

ST UI

BUYER'S GUIDE

BUYING A
BUSINESS

**CTEQ
CILEQ**

**Centre
de transfert
d'entreprise
du Québec**



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The Centre de transfert d'entreprise du Québec (CTEQ) mobilizes economic development actors to meet the challenge of business transfers and acts as an independent facilitator to make the market more transparent and foster the longevity of Québec businesses.



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Original edition published in 2013. This guide was drafted by the Centre de transfert d'entreprise Laurentides and Laurentides Économique.

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On behalf of the Centre de transfert d'entreprise du Québec, I am pleased to present our guide developed especially for entrepreneurs interested in buying a business in Québec.

Designed to help you with your acquisition project, the guides will help you understand how to plan a business takeover and identify potential issues so that you will be better prepared for what lies ahead. They explain the process, pitfalls to look out for and best practices to implement to make your dream of buying a business a reality.

These guides were developed with the help of the Ministère de l'Économie et de l'Innovation and National Bank to provide relevant resources to help entrepreneurs with the takeover and transfer process.

In conjunction with your meetings with CTEQ advisors, you can use the tests and exercises in these guides to verify different aspects of the process. Whether you're planning an internal transfer (in the form of a co-operative buyout or a family transfer), an external transfer or a combination of the two, preparing properly and surrounding yourself with experts are the keys to a successful transition.

Since 2015, CTEQ has been guiding Québec entrepreneurs looking to transfer or take over a business. To foster prosperity in the regions, ensure the longevity of local businesses, protect jobs and keep knowledge here at home, join us in creating connections and encouraging business transfers so that Québec can thrive economically.



Vincent Lecorne,
President and CEO of the Centre de transfert d'entreprise du Québec

Since its establishment in 1859, National Bank has been the partner of choice for entrepreneurs. The Bank is committed to seeing Québec businesses succeed by supporting their creation and development and helping to ensure their long-term success.

At a time when Québec is experiencing one of the biggest waves of ownership transfer in its history, transfer and succession issues are a key item on our agenda. The Bank has therefore developed a number of partnerships over the past few years to stimulate entrepreneurship in a context of change.

National Bank is proud to have worked together with the Centre de transfert d'entreprise du Québec (CTEQ) since its inception to address the challenges associated with business transfers. In this partnership, we pay special attention to the human aspect, which is at the core of the process.

The Bank is one of the first financial institutions to create mobile teams of managers especially for entrepreneurs contemplating a business transfer or takeover. Our managers are all certified in business transfer management by the Institut du leadership and CTEQ.

We're proud to support the production of this guide, which will allow you to achieve your ambitions. Our invaluable collaboration with CTEQ helps to maintain an entrepreneurial culture which serves as a source of collective prosperity for Québec.

We hope you find this guide useful.



Stéphane Achard

Executive Vice-President, Commercial Banking and Insurance



ABOUT THIS GUIDE

Who is the buyer's guide for?

Anyone interested in and contemplating going into business for themselves.

How to use this guide and why

Because buying a business takes planning!

This buyer's guide offered by the Centre de transfert d'entreprise du Québec (CTEQ) was created to help you define and achieve your entrepreneurial dream.

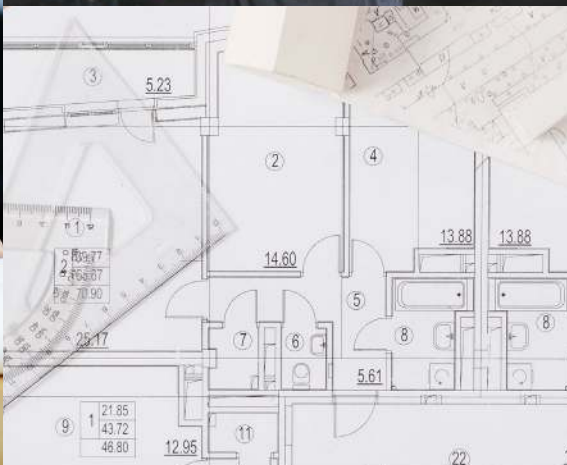
It is divided into three chapters that will help you:

1. Get started:
 - Do you want to start from scratch or buy an existing business?
 - Do you fit the profile of an entrepreneur?
2. Learn how to get your acquisition project off the ground:
 - What type of business do you want to buy?
 - How do you find a business for sale?
3. Get the right tools and identify regional and local resources to help you see your project through:
 - What tools do you need to build a concrete action plan?
 - Which organizations can offer you support?

In this guide, you will find practical, easy-to-understand answers to all your questions about business transfers.

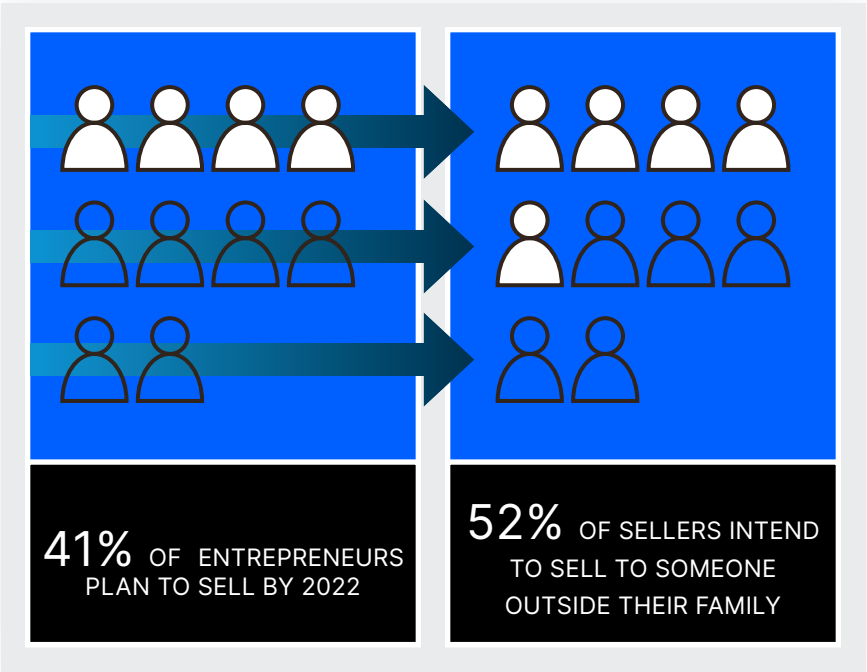
CHAPTER 1

GETTING STARTED



1.1 SEIZING THE OPPORTUNITY TO ACQUIRE A BUSINESS

Plenty of opportunities on the horizon¹

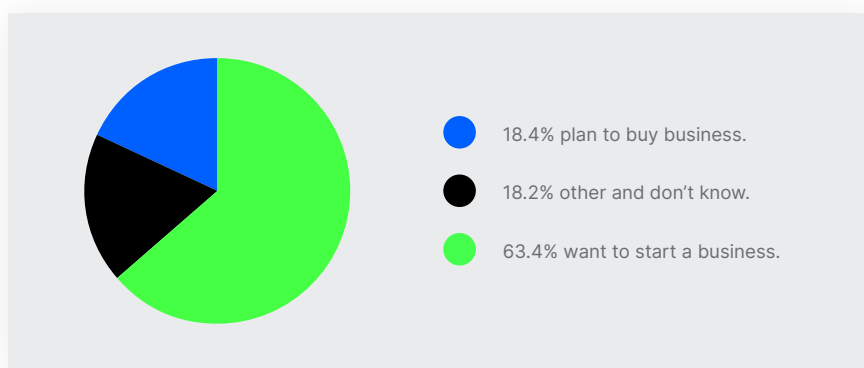


By 2022, about 35,000 entrepreneurs intend to sell or transfer their business. Close to 50% of entrepreneurs contemplating retirement plan to do so within the next three years. Owner-managers must plan the transfer process in order to pass the torch to their successor.

¹ Source of statistical data: The Coming Wave of Business Transitions in Canada: Are Entrepreneurs Ready to Exit Their Company? Business Development Bank of Canada, September 2017.

Little competition in sight

- Only 50% of companies that have a succession plan have identified a buyer.
- Nearly 25% of owners aged 65 and over plan to wind down their business because they do not have a successor.
- The reality of 18-34-year-olds who responded to the survey in 2010:²
 - 3.2% were business owners;
 - Only 18.4% plan to buy a business; the remainder (63.4%) want to start one.

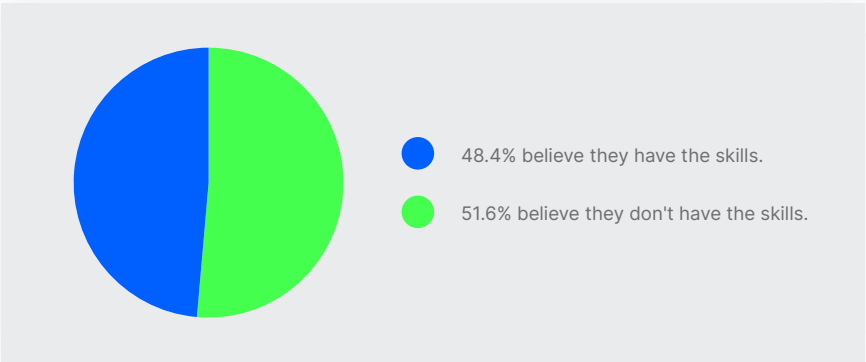


2 Source of statistical data: Indice entrepreneurial québécois 2010 – La relève est-elle au rendez-vous au Québec?, Centre de veille et de recherche sur la culture entrepreneuriale of the Fondation de l'entrepreneurship, November 2010.

Ill-prepared owners means you can negotiate to your advantage

- A small number of owners prepare their exit thinking that when the time comes, it will be easy to quickly find someone to replace them.
- Less than 8.2% of entrepreneurs aged 55 and over have a formal transfer of power plan.
- Less than 60% of entrepreneurs know the fair market value of their business (even though it's the very basis of an ownership transfer).

Business owners have confidence in your potential as a buyer... Do you?



- 51.6% of buyers aged 18 to 34 don't think they have the skills and abilities to take over a business.³
- About 90% of sellers think that potential buyers currently have the skills to take up the mantle.

Still not sure? Are you thinking that others are more qualified than you are to take over a business? Unsure how a lack of entrepreneurs will impact our society? Conclusion: Believe in yourself and seize the opportunities!

³ Source of statistical data: Indice entrepreneurial québécois 2010 – La relève est-elle au rendez-vous au Québec?, Centre de vigie et de recherche sur la culture entrepreneuriale of the Fondation de l'entrepreneurship, November 2010.

1.2 WHAT IT MEANS TO BE A BUYER

Do you have a clear understanding of what it means to be a buyer?

Motivations, skills and characteristics...

Do you know what's involved in taking over a business?

The time and resources required...

The following exercise will help you to check your assumptions, discover the typical buyer profile and learn about the succession process.

WHAT IS A BUYER?

1. A buyer must have worked in a business in a similar industry as the one of the business they are thinking of buying.	T	F

False – This is not a must. However, to maximize your chances of success, you need good knowledge of the target company’s industry and must be genuinely interested in it.

2. A buyer especially likes to build, develop and innovate.	T	F

False – Although a buyer must be dynamic and have innovative ideas, these characteristics are more suited to entrepreneurs who like to start their own business and move on to another project once everything is up and running.

3. A buyer knows how to establish their credibility.	T	F

True – A buyer has to first establish credibility with the seller and then the employees, who may be resistant to a change in leadership, especially if the seller is highly regarded. The buyer will also have to win the trust of the company’s partners and customers.

4. A buyer often seeks to take quick action in order to achieve their goals rapidly.	T	F

False – The buyer’s first responsibility is to ensure the continuity of the company’s activities and services. Every company has its own culture and you need a period of observation before setting new goals and making changes.

5. A buyer prefers to manage, improve and grow the company.	T	F

True – A buyer must have strategic vision and act like a manager who wants to improve and grow the company by building on what’s already there in order to take it to the next level.

6. A buyer must be highly adaptable and open-minded.	T	F

True – A buyer must adopt the company's values and be very open to change.

7. A buyer must have all the financial resources needed to acquire the business they wish to buy.	T	F

False – Buyers must know their financial situation in order to determine how much they can invest. The government now offers several different financial support programs to promote business transfers. Financial institutions also offer different types of financing.

8. A buyer must be a skilled communicator and a good listener.	T	F

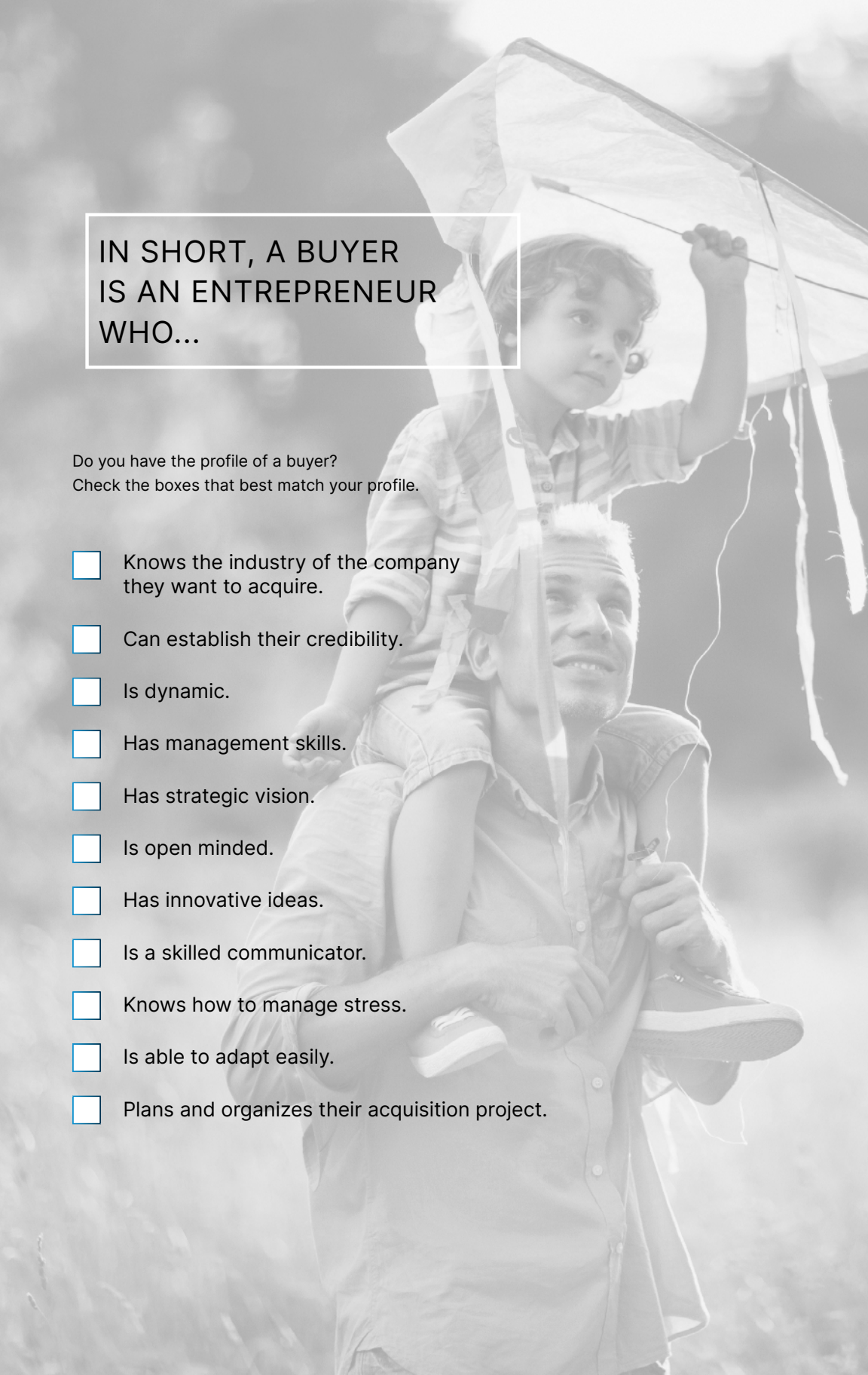
True – Managing human resources is an art and buyers must be adept at problem solving, listening, communicating and mobilizing the team. An ability to communicate effectively with the seller is also essential.

9. Financing problems are the main obstacle to a successful business transfer.	T	F

False – Studies show that some transfer failures are due to poor planning and the buyer's lack of management skills. This is why it's important to have experts guide you and to have training in managing a company.

10. An optimal transfer process takes 2 to 8 years on average.	T	F

False – The time can vary, but the consensus is that at least 3 years are needed to complete a business transfer and that ideally, the process should take 5 to 10 years during which the seller optimizes the company's financial health in order to increase its market value.



IN SHORT, A BUYER IS AN ENTREPRENEUR WHO...

Do you have the profile of a buyer?
Check the boxes that best match your profile.

- ☐ Knows the industry of the company they want to acquire.
- ☐ Can establish their credibility.
- ☐ Is dynamic.
- ☐ Has management skills.
- ☐ Has strategic vision.
- ☐ Is open minded.
- ☐ Has innovative ideas.
- ☐ Is a skilled communicator.
- ☐ Knows how to manage stress.
- ☐ Is able to adapt easily.
- ☐ Plans and organizes their acquisition project.

Start from scratch or buy an existing business?

You have two choices as a future entrepreneur: starting from scratch or buying an existing business. While both are great paths, they entail very different realities. To help you understand the differences, we have put together a list of the pros and cons of buying an existing business.

Buying an existing business

Pros:

- Financing is easier to obtain if you have a financial history and assets to put up as collateral.
- The company's brand image and reputation are already established.
- The company's products or services are already well positioned on the market.
- All the work required to start production has already been done.
- Relationships with customers and vendors have already been established.
- You can rely on trained staff, including key employees and a management team for support.
- The previous owner can offer you their support, know-how and contacts.
- You can make money faster than by starting a business, which can take years to become profitable.
- Statistics show that many start-ups fail in the first five years.

Cons:

- The initial financial investment can be greater than for starting a new business.
- You will have to adapt to an already established vision, culture and operating procedures.
- If the company's reputation is damaged, it can be difficult to restore.
- Some employees may be resistant to a changing of the guard. You will need to earn their trust and establish your credibility.
- Some owners find it hard to step down and give free rein to the buyer. The transition phase with the seller should not drag on and should be planned.⁴

4 According to the study *Taux de survie des nouvelles entreprises*, Ministère de l'Économie, des Sciences et de l'Innovation (MESI), April 2015.

Business Survival Rates	
Years in Operation	Percentage of Businesses Still in Operation
After 1 year	75.2%
After 2 years	58.8%
After 3 years	48.4%
After 10 years	19.8%

Do you fit the profile of a buyer?

Do the advantages of buying an existing business appeal to you? Do the challenges spark your interest and make you want to further explore the possibilities of taking over an established business? Or are you wondering if you really have the right profile?

The goal of this exercise is first to identify your strengths in order to develop your entrepreneurial profile. This will then allow you to identify strategies and seek out tools and resources through training or personalized support in order to acquire the necessary skills.

1.3 ARE YOU READY TO BUY A BUSINESS?

A few important things to think about

You've decided that you're up to the challenge of buying a business. You believe you have the right qualities.

But is the time right to step into action?

What is really motivating you?

Take time to reflect to make sure that the timing is right to embark on this project, and that you're doing it for the right reasons. This initial thought process is important because it will serve as the foundation for an action plan that will allow you to look for the type of business that's the right fit for you. Chapter 2 will show you how to develop this action plan.

So take a few minutes to answer the questions on the next page.

Self-Assessment

Name two reasons why you want to buy a business.

1

2

Have you discussed your project with family? Yes ☐ No ☐

What is your family situation? (single, couple, with children)

If you are in a relationship, does your partner understand the implications of your project?

How many hours per week are you prepared to spend managing your business?

What is your financial situation?

Do you have your own money to put down?

What are your main skills (e.g. technical, relational, management)?

1

2

3

4

5

You have professional experience in the following fields:

1

2

3

What fields and activities do you especially like (personal and professional life)?

1

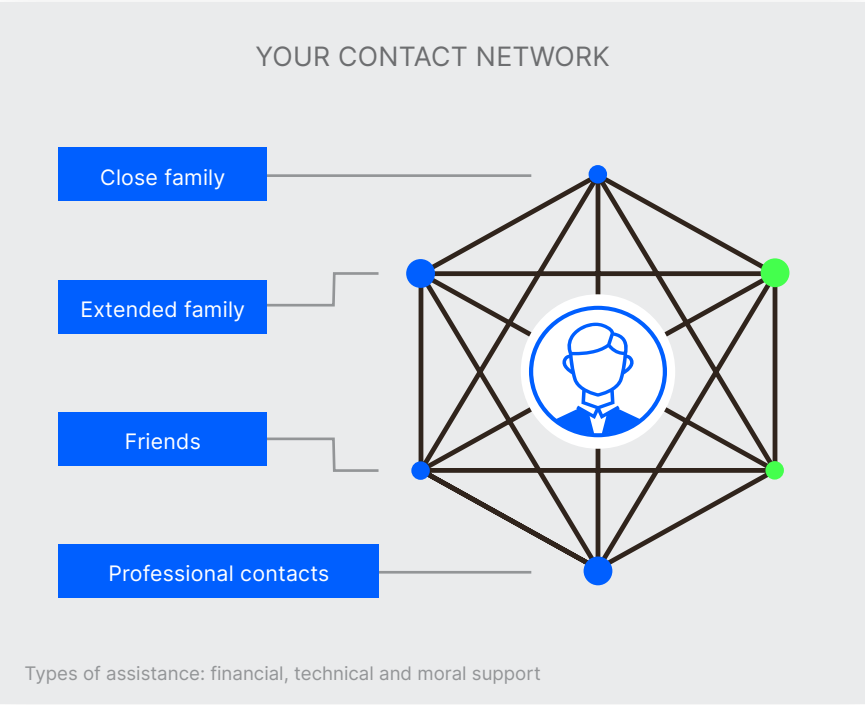
2

3

Your contact network

In order for your project to be successful, you will need the support of a trustworthy, competent team that is part of your network of contacts. Your job is to enlist them and ask them to participate in your project.

The first step is to take stock of your contacts in order to clearly identify who can help you and at what level. Who do you have easy access to, and who is more difficult to reach and enlist? Can these people put you in touch with others in their network who might be of use to you?



On [page 47](#), you will find a table to help you take stock of your contacts. This table should be updated regularly.

What industry appeals to you?

The next step is to pick the type of business fits your interests in your preferred industries. There are a number of factors to consider when deciding which business to buy. For example, it's very important that the company's activities align with your personal values and professional expectations. As we saw earlier, it's important to be familiar with the industry in which the target company operates. The following exercise will help you identify the one that most closely matches your profile.

Steps

- 1 Identify three or four industries that appeal to you. You may find the following helpful:
 - Look at your answers in the “General portrait of your business” section in your plan (p. 43).
 - Look at your answers in the self-assessment section (p. 18).
 - Consult the list of industries (pp. 52 to 54).
 - If you have a clear idea of a business in your chosen industry, enter it in the table.
- 2 Enter these industries in the table on the following page in the Industries column.
- 3 Enter the information requested for each industry.

Industry that Matches My Profile	
Industry	E.g. Construction – industrial sector
My training	Is your training related to this industry? Will it be useful for running a business in this industry? Explain. (e.g. building engineer)
My skills	Have you developed skills that will be useful to successfully running a business in this industry? If so, list these skills. (e.g. project management, technical drawings and plans, electricity)
My professional experience	Have you ever worked for a company in this industry? What expertise can you bring to it? Explain. (e.g. worked 6 years for Construction Monette, project manager for Dantec)

My values	Are the activities of companies in this industry in line with your values? Yes or no? Why?
My contacts	Do you have personal or professional contacts in this industry? If so, make a list of all your contacts. (e.g. Ronald Bélanger, foreman)
My knowledge of the industry	Are you familiar with the activities and operations of companies in this industry? Yes or no? Why?

CHAPTER 2

PLANNING YOUR ACQUISITION



2.1 SIX STEPS TO BUYING A BUSINESS

Once you have completed your personal reflection and feel ready to step into action, the next step is to define an action plan – in other words, your acquisition plan. Chapter 2 covers this planning process.

The process of acquiring a business is itself quite complex, and as we have seen, can take several years. The following table presents a simplified description of the main steps in this process.

Steps to a successful acquisition project

Your action plan	
Step 1	Identify the type of business you want.
Step 2	Determine your financial capacity.
Step 3	Find a business for sale.
Step 4	Do your due diligence: <ul style="list-style-type: none">• Understand the characteristics of the business and how it operates• Determine the fair market value of the business
Step 5	Secure any financing necessary to close the purchase.
Step 6	Sign the purchase agreement.

The success of the first three steps depends on how much of your time and how much of your money you're going to invest. This will depend on your self-assessment, the opportunity analysis and the actions you take to plan and structure your project.

Steps 4 to 6: The key to your project's success is quality support.

Surround yourself with the right people! Steps 4 to 6 are much more technical and require specialized knowledge. It is essential to have a team of experts to advise you, including, among others, a lawyer, notary, accountant, financial planning advisor and appraiser. It is vital to have a CTEQ business transfer advisor guide you throughout the process. Their role includes coordinating the above-mentioned experts.

Mission of the Centre de transfert d'entreprise du Québec

The Centre de transfert d'entreprise du Québec (CTEQ) mobilizes economic development actors to meet the challenge of business transfers and acts as an independent facilitator to make the market more transparent and foster the longevity of Québec businesses.

Active across all regions of Québec, CTEQ offers information, training and planning services:

- **INDEX:** A platform where buyers and sellers can network confidentially. Register and let CTEQ handle the rest. www.ctequebec.com/index
- **TRAINING:** The Succès-Relève and Meilleures pratiques d'affaires (MPA) workshops (in French) cover all the steps to a successful transfer.
- **ADVICE:** Tools and a network of experts to help you develop a clear and disciplined action plan. CTEQ's specialized advisors act as intermediaries between buyers and sellers, and guarantee the integrity and quality of the transfer process.

Our services are available for internal, external, family and co-operative transfers, and for specialized industries such as tourism.

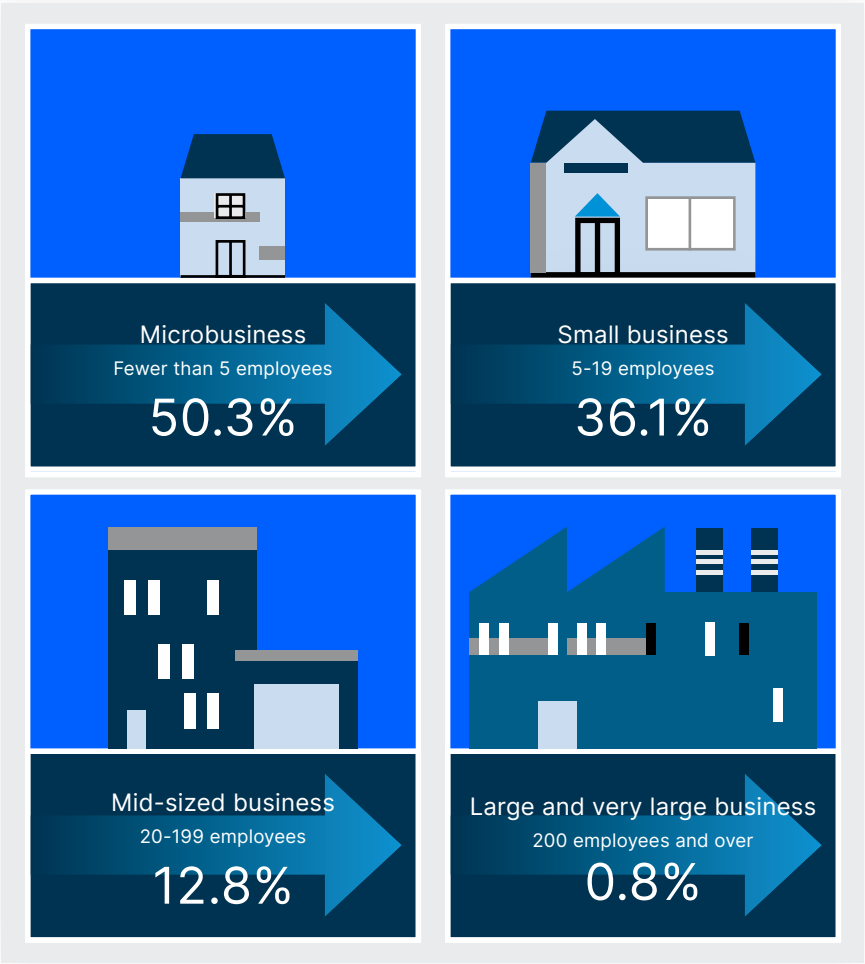
www.ctequebec.com



2.2 IDENTIFY YOUR IDEAL BUSINESS

Acquisition plan — step 1

Micro and small businesses account for most of the businesses in Québec. The following illustration shows the breakdown.



Owners open to selling their business to a third party

Figures from the CFIB report.⁵

- 37% of SME owners plan to sell their business to a third party.
- 25% intend to sell or transfer their business to a family member.
- 58% of owners do not consider it important for the business to remain in the family.

Based on this information, we can now look at the types of takeover options available to you.

Four takeover options

There are four ways to acquire an existing business (see illustration on [page 31](#)).

- Option 1: Family transfer = a family member buys the business.
- Option 2: Internal transfer = one or more employees buy the business. Also known as employee buyout.
- Option 3: External transfer = an outside party buys the business.
- Option 4: Co-operative buyout = employees buy the business and run it according to co-operative principles.

Your plan: Identify the options that could apply to your situation. Enter your options on [page 42](#), section 1, of your plan.

My ideal business

The purpose of this step is to pinpoint your needs, expectations and aspirations concerning the business you want to buy. What size business would you like to buy? Where will it be located? Will the business be your sole source of income?

5 CFIB (Canadian Federation of Independent Business) report.

Option 1

Family transfer

- Does anyone in your family own a business?
- Are you interested in buying it?
- Does it fit your skills?

You take over the family business.

Option 2

Internal transfer / Co-operative buyout

- Is the owner of the company where you work looking to sell?
- Are you interested in buying it?
- Does it fit your skills?

You buy the company where you work.

Option 3

External transfer

- Have you found a business for sale?
- Are you interested in buying it?
- Does it fit your skills?

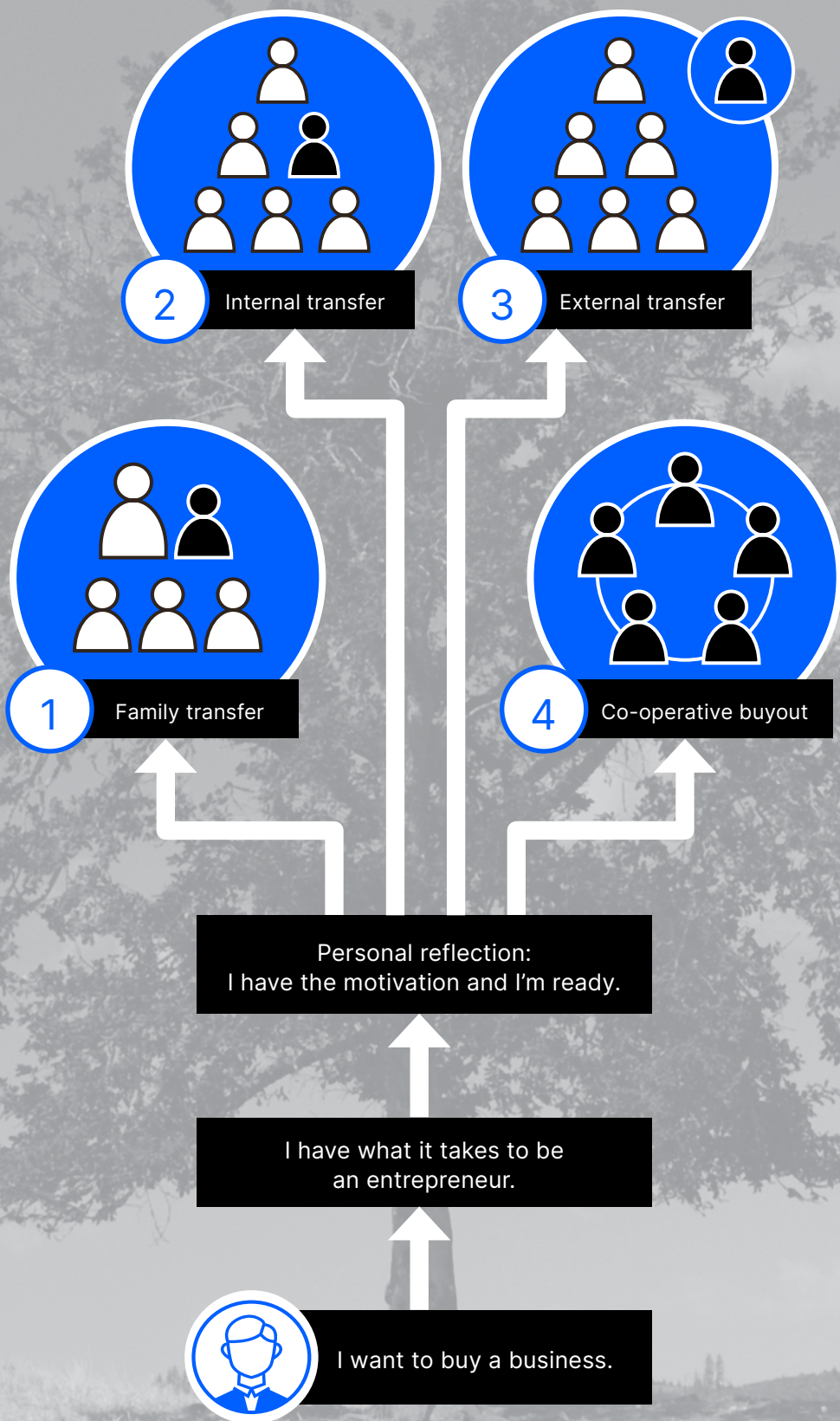
You buy a business that interests you.

Option 4

Co-operative buyout

- Would you like to take over the company where you work?
- Are your co-workers also interested in a co-operative buyout?
- Is the owner amenable to this type of transfer?

You buy the company with your co-workers.



Choose the industries that fit your interests

Your plan: Choose one or two industries that best match your profile and enter your choice(s) on [page 44](#), section 3, of your plan.

Do you have a huge interest in a business or industry you know little about?

You can still make it work!

It may happen that while exploring different industries, you stumble across one that you just know is right for you. But then you realize that you don't have the required skill set or contacts in this industry. Here are some ways to help you buy a business in your dream industry.

Here's what you can do:

- Find out the skills you need;
- Take courses in connection with the industry;
- Look for a job or an internship in a company in this industry;
- Buy the company with someone already in the industry;
- Get a job in the target company to learn everything there is to know about its operations and to become part of the team.

Although the process may be more complicated than you anticipated, if this is the industry you want to be in, you'll be motivated to make it happen.

2.3 SECURE FINANCING

Acquisition plan — step 2

Your acquisition project and your financial situation

Now that you have a clearer picture of the type of company you want to acquire, you need to look at what you can afford to buy. To that end, ask yourself:

Do I have money to put down? How much can I invest? What is my credit score?

Your acquisition plan: In order to determine your financial capacity, answer the questions on [page 45](#), section 4, of your plan.

Did you find that you couldn't answer all the questions? This is not uncommon. Few people really know their financial situation and their borrowing capacity. As part of the business acquisition process, it's important for you to find the answers to these questions because they will help you to determine the size of business you can afford.

How do you find these answers? By completing a personal balance sheet

You'll find a balance sheet template on pages [48](#) and [49](#). Completing it will help you find some of the missing answers. You will also find information in this balance sheet that will enable you to obtain your credit score from credit bureaus such as Equifax.

This information will help you to determine your financial capacity, which in turn will allow you to determine the size of business you can target.

Financing options

It may happen that after completing your balance sheet, you realize that your financial capacity isn't as strong as you thought it was.

What can you do?

It can take time to improve your balance sheet. There are, however, various financing options available.

For example, the seller can finance a part of the purchase. This can be likened to their selling the company on credit and is known as negotiating “a balance of sale.”

In addition, to encourage business succession, the government and financial institutions have introduced programs to facilitate access to funding for people who want to buy a business.

There are two main ways to finance a buyout:

- Financing it yourself (your own money);
- Financing by assuming debt.

Basic rule: Financial institutions will finance up to 80% of the company's value; the remainder must come from your own money.

In other words, you are financing about 20% of the company's value. This doesn't necessarily mean that you have to finance this entire amount yourself. Be creative and try to generate some “love money” by persuading relatives or friends to invest in your project. You can also persuade business people to invest as “angel investors.”

Below is a fictitious example of a possible financing arrangement.

Keep in mind that there are almost as many ways to finance the purchase of a business as there are cases. Each situation is unique, and it's important to get good advice to determine the scenario best suited to your situation.

Purchase of a Business Valued at \$285,000			
Assets to Finance	Value	Type of Financing	Value
Land and building	\$230,000	Mortgage	\$190,000
Inventory	\$25,000	Line of credit	\$20,000
Equipment and furnishings	\$30,000	Equipment loan	\$15,000
Goodwill	\$35,000	Down payment	\$70,000
Renovations	\$20,000	Balance of sale	\$45,000
Total	\$340,000	Total	\$340,000

2.4 FIND A BUSINESS TO BUY

Acquisition plan — step 3

Where to find a business for sale

Now that you've identified one or two preferred industries, you can start to look for a business to buy. There are a few ways to do this.

Just as you would do for any major purchase, you need to “shop around” to find the best deal.

Here are some ways to search for a business:

- Internet: www.ctequébec.com/index
- Networking, newspapers, business magazines and other publications
- Professional resources and other strategies

Which search method should I use?

The search methods presented on pages 55 to 59 are very different, and when beginning your search, you may find that you're more comfortable with some than others. Choose two to start and try to find the corresponding resource, tool or activity that will serve your needs.

Your acquisition plan: Choose your two preferred search methods and enter your choices on [page 46](#), section 5 of your plan.

Find potential targets

Time to step into action! Try the methods you've chosen and identify potential targets.

Your acquisition plan: Do your research and enter the name of the potential targets on [page 46](#), section 6 of your plan.

The next step is now to approach the owner of the target business. You may feel a bit unsettled or intimidated by this next step, because it means that your plan is close to becoming a reality.

2.5 GET SUPPORT FOR THE NEXT PART OF YOUR PLAN

Acquisition plan — steps 4 to 6

- Do your due diligence:
 - Determine whether the business is financially sound
 - Determine the value of the business
- Secure any financing necessary to close the purchase
- Sign the purchase agreement

For steps 4 to 6, you should assemble a team of professionals who will use their knowledge and experience in this field to advise and guide you. Chapter 3 provides a [list of these resources](#).

Congratulations!

You've now completed a good part of the process leading to becoming a business owner, and you have the tools to see it through to the end. [Chapter 3](#) offers useful resources and tools for the next phase of your acquisition process.

You're almost there!

CHAPTER 3

ASSEMBLING A TEAM OF EXPERTS



Chapter 3 contains various tools to support the acquisition process described in chapter 2 and to continue the process through steps 4, 5 and 6 of your action plan.

3.1 PLAN YOUR ACQUISITION

In this section, you will find practical tools to help you draft an action plan that will allow you to bring your acquisition project to fruition.

This plan contains:

- Your acquisition plan

This is the most important tool in this guide. The process suggested in chapter 2 encourages you to do some initial thinking and to make choices to flesh out your acquisition plan.

Practical advice: At the end of this process, you will have a concise, practical strategic plan in hand. Print it out and refer to it throughout the acquisition process. This plan will also help you when meeting with the various professionals who will guide you through the process. Make sure it's always within easy reach.

- Your personal balance sheet

This tool will allow you to evaluate your financial capacity to buy a business. You will also find out how to obtain your credit score from credit bureaus.

Practical advice: Your balance sheet comes after your acquisition plan. Print it and attach it to the latter. You'll find it useful.

- List of industries and subsectors

Although not exhaustive, this list contains almost 150 industries and sub-sectors. It will help you find an industry and type of business that fits your interests. The information was taken mainly from the sites of Québec's 30 sectoral workforce committees (CSMO)⁶ and the industry directory of the Ministère de l'Économie et de l'Innovation (MEI)⁷ (pages 52 to 54).

- INDEX, directory of businesses for sale in Québec ([page 55](#))
- Professional resources ([page 58](#))
- Business transfer glossary ([page 60](#))

6 www.csmoesac.qc.ca.

7 www.mdeie.gouv.qc.ca/objectifs/informer/par-secteur-dactivite.

3.2 YOUR ACQUISITION PLAN

Section 1

Your takeover options

Could one or more of these options apply to your situation?
Check the options considered and describe them.

Option 1: Family transfer

☐

Option 2: Internal transfer

☐

Option 3: External transfer

☐

Option 4: Co-operative buyout

☐

See pages [29](#) and [30](#) in chapter 2 for information about the different types of acquisition options.

Section 2

General portrait of your business

What is the size of the business?

SME with fewer than 5 employees ☐

SME with 10 to 25 employees ☐

Larger enterprise with over 100 employees ☐

Where is it located? (city or region):

It offers:

Products ☐

What type?

Services ☐

What type?

(You can indicate more than one product or service. If you don't have this information yet, go to the next question.)

The business I want to purchase is:

Privately owned ☐

A social economy business ☐

A co-operative of worker-shareholders ☐

This business will be my only source of income; it must provide me with stable income.

Yes ☐

No ☐

I'm ready to take risks to get a return on my investment.

Yes ☐

No ☐

The business I want to purchase must have growth potential (e.g. new markets, new technologies).

Yes ☐

No ☐

Section 3

Industries that appeal to you

Identify one or two industries that best match your profile based on the information you entered in the table, i.e. industries you are familiar with, that appeal to you and in which you have contacts and experience.

Industry 1:

Industry 2:

See [page 32](#) in chapter 2 for how to identify industries that match your profile.

Section 4

Your financial capacity

Do you have money for a down payment?

Yes ☐ No ☐

If so, how much can you invest? (without borrowing)

What is your debt capacity? (How much can you borrow?)

Do you know anyone (relatives, friends, colleagues) who would lend you money?

If so, how much?

Is your credit score good enough? (700 points or higher; if below 600, there is less chance of being approved for a loan.)

Yes ☐ No ☐ My credit rating:

See [page 33](#) in chapter 2 on why you must know your financial capacity.

Section 5

Your search methods

Method 1

Tool / resource /activity:

Method 2

Tool / resource /activity:

See [page 36](#) in chapter 2 for an example showing how to complete section 5 of your plan. Also see the strategies to find businesses for sale on pages [55](#) to [59](#) to identify the two methods you want to use.

Section 6

Potential targets

Try the methods you’ve chosen to identify potential targets.

Company 1

Company 2

Company 3

Section 7

My Contact Network			
Name	Information	Type of Contact	Type of Assistance
E.g. Olivier Gingras	Telephone / Email	Friend	Technical / notary: Will help me and give me a discount on notarized documents.
E.g. Justin Tremblay	Telephone / Email	Close family / Spouse	Moral / Financial: Will help me with the down payment.
E.g. Chloé Chartrand	Telephone / Email	Extended family / Cousin	Technical / Real estate agent: Will help me find a business for sale.

See [page 20](#) in chapter 1 for a diagram illustrating the links between you and your contacts.

Balance sheet of: As of:

Assets		\$
Short term	Bank accounts	
	Savings bonds	
	Term deposits	
	Other	
Long term	Stocks and bonds	
	Real estate (excluding principal residence)	
	Other	
	Pension fund	
	RRSP	
	Principal residence	
	Moveable assets	
	Automobile and rolling stock	
	Assets to transfer to the business (tools, computer, etc.)	
	Other	
	Total assets	

Liabilities		\$
Short term	Lines of credit	
	Credit cards	
	Accounts payable	
Long term	Car loan	
	Personal loan	
	Mortgage	
	Total liabilities	
	(Net value)	

Credit bureaus

Contact credit bureaus to obtain your credit history and credit score. The credit score (out of 900) is calculated based on your credit history. It represents your payment behaviour, your debt levels and your credit history. It tells lenders (banks and other financial institutions) the statistical likelihood of your accounts being paid late.

Although this is not the only criterion used in deciding whether to grant you a loan, this information is important because it demonstrates your ability to repay your loans. Depending on the result, you may also be able to take steps to improve your credit report and your chances of obtaining financing for your acquisition.

Get your credit score and report

The following procedure will allow you to obtain this information reliably and securely:

Equifax Canada: www.equifax.ca

You can request a free copy of your credit report from Equifax by mail. The cost to obtain your credit score is \$11.95 (including taxes). This information can also be obtained online.

TransUnion: www.transunion.ca/ca/personal/creditreport/consumerdisclosure_en.page. You can also obtain a free copy of your credit report from this site.

3.3 LIST OF INDUSTRIES AND SUBSECTORS

On the next page you'll find a reference tool to help you identify one or more industries that appeal to you. The list was created based on the classifications from the following site:

Ministère de l'Économie et de l'Innovation:

www.economie.gouv.qc.ca/objectifs/informer/par-secteur-dactivite/

You can also visit the Industry Canada site (www.ic.gc.ca/app/scr/app/cis/search-recherche?lang=eng), which has a directory of companies classified by industry using NAICS (North America Industry Classification System), an industry classification system developed and used by Canada, the United States and Mexico.

List of industries and subsectors

Aerospace

Aircraft and Avionics / Communication / Ground-based Navigation / Cabin Equipment / Test Equipment / Measuring / Simulation / Satellites and Components / Landing Gears / Floatplanes

Agricultural Manufacturing

Milk, Pig, Poultry and Beef Production / Horticultural Production (Edible and Ornamental) / Grain Production / Maple Syrup Production

Agrifood

Animal and Plant Production / Commercial Fisheries and Aquaculture Food Processing and Distribution / Food Services and Retail

Automotive Services

Bodywork / Mechanics / Sales and Consulting / Recreational and Leisure Vehicles / Financial Services

Chemicals, Petrochemicals, Refining and Gas

Petroleum and Coal Products / Basic Chemicals Resins and Synthetic Rubber Fibres / Pesticides and Fertilizers / Paint, Coatings and Adhesives Soaps, Stain Removers and Toiletries / Retail Trade Food Trade / Retail and Wholesale Trades

Construction

Residential / Non-residential (Industrial, Commercial and Institutional) / Civil Engineering and Road Works

Culture

Visual Arts / Audiovisual Arts / Dance, Music, Theatre, Circus and Interdisciplinary Arts Sound Recording / Literature / Art Occupations Museology and Heritage / Entertainment/Performing Arts, Variety Shows and Comedy

Doors and Windows, Furniture and Kitchen Cabinets

Electrical and Electronics Industry

Computer and Electronic Product Manufacturing / Electrical Component Manufacturing / Home Appliance Repair

Energy

Biomass and Geothermal Energy

Wind, Solar and Hydropower

Environment

Water, Air, Soil / Residual Materials

Fishing

Catching, Processing, Marketing

Forest Management

Development and Operation / Wood Processing

Recreational and Outdoor Tourism / Conservation and Protection

Furnishings

Kitchen Cabinets and Counters / Office Furniture / Furniture

Graphic Communications

Graphic Design / Sheet-fed, Digital, Screen Printing /

Binding / Newspaper, Periodical and Directory Publishers /

Converted Paper Product Manufacturing

Health and Biotechnology

Medical Equipment / Natural Products

Industrial Design

Enterprise Design, Consulting, Production

Industrial Metal Fabrication

Cutlery and Hand Tool Manufacturing /

Hardware Manufacturing / Motor Vehicle Manufacturing

Information and Communication Technology

Broadcasting Distribution Companies / Software Publishers

ICT Manufacturers / Service Providers

Internet / Multimedia / Telecommunications

Land Transportation

Recreational Vehicle and Motorcycle Industry

Hybrid and Electric Vehicle Industry

Marine Industry

Water Transportation /

Operation of Vessels and Ferries / Cruises and Excursions

Metallurgy

Mining Industry

Mining, and Oil and Gas Extraction /

Exploration, Operation and Development

Ornamental Horticulture – Marketing and Services

Landscaping and Landscape Architecture /

Tree production/ Floristry / Irrigation systems

Personal Care Services

Hair Care Services / Esthetic Services / Massage Services /

Body Care Services

Pharmaceuticals and Biotechnology

Research and Innovation / Generic Drug Manufacturing

Plastics

Plastic Product and Plastic Composite Manufacturing

Pulp and Paper

Rail Transportation

Road Transportation

Intercity and Rural Bus Transportation / School Transportation

and Charter Bus Services / Land Tourist Transportation

Freight Transportation / Courier Services / Moving Services

Rubber

Processing of natural, synthetic or recycled rubber /

Rubber Compounds / Rubber and Plastic Tire, Hose and Belt Manufacturing

Security and Defence

Safety of People and Places / Workplace Safety / Territorial Security

Social Economy and Community Action

Sports and Recreation

Sports and Athletic Goods Manufacturing / Bicycle Manufacturing

Fitness Equipment Manufacturing

Hockey Equipment Manufacturing

Textile Industry

Design and Manufacturing of Textile Components

Finishing (Dyeing, Printing, Coating)

Tourism

Accommodation / Travel Services

Wood Processing

3.4 STRATEGIES TO FIND BUSINESSES FOR SALE

INDEX, the directory of businesses for sale in Québec: www.ctequébec.com/index

INDEX for buyers, sellers and business transfer experts

A digital platform powered by the Centre de transfert d'entreprise au Québec (CTEQ), INDEX is available to entrepreneurs and experts to facilitate networking between business buyers and sellers. INDEX is a part of CTEQ's support and training services. Buyers and sellers are listed confidentially on the search platform.

Join INDEX

View profiles of companies for sale, investor-partners interested in becoming actively involved in the business, and business transfer experts. Buyers who register with INDEX can confidentially post the main characteristics of their acquisition project (no contact information is provided).

Are you looking to buy a business?

If you're an entrepreneur interested in buying an established business, we encourage you to take advantage of this tool and [register now](#).

Networking

Just like on the job market, not all businesses for sale are advertised publicly. This is where your contact network can come in handy by letting you know about business opportunities.

Your personal contacts: Tell relatives, friends and acquaintances that you're looking to buy a business and be as specific as possible about what you're looking for. We also recommend using social media to spread the word.

Business contacts: Attend conferences, trade fairs and events organized by chambers of commerce or other associations related to your chosen industry. Also let your former bosses and colleagues know. Some associations and organizations organize activities to bring buyers and sellers together.

Newspapers, business magazines and other publications

Professional magazines in your fields or industries of interest can be useful sources because they often have a classified section advertising business opportunities. Try these sources as well:

- The classified section in local or regional newspapers
- General interest business magazines
- Professional association publications

magazinescanada.ca: The Magazines Canada site has an interesting list of magazines in the Business and Finance section.

Professional resources

Professional resources can also be good sources of information:

- Financial institutions;
- Business brokerage firms;
- Law, notarial and accounting firms;
- Real estate agents specializing in commercial and industrial properties.

See the table on the next page.

Type of Advice	Expert
Guidance and advice on the business transfer process for sellers and buyers, project coordination (plan and schedule) and collaboration with other advisors (see below).	CTEQ business transfer advisor
Compares the performance of your business to that of its industry counterparts and suggests improvements.	Management advisor
Calculates the maximum amount of money to send to the governments.	Accounting advisor
Calculates the income tax that your heirs will have to pay.	Tax advisor
Knows your rights and how to have them recognized; conducts in-depth analysis of any type of contract; drafts shareholder agreements, wills, mandate of incapacity, etc.	Lawyer, Notary
Financing of the new business.	Accountant, Financial management advisor
Provides advice on retirement and family estate matters, as well as investment advice.	Financial planner
Finds you a life insurance policy that will pay your taxes when you die or that will allow you to buy back your business partner's shares if they die. Puts together a product portfolio for your assets, whatever they may be.	Insurance broker
Evaluates the skills of the next generation of owners. Prepares a training and career plan for the new owners.	Workplace and organizational psychologist
Provides human behaviour counselling to a family member or to the entire family (choose the psychologist based on the nature of the problem).	Psychologist
Evaluates and assigns a value to the business to facilitate negotiations.	Chartered Business Valuator (CBV)
Develops strategic plans for human resources (HR) management to support the future direction of the organization.	HR advisor

3.5 BUSINESS TRANSFER GLOSSARY

The terminology used by the experts with whom you will be dealing in your effort to buy a business may seem difficult to understand at times. Keep this glossary handy so you can refer to it when necessary. Some of the terms in the glossary⁸ were not used in the coaching kit, but you're sure to come across them during the acquisition process.

Angel investor: An entrepreneur or a former entrepreneur who invests their own money in a project or a company while sharing their experience and connections with the owner.

Asset: Holdings such as cash, bank holdings and investments.

Asset and liability guarantee (ALG): Guarantees given by the seller to the buyer on the amounts appearing in the company's balance sheet. In the event of an increase in liabilities or a decrease in assets, the seller agrees to make up the difference for a given period.

BCG Matrix: Strategic analysis chart to help entrepreneurs analyze the company's products and/or services to create the right portfolio mix.

Business plan: Development plan drawn up by the buyer to convince the financial stakeholders likely to participate in the financing of the proposed transaction.

Capital: Cash and other financial assets.

Common share: An unsecured security representing ownership in a company, with no fixed repayment terms and no fixed payment of dividends.

⁸ This glossary was drawn from the Succès-relève training workshop: <https://ctequebec.com/evenements/formation/>

Debt-to-equity ratio: Measures the degree of a company's financial independence. The D/E ratio is calculated by dividing a company's total liabilities by its shareholder equity.

Depreciation: A reduction in the value of assets and in particular, fixed assets (machinery, vehicles, etc.). The declining balance method of depreciation allocates a greater amount of depreciation in the earlier years of an asset's life than in the later years, while the straight line method depreciates an asset by an equal amount each accounting period.

Dilution: A shareholder is "diluted" when their relative share of the capital of a company is reduced following a capital increase.

Dividend yield: Dividend per share paid by the company. Expressed as a percentage of the share price.

Dividends: Distribution of a company's profits.

Due diligence: Audits prior to the takeover of a business that involve analyzing the accounting, financial, legal, tax, social and technical aspects of the target business and that will form the basis of the purchase decision.

Equity: Capital amassed by the company and remaining at its disposal in the medium and long term.

Fair market value: The highest price available, expressed in money, in a free market and without restrictions between competent parties.

Financial ratios: Ratios that measure a company's operational efficiency, making it possible to estimate the time required to convert certain assets (accounts receivable, inventory) into cash.

Fixed assets: Assets purchased for long-term use (e.g. vehicles, building) as opposed to being sold in the ordinary course of business.

Goodwill: The portion of the business value that cannot be attributed to other business assets and that is generated as a result of its reputation, customers, brand image, strategic assets, etc.

Income statement: Financial statement showing the breakdown of sales and expenses.

Internal rate of return (IRR): Measures the profitability of an investment once the holding is sold.

Letter of intent: Letter signed by interested parties confirming their intention to enter into a contract at a later date. This document aims to formalize the points of agreement between buyer and seller before entering into a memorandum of understanding.

Leverage: See Leveraged buyout.

Leveraged buyout (LBO): One company's acquisition of another company using a significant amount of borrowed money to meet the cost of acquisition.

Liabilities: Debts to third parties of a business.

Liquidity: Cash or assets that can quickly be converted into cash.

Lock-out clause: Clause in the letter of intent requiring the seller to agree not to negotiate with other potential buyers.

Love money: Money provided by the buyer's relatives for a business takeover transaction.

Management buyout (MBO): Acquisition of a company by one or more members of its management team in the form of a leveraged buyout.

Margin: The difference between the cost price (what it costs us to produce the service or the good) and the selling price.

Non-compete clause: Refers to a clause in a memorandum of understanding, sometimes included in a letter of intent, designed to prevent the seller from starting an activity that competes with the buyer's business after the sale.

Non-Disclosure Agreement (NDA): Document intended to protect the seller against the risk of disclosure of confidential information about the company. The signature of an NDA by the buyer is often a prerequisite for any communication relating to the business transfer.

Pre-emption rights: Rights conferred on certain shareholders by the articles of association or a shareholders' agreement to guard against the arrival of unwanted shareholders by buying the seller's shares in their place.

Preferred share: An unsecured security representing ownership in a company, providing flexible repayment terms and fixed or variable dividend payment.

Profit: Sales minus expenses.

Receivables (accounts receivable): A balance sheet item that groups sums to be collected from customers for goods or products sold or services provided on credit during the operating cycle.

Sales: Gross profit from operations, i.e. revenue.

Self-financing: The company finances its projects itself.

Share: A unit of ownership in a company.

Subordinated debt: Any type of debt or loan that is paid after all other debts and loans are paid to the other creditors (preferred creditors). In return for the additional risk accepted, subordinate creditors charge a higher rate of interest than other creditors.

Support period: A period of “joint rule” during which the seller transmits knowledge about the company to the buyer and hands over the reins.

Suspensive and resolute conditions: Conditions set out in the memorandum of understanding that could call the acquisition into question. The most common conditions include the buyer obtaining a loan, the seller signing the non-compete clause, or a positive conclusion to the financial due diligence review.

SWOT analysis: A strategic analysis matrix summarizing the strengths, weaknesses, opportunities and threats associated with an acquisition project.

Vendor financing: A loan granted by the seller to the buyer during a business transfer transaction. Also known as a “balance of sale” and “vendor take back.”

Worker-Shareholder Co-operative (WSC): Employees of a joint-stock company who get together for the purpose of collectively acquiring and owning shares in that company as long as the company provides work for the members. The purpose of this type of co-operative is to create or maintain jobs and to represent the interests of its members in the company.

Working capital: Excess of current assets over current liabilities.



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INDEX is a digital platform where buyers
and sellers are listed confidentially.

INDEX

HOW IT WORKS

A digital platform powered by CTEQ, INDEX is available to entrepreneurs and experts to facilitate networking between business buyers and sellers across Québec.

Buyers who register on INDEX can confidentially post the main characteristics of their acquisition project. Advisors put sellers and buyers in touch.

Register:
www.ctequbec.com/lindex

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