation's shares for sale
- Cannot be passed by Officers or Directors — it fundamentally changes the company
- Your lawyer may suggest alternate wording

2 Step 2 — Resolution of the Directors

- Accepts and endorses the shareholders' resolution
- Appoints Equitas Business Brokers as exclusive agent to carry out the sale
- Names an authorized signing officer (and an alternate) to avoid delays that could jeopardize the deal

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Ideas and Opportunities

Buyers are paying for what you've built — but buying a starting point for something bigger. Help them see it.

Why This Chapter Matters & SWOT

1 Sell the Future, Not Just the Past

- The more buyers can see a brighter future, the more convinced they'll be that buying is the right move
- SWOT remains a simple, credible inventory of your company's position: Strengths, Weaknesses, Opportunities, Threats

2 The Merits of Honesty

- A buyer will uncover weaknesses anyway — disclosing them first removes negotiation leverage from their discovery
- It signals room for improvement, since your price reflects past performance in spite of the weakness
- It builds trust that smooths the path for other issues that arise later

Process Improvements & Growth Ideas

1 Areas to Consider for Improvement

- Advertising & branding, sales & distribution, production, sub-contracting, purchasing
- Payables & receivables, packaging & shipping, overhead reduction, cost accounting
- Computerization/automation, order processing, product/service changes, warranties

2 Directions for Growth

- Use excess machine capacity by sub-contracting outside your industry
- Improve selling methods, or expand distribution into new markets
- Develop new products/services for current or new markets
- Acquire smaller companies with desirable products, licences, or markets

Communicating Your Ideas

1 Product Plan Outline

- The need or opportunity, and resources/estimated cost
- Product details, price, and margins
- Markets and customers, distribution channel
- Competitive advantage and financial forecast

2 Marketing Plan Outline

- The opportunity, and resources/estimated cost
- Market and customer description, market size and share
- Penetration method (channel, promotion, pricing)
- Competitive advantage and financial forecast

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Documents

Almost everything in this chapter will eventually be needed — read it fully before you start collecting.

Getting Started: Engagement & the CIM

1 For the Letter of Engagement

- 5 years of financial statements plus recent interim statements
- Shareholder compensation detail (benefits, spousal wages) for each of those 5 years
- Lease terms, saleable inventory value, and details of operating agreements (territory rights, licences, patents, franchises)

2 For the CIM (Your Primary Marketing Document)

- Company history, products/services, distribution channels and customer profile
- Industry, competitors, and growth potential
- You approve the CIM before it's released — names and specifics are filtered as needed

Financial, Legal & Compliance Records

1 Financial Records (5 Years)

- General ledger, trial balance, journal entries, fixed asset schedule
- Bank statements, tax returns and assessments

2 Compliance & Assets

- Environmental declaration; intellectual property review (domains, patents, trademarks, assignments)
- Furniture, fixtures & equipment list; facility, lease and zoning details
- FINTRAC identification (driver's licence or passport) on file

3 Contracts

- Are supplier, distributor, customer and agent contracts up to date?
- Check assignability — many contracts require written consent to transfer to a buyer

Operations, People & Suppliers

1 Operating Systems & Suppliers

- Overview of essential procedures, processes and controls — highlight anything innovative
- Rank production suppliers; note critical sourcing, redundancy, and non-arm's-length relationships
- List of non-production suppliers (marketing, hosting, printers, temp agencies, maintenance)

2 HR Documents

- Organization chart and a redacted list of managers with duties, experience and wages
- Summary of non-management staff by department, with skills
- Benefits schedule and any pending or settled employee issues from the last 3 years

Due Diligence Readiness

1 Products, Promotion & Customers

- Revenue breakdown by product/service — best sellers, best margins
- Current advertising and promotional material
- Major customers and what % of revenue each of the top 5 represents

2 Financial & Government Records (5 Years)

- AR/AP listings, sales invoices, significant vendor invoices
- HST filings, payroll remittances, RevCan correspondence, WSIB reports, licenses/permits

3 Legal

- A full explanation of all legal issues going back 5 years

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Preparing for Buyer Interviews

Your broker interview prepares you for the questions buyers will ask — and helps us build materials that reflect you well.

Telling Your Story

1 Introductions & Opening Questions

- Prepare a ~30-second overview of your company's history — key points, not a memorized script
- “Why are you selling?” is inevitable — a vague answer raises doubt; a real answer builds trust
- Deflect price/terms questions in interviews — that's a conversation for your broker

2 Bad-News Stories

- If hardship is coming — a lost customer, a key employee leaving — don't try to hide it
- Concealed problems have cost real deals when discovered later — disclose early

Marketing Topics

1 Positioning & Sales

- Market positioning: how do customers actually describe you on quality, price, service, innovation, size?
- Pricing, sales channels, and why each was adopted
- Market size and share: Total Market, Available Market, and your Market Share

2 Promotion, Website & Competitors

- Confirm directory listings are accurate (Dun & Bradstreet, ZoomInfo, Scott's, Manta, Thomasnet, Frasers)
- Test your website fully — links, spelling, auto-responses
- List competitors: position, market share, strengths/weaknesses

Final Impressions

1 Your Online Presence

- Check your real Google ranking in an Incognito window (not your personalized results)
- Search for reviews (“Review: company name”, Glassdoor) — be ready to address anything negative

2 Can You Be Replicated?

- Be ready to describe the skill set your replacement should have or need to hire

3 Do the Facilities Look Impressive?

- A clean-up, paint, and better lighting go a long way — inside and out
- Is the space clean, well organized, and pleasant for staff and customers?

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FAQs and Reference

The pricing terms, financial concepts, and process details buyers and sellers ask about most.

Understanding Value & Pricing Terms

MPSP

Most Probable Selling Price

Used only in discussions with the seller.
Business Value + Net Working Capital =
Transaction Value, which becomes the
Final/Adjusted Transaction Value at
closing.

Level 1

Free Online Estimate

A simple, largely inaccurate algorithm.
Treat the result as a large ballpark — it
won't recognize your unique factors.

Level 2

Complimentary Consultation

A more accurate free estimate based on
additional data and a short conversation
— accurate to roughly $\pm 15\%$.

Level 3

Detailed CIM Analysis

Our most detailed analysis, using
Income, Asset/Market, and Multiple
approaches — the figure we defend in
negotiation.

EBITDA, SDE & Normalization

1 EBITDA

- Earnings Before Interest, Taxes, Depreciation, and Amortization
- Calculated from financial statements — reveals cash available for reinvestment, dividends, or other use

2 SDE / ODE / ODCF

- Seller's (or Owner's) Discretionary Earnings/Cash Flow — EBITDA plus the owner's income and benefits
- Shows a buyer-manager the total amount available to live on and service debt

3 Normalization & Buyer Type

- Statements are adjusted to remove tax and personal choices, showing likely future earnings
- Financial buyers value on these numbers; strategic buyers have unique motives that make value harder to predict

The Engagement Process — 10 Steps

Average time to sell: 4–8 months in our experience.



What to Expect in Due Diligence

1 Quality of Earnings (QoE)

- For transactions over \$5M, buyers often commission a third-party QoE study
- Not a valuation — it separates recurring, normal earnings from one-off items

2 The Eight Areas of Review

- Financial — contracts, invoices, tax returns, HST and payroll remittances
- Operating processes, marketing & customer concentration, physical & intellectual assets
- Personal background, legal standing, human resources, and environmental compliance
- Strategic and cultural fit with the buyer's own goals

Selling your business at the best price and terms
is a complicated endeavour — as you would expect.

We'll always work to keep the process moving toward your goals.

— Ron Hunter, President
