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Time to Move On

LEARNING OBJECTIVES

- Determine the value of a business
- Transfer ownership of a business to a buyer
- Transfer ownership of a business to a family member
- Close out a business completely

Case Study: Willa Decides to Sell Cone Crazy



Cone Crazy, under the ownership of Willa, has been running for five years. Willa has learned much about business, about the ice cream industry and what it means to be a business owner.

This experience has exposed Willa to new opportunities. She's decided to start looking for buyers for Cone Crazy.

What Is a Business Worth?

Many ways to value a business:

Market Capitalization	Book Value	Times-Revenue
• Corporations • Sum of the value of outstanding shares • Downside: Doesn't account for intangible assets (goodwill)	• All business structures • Removes value of liabilities from value of assets	• Determines value as a factor (multiple) of sales revenue for a set period • Negotiable • Factor is computed from trends, data, intuition

What Is a Business Worth? (cont.)

Many ways to value a business:

Earnings Multiplier

- Similar to times-revenue method
- Determines value as a factor of net income for a set period

Discounted Cash Flow

- Projects future cash flow earnings based on historic cash flows
- Uses a time-value-of-money multiplier

Liquidation Value

- Common for retailers
- Value of assets, inventory and equipment that can be sold immediately, minus the value of liabilities

What Is a Business Worth? (cont.)

Goodwill

- An important factor when determining the value of a business
- Assumed value of:
 - Existing customers
 - Brand recognition
 - Supplier relationships
 - Value to the local community and beyond

Listen to the discussion
“Vermont Glove
Company.”



Transferring Ownership to a Buyer

Each business structure transfers ownership differently:

- Sole Proprietorships and Partnerships
 - The new owner buys the inventory, equipment and perhaps goodwill; the business is dissolved, even in a partnership.
- Corporations
 - The new equity owners buy all the shares (common stock), and the business continues as is
OR
 - The new owners purchase the inventory, equipment and perhaps goodwill, and the business is dissolved.

Transferring Ownership to a Buyer (cont.)

1. Determine a value for the business.
2. Craft a buy-sell agreement.
3. Update the minute book (for a corporation).
4. Notify registration agency of sale (usually the provincial/territorial registry).
5. Notify the CRA.
 - BN accounts need to be closed.
6. Inform banks, suppliers and stakeholders.

State of _____
BUY-SELL AGREEMENT
This Buy-Sell Agreement (this "Agreement") is made as of this _____ day of _____, 20____ (the "Effective Date"), by and among _____ [Company name], a _____ [State] corporation located at _____ _____ [Address] (the "Company") and each of the individuals listed on Schedule A attached hereto (each a "Shareholder" and collectively, the "Shareholders").
ARTICLE I PURPOSE
1. Shares. The Shareholders own all of the outstanding shares of the Company (the "Shares") in the amounts outlined in Schedule A.
2. Purpose. The Shareholders have entered into this agreement to: (Check all that apply)
☐ Restrict the transfer of the Shares by Shareholders ☐ Ensure any sale of the Shares is in accordance with established procedures ☐ Provide stability and continuity in the management of the Company ☐ Maintain ownership or control of the Company ☐ Create a market for Shareholders to sell Shares ☐ Determine how Shares will be transferred in the event of a death, disability, or other involuntary transfer of Shares ☐ Set an estate tax value for a deceased Shareholder's Shares ☐ Establish an accepted purchase price for Shares ☐ Other: _____
ARTICLE II RESTRICTIONS ON TRANSFER
1. Restriction on Transfer. Except as permitted in this Agreement, the parties will not sell, transfer, pledge, assign, hypothecate, encumber or alienate (each a "Transfer") any of the Shares. Any Transfer not in accordance with this Agreement shall be void.
2. Certificates. (Check one)
☐ Not applicable. ☐ All certificates representing the Shares now owned or hereafter acquired by each Shareholder shall have the following legend conspicuously printed on its face:

Transferring Ownership to Family

- Many businesses have transferred this way:
 - Walmart
 - Nike
 - L'Oréal
 - Ford



Transferring Ownership to Family (cont.)

- Sale method
 - Most lucrative for seller (usually the older generation)
 - Sale can be done in lump sum or over time
- Gift method
 - Via stock shares or business assets
 - Seller does not receive capital
 - Through Section 85 rollover, there can be tax benefits

Transferring Ownership to Family (cont.)

- Employee stock ownership plan (ESOP)
 - Family gains ownership via retirement accounts
 - Shares held in trust
 - Ownership not limited to family employees
 - Company still run by a board, but ultimate ownership is transferred
- Trust method
 - Older generation retains ownership until death or at a set time in the future
 - Involves buy-sell agreements, tax implications, etc.

Closing the Doors



Closing the Doors (cont.)

Closing a Corporation

- Obtain written consent from the CRA.
- File a certificate of dissolution.
 - Dissolution can be forced on shareholders if a corporation does not file its annual return for two consecutive years.
- Obtain agreement from all shareholders.

Ontario  Ministry of Public and Business Service Delivery
Ministère des Services au public et aux entreprises

Certificate of Dissolution **Certificat de dissolution**

Business Corporations Act Loi sur les sociétés par actions

SAMPLEBASKET INC.
Corporation Name / Dénomination sociale

1*****369
Ontario Corporation Number / Numéro de société de l'Ontario

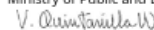
This is to certify that these articles are effective on La présente vise à attester que ces statuts entreront en vigueur le

July 28, 2023 / 28 juillet 2023


Director / Directeur
Business Corporations Act / Loi sur les sociétés par actions

The Certificate of Dissolution is not complete without the Articles of Dissolution Le certificat de dissolution n'est pas complet s'il ne contient pas les statuts de dissolution

Certified a true copy of the record of the Ministry of Public and Business Service Delivery. Copie certifiée conforme du dossier du ministère des Services au public et aux entreprises.


Director/Registrar  
Directeur ou registrateur

Closing the Doors (cont.)

Closing a Corporation (cont.)

- Settle all debts and liabilities.
- File articles of dissolution.
- Notify banks, lenders and other formal agencies.
- Liquidate all assets.
- File the final tax return.

CHAPTER SUMMARY

- There are different ways to determine the value of a business: market capitalization, book value, times-revenue, earnings multiplier, discounted cash flow and liquidation value.
- How ownership can be transferred to a new buyer depends on the business structure.
- Transferring ownership to a family member can involve sale of the business, gifting, establishing an ESOP or forming a trust.
- Similar to the steps for selling a business, the steps for closing a business depend on its structure.