# Expert Strategies and Insights for Selling your Business

**Keith:** Welcome to the Empowered Investor. My name is Keith and I'm joined by my cohost, Marcelo Taboada.

Marcelo: Marcelo, how are you today?

**Keith:** I'm excited. Part two with Uros, a lot of interesting stuff.

**Marcelo:** Every single podcast you say I'm excited. You know what? I have to be excited. I'm a passionate person. If you don't bring it to the table, then why do it?

**Keith:** I hear you. You're fantastic. Today we are doing part two of our discussion with Uros Milekic. Uros is the Quebec market leader and partner within the business service and outsourcing sections of BDO Canada. In your first episode, you talked about a lot of general issues about how business owners should run their finances. In today's show, we're going to talk about how business owners should prepare their businesses for the eventual sale. So many business owners that we meet sometimes aren't ready and they haven't done as much planning as they can, or they should do. In today's episode, Uros is going to walk us through some of the basic business issues that individuals need to use and put in play to get their businesses moving forward, ready for sale. Part of it is business operations, part of it is financial operation. He's very knowledgeable, very articulate, and it was a great, great discussion. I'm excited to have Uros on the show today.

**Marcelo:** Amazing. Enjoyed part two.

**Keith:** Welcome to today's episode, Uros. Great to have you back.

**Uros:** Thank you very much for having me again.

**Keith:** You did an awesome show last week with Marcelo. Today we want to do part two, which is a real focus on business owners, and in particular, how business owners can think about their business and prepare their business for the eventual sale. Not every business owner will work forever, so there is an end point.

**Uros:** Absolutely, Keith. And it is an important part of the overall process and big picture thinking. The owner-operator sometimes gets lost in the details because they're so busy and they're trying to make things work on a daily basis. It's harder and harder to step back and look at where the milestones are leading to and what's the end game and how you prepare for that. So, I'm very excited to talk about that on today's show.

**Keith:** What I like about today's show is it reminds me of my MBA that I took 30 years ago, which is all about business modeling and how to try to run businesses. Today's show is going to be split into a few sections. The overarching theme is the financial, the accounting, the tax, and how that can be managed and looked at. But we're also going to look at business strategy in terms of preparing businesses.

**Uros:** There's a lot to talk about. The first part of where to start is to talk about it. Because these things may happen two, three years out. But it's important to start talking about them now and planning for them now.

**Keith:** There are so many statistics that suggest that entrepreneurs often hit their late fifties, early sixties, and they're actually not as well prepared as one might think to transition the business to a new buyer or to the next generation. Let's take a moment and scale back and go back to when businesses are in full operation. What are the kinds of things from a business perspective that you counsel operators to prepare? What business strategy should they be adopting to run their business so that they can get this business set for a sale in the future?

**Uros:** I would break it down into five main pillars.
The first one being business processes in general, and those are usually analyzed by a buyer during the due diligence stage. It's something that you're going to want to have set up properly prior to a transaction, and that's going to help prevent red flags during the due diligence process by a prospective buyer.
The second is management structures, and a buyer, especially when it is a private equity buyer, is going to want to make sure that once the owners are gone, there is a solid management structure in place. In essence, that's having key people that are ready to manage the operations going forward when you're gone as the owner.
Besides a strong management team, the third thing I would say is the people. The people are key. The talent that you have, a buyer is going to want to make sure that the employees are experienced, well trained, and that the whole ecosystem within the work environment exists and is working efficiently. Another thing to mention within that pillar is key employees. Every employee, there's an argument that they're key, absolutely, but within the management team, you're going to have certain really key employees that the buyer is not going to want to have leave anytime soon, and that's why typically they'll maybe form long-term employee contracts for certain key employees that are helpful in terms of talent retention.
The fourth would be data and financials. Strong financials and strong growth are obviously a plus and are going to help increase a purchase price down the line. Having that data accessible and accurate is also extremely important. Having a good ERP system that can export those detailed reports when you need them is also key.
Last but not least, I would say vision, vision of future growth with something that is going to be of interest to an investor, a buyer. Basically, they're going to want to see what upside might exist if they're going to put some equity in, some skin in the game.

**Keith:** Everything you've just mentioned right here, it's a great list. This would be a list of how to run companies.

**Uros:** It's a great point. It's not just for a sale. You look at that transaction as maybe a long-term goal, but absolutely it helps along the way. You want to have a clear vision and milestones that you want to reach in order to get the traction that you need to keep pushing forward.

**Keith:** One of the classic issues that you hear a lot about is the entrepreneur business owner is stuck in a lot of details. It's micromanaging sometimes, and what you've just alluded to is sort of a well-run company that has lots of things being done, and the owner isn't necessarily stuck in every piece. This reminds me of the book, "The E Myth," which was super popular 20 to 30 years ago. I'm assuming you've heard or perhaps read it.

**Uros:** I haven't read it, unfortunately, but I did hear about it. I know it's been voted one of the number one business books. When you mentioned working on the business as opposed to in the business, that is so important for an owner-operator to take the time and step back and not be caught up in the details because you got to look at one of your assets is your time. If you're spending all your time on certain things that do not return the biggest investment for yourself and your business, you've got to reevaluate that.

**Keith:** That book really highlighted to sort of the small business owner, the importance of building processes, having a management team, and doing all the things you mentioned versus being stuck in the business and doing all the details and having a job and just not being able to scale in the long term, not being able to have a business that can be sold.

**Uros:** It also mentions, if I'm not mistaken, a shift in mindset, not being the technician and working towards being the entrepreneur. You may have started being that do-all person, but in order to scale the business, you got to create something that exists apart from you individually.

**Keith:** There are consultants in the marketplace that help business owners strategize. Talk to me a little bit about BDO as an example. Do accounting firms have these consulting services where they come in and show entrepreneurs what they need to do to get the business ready? It might be in 5, 10, 15 years even.

**Uros:** I can't speak for every accounting firm, but I can tell you the most larger accounting firms like BDO. They do typically offer advisory type services, which include mergers and acquisitions, digital type services, cybersecurity, threat prevention, and as far as mergers and acquisition type services, you have sell-side mandates, buy-side mandates, and capital raises as well. There's a whole slew of advisory type services that BDO does offer. What we try to do is have a tailored approach for the client's needs. The first step is meeting with the client or the prospective client and listening and understanding what the

exact needs are. Because this is not a cookie-cutter type thing where we're just trying to sell you something. It's really to be able to add value. If I'm not able to explain to the client or prospective client how I'm adding value, I'm not doing a good job. If I'm selling them something that is not adding value, I'm not doing a good job. A big part of the process is listening to what the needs are and then suggesting and making recommendations from there. But certainly, Keith, there's a lot of services that we can help with in terms of preparing for a sale because there's a lot of components for that. It's not just the sale itself. There's tax work pre and potentially post during the transaction. You may want to understand what your business is worth before you go to market. So, you may want to have a business valuation done. That's something that we can also help with.

**Keith:** We're going to cover for sure in this episode, valuations and financials and whatnot. But yeah, that's fantastic to hear that you offer these business consulting services.

**Uros:** The client, potential client, the owner of the business needs to find the person that they feel they mesh with well, that's going to take the time to listen to them. Unfortunately, these days, everyone's busy. And it's hard, as I'm sure you know, Keith, to find that person that's willing to spend some time and really understands that you can manage expectations. I know our team does a fantastic job in doing that, and that's why we have a lot of clients that are growing with us. In my world, you're as good as your clients, so I'm lucky to have a lot of great clients.

**Keith:** We've been in touch with a strategy called Entrepreneur Operating System. EOS is the short acronym, but it's a phenomenal structure to get entrepreneurs and businesses to think about some key components on how to run the business, how to run the business better. These types of systems are available for all business owners.

**Uros:** Those touch on six core components: vision, people, data, issues, process, and traction. I know you and I have talked a little bit off air on these matters and how important they are for in terms of pillars of running a business in general. We touched on some of them a moment ago, like data, the accuracy of data. I know we're going to get into that a little deeper with the financials, but those are all fundamentals of a business. If you're kind of just flying by the seat of your pants, and you're not understanding that these are fundamentals, and they're just happening by luck. You need a lot of luck to be successful. If you gain control of those things that are variables that are controllable to some extent, it's always a good thing.

**Keith:** I think those are all amazing points, Uros, with regards to managing a well-run business and what entrepreneurs need to do, where their focuses should be as they're building their businesses. Let's switch a little bit and move towards financials and accounting. In particular, the question would be, what are the accounting and financial strategies that entrepreneurs need to embrace as they build and grow their business?

**Uros:** Accuracy, I would say is extremely important. Financials without a doubt should be accurate. If you have errors discovered in a due diligence process, it's going to question the integrity of the information that's being used to determine that purchase price or a purchase at all. So, from an internal reporting perspective, monthly reporting is an important thing to have at your disposal and something that the due diligence team is going to want to review and analyze if you're in that transactional phase. But even if you're not as part of running your business, you're going to want to have proper monthly reporting.

As far as external reporting goes, you have to look at if there's any assurance provided by an external accountant. Is that something that you need in terms of a transaction down the road, like on the sell side, there's certainly an argument to make that there's some additional comfort from the buyer when they see audited financial statements. So, as a vendor, you want to consider what type of mandate that you're engaging your external accountant for, whether it be for an audit, which is providing the highest level of assurance of the three types of reports I'm going to mention, or a review engagement as a second. That's more of a negative level of assurance.

And then the third one, which is also commonly known as the notice to reader report, which is a compilation of financial information type mandate, and that provides no assurance at all. So, it's just important to understand what is it that you need, and or that you may need going forward and plan ahead with your external accountants.

**Keith:** Your first point, sir, get your monthly financials, get dashboards on your business, dashboards on the financials, and then obviously the assurance being working with an audit firm and making sure that the numbers that are reported are accurate.

**Uros:** Exactly. And you may not need an audit. Sometimes you'll have a credit facility that requires one. It's just, again, important to understand what is required, but in terms of internal reporting, yes, absolutely, like the monthly reporting, having accessible and accurate data is so key. Oftentimes people will forget that because they're too busy, like you said, working in the business as opposed to on the business and having the tools for you to make informed decisions is key. Otherwise, you're just shooting in all directions and seeing what sticks. If you have the information, you can make an informed decision on how to proceed.

**Keith:** That's fantastic. What about tax and planning structures? So, in particular, I'm thinking when should entrepreneurs think about opening holding companies? Why would you open a holding company? When should entrepreneurs think about installing a family trust? How does all that work and what's the right time to put them in place?

**Uros:** I know we touched on a bit of that in the last segment with Marcelo. So, I would encourage those that are listening that haven't heard that episode to go tune into that. Very, very good discussion that we had, and it touches on some of these topics. For someone that didn't get a chance to tune into that, I would say one of the things to consider surrounds, if you're incorporated businesses, building redundant assets. The redundant asset, first of all, is an asset that's not actively used in the Canadian business for

its operations. So, as an example, if your operating company has accumulated cash in excess of its working capital needs, you may want to consider introducing a holding company in the structure to hold those assets in the event that you get a purchaser down the road that's interested in buying the shares of your operating company. You don't want that excess cash to put you in a position where you can't use what we call the lifetime capital gains exemption. So, there's a few things to consider before the sale and some of these rules in terms of when we touch on the lifetime capital gain exemption. There's a timer that kicks in 24 months before the sale. There are certain things in criteria that you have to meet within two years pre-transaction. So that's why it's important to at least two years before to start assessing these things. If you know where you're going to be gearing up for a sale to have a look at how you're structured. Sometimes the buyer is going to come in and they're not going to want to purchase the shares of the corporation. They may want to purchase the assets. Understanding what that means for you from a tax side can help you negotiate the purchase price and say, had you bought the shares, I would have ended up with this much in my pocket. And that might lead to other discussions as well. You mentioned family trust. Family trusts could be useful as it stands now, and these rules may change for multiplying the lifetime capital gain exemptions amongst beneficiaries that will qualify for it. I really urge people listening to consult with your professional advisor since every situation is different and you don't want to complicate your setup and incur costs for potentially little to no upside. So, it's always best to seek tailored advice when it comes to these bigger transactions.

**Keith:** One of the general points you mentioned was that if your operating business is generating profits and excess cash is building up, that's a perfect opportunity for a hold code in place so that you can push the cash to the hold code.

**Uros:** There are ways of doing intercompany dividends that may not be taxable, again, depending on the situation. It's a matter of having those discussions with your external accountant. When I work on files, I have quite a few groups that I deal with in terms of client base personally, and these are all things that we look at proactively for the client and not just reactively when it's your back against the wall. It's trying to do things ahead of time and planning forward.

**Keith:** How about the family trust? Is there any advantage for entrepreneurs to put those in place sooner rather than later? And I say sooner only because if the business is worth a smaller amount as you start the business, your opportunity to potentially divide and share the capital gains increases if you've got a lower cost base. So, is there a right time to put family trust in?

**Uros:** When you freeze the value of the operating company and start introducing new entities, depending on how you do it, you may be issuing different shares that are like the new growth shares to that additional entity that was created. So, if your company, as an example, hypothetically is worth 5 million and now you introduce a trust, you may be giving that trust certain new shares that are going to have value that grows from the 5 million point. It's sometimes lost in translation where people think that, oh, they put in a trust, and it goes back to day one. So, these are important things to understand if you put it in sooner, obviously, if the business is growing, there's going to be more growth accumulated

to those shares that you introduced this new entity through. As far as multiplying the capital gain exemption, the lifetime capital gain exemption, should you be eligible to do so. If you have more value, you'll have more taxes that will be sheltered from being included as far as a tax liability because of this capital gain exemption offsetting them. The capital gain exemption amount changes every year. It was just over a million dollars set for 2024 and there's been new rules proposed and I'm sure most people listening have heard of them by now in Canada that may or may not come into effect by June 25th, 2024. But they would raise the capital gain, the lifetime capital gain exemption to 1.25 million instead of the close to 1 million that it is now. So that part would be good.

**Keith:** The capital gain exemption being, in theory, when an entrepreneur sells their business, and there's a capital gain in the sale, if they can sell their shares of the business, you can potentially qualify for up to, in theory, proposed 1.25 million and not pay capital gain tax on that portion. After that, you pay capital gains over and above the 1.25.

**Uros:** Based on the inclusion rates that will exist, based on whatever rules are in place when that transaction occurs, yes. As a point of reference, in 2023, it was just under 972,000, the lifetime capital gain exemption. So that first 972,000, should you qualify, would be a tax-free capital gain. And then in 2024, to your point, it went to just under 1,017,000 and then after June 25th, it would be going to 1.25 if these rules go through. But there are several criteria which have to be met in order to qualify both at the time the shares are sold and in the previous 24 months leading up to the time of sale. To qualify at the time of sale of shares, substantially, all of the assets of the corporation, and that's generally 90 percent or more of the fair market value of the assets, have to be used in an active business that's carried on in Canada. In general, during the 24 months leading up to the time of sale of the shares, more than 50 percent of the fair market value of the assets of the corporation have to be used in an active business carried on in Canada. If the 24-month look-back test is tainted, the clock essentially resets on that 24-month test. This is why it's extremely important pre-sale to plan for these things. It's subject to a limited number of exceptions, the shares that are being sold. They have to be held for at least 24 months prior to a sale in order to qualify for the lifetime capital gain exemption.

**Keith:** These are pretty important issues. I mean, I remember speaking to an entrepreneur a few years ago and he hadn't flushed out the cash and he wasn't able to sell. So, you have to hold because he wouldn't qualify. Speaking to accountants is critical. As an aside, there was a great article in the Wall Street Journal this week, which was hug your accountant. There's a shortage of accountants. There's not enough new young blood going into accounting and assurance. So, hug your accountant. They're so incredibly valuable to you.

**Uros:** That's flattering to hear. Thank you. I'm not saying you're saying that towards me, but just in general, I think it's great given the complexity of rules that are in place, and they're constantly changing and being updated. There's a lot of chances for pitfalls, whether it be with this or something else. So proper advice and planning well in advance is certainly recommended.

**Keith:** Let's keep the discussion going. We're going to move to valuation now. Valuation is something that a lot of entrepreneurs have to do on their businesses in preparation for potential sales. Can you talk, just generally speaking, what a valuation is, who uses it, and how they work?

**Uros:** Our M&A team usually performs a pricing analysis as a first step when we start a mandate, just to have an idea, like I had mentioned at the beginning, of what we can expect when the client goes to market. The valuation team, which is a separate team from the mergers and acquisitions one, performs different kinds of reports. It depends on what the needs are. There's the lowest assurance to the highest assurance in terms of valuation. You can have a pricing analysis, a calculation, valuation reports that are done or estimate valuation reports. Then you can even get into more exhaustive valuation reports. It really depends on what the needs are. But I find it's a great tool to give you a point of reference. This is similar to when you're selling a house before you put it up for sale, you may discuss with the real estate agent, can you tell me what other houses nearby in my neighborhood have sold for? So, you know what to list the price at here. It's a little bit different where you're not listing with the price. You're waiting for the person to come in most times, but you have an idea of what the ballpark is of what it might be worth. So that way, when you have a discussion with the potential buyer, you know where you stand. Are there specialized professionals that do valuations? We have certified business valuators in-house that do just that. It's not just one person, like we have a whole team, so in terms of availability of resources, we are ready to go when it comes to those things when the clients need us. Absolutely, you have to have someone sign off on that that is credible and has done this before and is accredited to do so.

**Keith:** I think the valuation is this independent appraisal, if you will, of your business. The seller has a use for it. The buyer has a use for it. It's a critical document. It's a critical analysis.

**Uros:** Absolutely. You don't have to be in a transaction to do that. You may want to do that even as part of tax planning. You may have a valuation that's required because of a tax transaction. You mentioned Keith doing a freeze on your operating company, potentially, if that makes sense. In order to freeze the value, you better know what you're freezing it at and what it's worth so that if the government ever comes down to question why you do it at this amount, I don't agree. At least you have something to back it up.

**Keith:** Let's talk a little bit about buyers, the potential buyers that are in the market. You own a business. There's a variety of buyers. They would all value your business differently. But I've just got a list of a few here. I've got internal buyers, which are individuals inside a company, strategic buyers, which might be your competitors and would want your business non-related buyers. And the most recent one, which is popping up in Canada, sort of the investor buyers, which would be private equity. Can you comment on this list?

**Uros:** Internal buyers, if we start with that one, that's usually management or upper management that is interested in taking over. Typically, they don't have the necessary funds to buy out the business. That's

not always the case, but an advisor to the transaction can come in and help them find the capital needed to acquire the business. That whole transaction piece is called an MBO, which stands for Management Buyout. Often, we can see the internal buyers as they could be the children of the current owners, or perhaps those key employees that we talked about at the beginning that the owners have identified as having interest in doing such a transaction. Then you mentioned strategic buyers. Competitors from the industry, sometimes businesses that operate in an adjacent industry or in another segment of the same industry, can be a strategic buyer for your business. They're going to often have synergies with the company that's being sold. Because of these synergies, you may get a higher bidder. So that's important to note as well. Then you mentioned non-related buyers. Those could be wealthy individuals or a business in an adjacent industry. It's rare for private businesses to acquire another business that is completely in a different sector. So, we don't see that often a play like that. Then investor buyers, private equities and search funds, they're going to have specific criteria that sometimes they seek businesses in a specific industry. So before contacting private equities to see if they're interested, it's always best to do a bit of research first to make sure that the business that we're selling fits the profile that they're looking for. Unless the private equity already has a business in that sector, they won't have synergies with the business that we're selling if they don't. We try and tailor it based on that and help the seller find the right buyer.

**Keith:** There's a lot of activity in private equity in the last 10, 15 years. So, of all of the businesses that you consult with, what's the percentage that are being purchased by private equity versus strategic versus you said management buyouts?

**Uros:** I don't have the exact statistics in front of me, but I could tell you that the private equity is certainly growing. There are certain regions that it's more than others. But I was at a CBCA event, which is the Canadian Venture Capital and Private Equity Association event last week. So, I don't know when this episode will air, but it was at the end of May, and it's called Invest Canada 2024. It was held in Montreal this year. Great, great event organized by the CBCA, lots of private equity players there. It's interesting in having those discussions and understanding where they're going, and you have different funds, and they have investors and what they're looking for and what verticals they're playing in. When you're connected to advisors that are plugged into all of that, it's always useful as a seller to have that tool. You mentioned hugging your accountant, so I can speak for myself at BDO. We are certainly plugged into that space. Because of that, it just opens up a lot of doors for our clients that are in that transaction phase in terms of identifying the right buyer. You don't want to go for that first offer right away. It might not be the right offer. So, you've got to really play your card rights and understand the landscape and having that advisor that's going to be able to coach you along the way is to me extremely key.

**Keith:** I love the way you earlier compared it to selling a house. There's a lot of emotions that go into selling a home. There are a lot of similarities in terms of getting it valuated, understanding what you have, finding the right buyer. Sometimes certain buyers pay more for certain homes because they're strategic and they've got a certain fit. So, it's quite similar.

**Uros:** It's not the same, it is similar, and you think of, there was a time in the real estate market where the inspection reports years ago, I remember when I was selling a property, they would always happen after the transaction, before closing, but after you visited and you made an offer, you kind of do the inspection report right before closing to see if there's any underlying risks that will drive the price down. Then I feel like there was a shift a year or two ago during the pandemic where because there was I guess a shortage of supply and a big demand that it was like, no, you have to have that done beforehand. Or even wave it. That's what was going on in the pandemic. Exactly. So, it's interesting to see how that all plays out. I wouldn't wave anything when you're dealing with selling a business. I think this is an important long-term thing to understand, but my point is, those inspection reports and things, look at that, like the analogy, I guess, of the data, the data that you have to make an informed decision, so to me, if you're waiving things, like, that's not a good idea, you want to have all the data available to be able to make an informed decision, whether you're on the buy side or the sell side. And I've had clients that have gone through both in the past few years. So, these are important transactions for them. You're not doing them every year. So, it's spending the time on doing the right steps is crucial.

**Keith:** I hear you loud and clear. That makes total sense. Can you speak to now we're going to get to the transaction selling shares versus selling assets? What does all that mean? And when do you see one versus the other?

**Uros:** I don't want to comment on all of the tax aspects since every situation and I'm sure you can appreciate that is different and should be analyzed based on the facts at hand and the structure in place. Not everything is the same. So, you got to really tailor the approach. But in general, from the vendor perspective, you can have all cash transactions. An all-cash transaction is typically the preferred outcome because you're getting everything upfront. Then you can have what's called seller financing. Typically, there's a balance of sale or what we call a VTB, which is a vendor take back. That's something we see quite frequently and generally speaking, if there's any uncertainty in the market in general, or with the business being acquired, there's a higher chance that the buyer is going to ask for this VTB. When the overall market is thriving and the acquired business is as well, we usually see more closer to all cash transactions. A VTB percentage wise can range and have a VTB 30 percent or somewhere around there of the purchase price. It could be higher. It's not impossible, but something we don't see often where the majority of it is in a vendor take back. Another one that's often seen is an earn-out period. An earn-out is usually put in place when the vendor, so the seller is trying to convince the buyer there's a lot of growth. Remember we talked about that vision, Keith? So, oh, I'm going to have all this growth coming in the next few years. Well, the buyer might say, okay, that's great, but because that growth isn't realized yet, they're going to be reluctant to pay upfront for this growth. On the flip side, the vendor wants to be compensated for this growth. So, there's a compromise with an earn-out. That's basically the extra payment for the vendor if the growth is realized post-closing. The earn-out could be structured around the same types of metrics that govern the deal, like revenues or gross profit or EBITDA or units sold. Then there's even equity rollovers into new businesses. This is where the vendor keeps a stake and usually could be a minority stake in the business that they're selling. This way they're aligned on what

the long-term goals are and what the long-term play is. The vendor can benefit from a future liquidity event. They're selling today, but they're also participating in the future growth of the business. It's kind of similar to an earn-out, but with the earn-out, the vendor sells 100 percent of the shares versus with the rollover equity. Part of it is converted into shares of the new venture.

**Keith:** Fair enough. That's a great list. What about whether the sale will occur of shares or assets in any of those? And again, I know it's complex and it's a summary show here, but what are the highlight issues that you might want to point out? Sale of shares versus assets.

**Uros:** If someone is buying the shares of the company, they're essentially buying that incorporated business and anything that comes with it. Sometimes they're going to be reluctant to do that because it may come with some additional risk in terms of liabilities. Yes, they can have agreements in place for hidden liabilities and whatever clauses in the SPA and the purchase agreement to cover themselves. But it's still a different undertaking of risks compared to a purchase of assets. A purchase of assets is you may have certain machines that they need that are currently in your business and they're like, well, I'm not going to buy all the shares, I'm just going to buy the assets that I've listed here in my LOI, my letter of intent. Those two different types of deals have different tax implications. You go to a purchase of assets, the entity that has those assets is going to presumably have a capital gain that's realized. You cannot use the lifetime capital gain exemption that we spoke about earlier on the sale of assets. You're going to have capital gains, and then there's ways of getting a certain money out of the company that's selling those assets on a tax-free basis to the shareholder through what we call a capital dividend account. The way that capital dividend account grows, there's a few ways, but one of the ways is through the non-taxable portion of the capital gain that's incurred and that's realized. Without getting into too much detail, because I don't want to lose most of the audience on this, it can get quite complex. We sort of touched on this also in the first segment with Marcelo. There are probably some tidbits of information there that could be useful for the audience if they tune in to that episode as well. In essence, there's planning that's done if it's a sale of assets because there's capital gains that are typically realized from that. A sale of shares may be eligible, like we talked about earlier, for the lifetime capital gain exemption. You've got to look at what the structure is. When there's a sale of shares, who owns the shares that are being sold? Is it done through a trust? Is there the potential of multiplying the lifetime capital gain exemption? Should it qualify for it? These are all things that we would look at. If it does qualify, just as an example, if you have four beneficiaries of a trust that are eligible to receive their lifetime capital gain exemption and they've never used it before. It's the trust that owns the shares that have grown and let's just say it was set up that way hypothetically from since the beginning of time. Again, that it meets all the criteria. After June 25th, assuming the proposed rules go into effect after June 25th, 2024, that would be 1.25 million times four of a capital gain, which is 5 million that would be tax-free under that hypothetical scenario. This is quite interesting in terms of when you're looking at selling the shares, because you're going to look at the end of the day, sellers will often ask their advisors will look under both scenarios, what's going to be left in my pocket, whether it's in my holding company or in my personal pocket after the transaction takes place. They're going to want to look at it like that in layman's terms. It's up to the advisor, the professionals that they're working with to run the simulations

to help them understand what the net cash impact under each scenario is. Then again, they're going to have the information in front of them to make that informed decision on how to proceed or what to negotiate.

**Keith:** Fair enough. And they're even going to go one step further. They're going to say what's left after tax in my pocket.

**Uros:** That's where I was going. Exactly. You can have it in the holding company after tax, and it's going to earn passive income in there. Then you can go to that next layer, which is personally in your pocket after tax.

**Keith:** All right. This has been a great evolution so far. We've covered a lot of different bases. Let's move into the final stages here. You're a business owner, you're a couple of years away. What team of professionals should you be engaging as you prepare your business for sale?

**Uros:** Having an M&A advisor like BDO, for example, that's going to help you with the transaction and identify what it is that you may need. You may not need the slew of services A to Z, but you may want parts of it, or you may need parts of it now, and then you may add parts of it later. I would say that advisor is crucial. Having a lawyer involved that is specialized in M&A transactions is also very important. I would definitely look for someone that has experience in M&A transactions when you're looking at that, and a tax professional. We offer that as well as BDO. That's going to help minimize those tax impacts of the sale, which we discussed earlier. I would say the tax person, the advisor on the M&A side and BDO can help with both of those things very, very well and effectively. The lawyer who's going to be able to help you paper everything and review all the papers that are there and ensure that you're protected legally.

**Keith:** Basically, it's get your team in place and start working with them. Get your business coaching in place well in advance and then get your accounting, tax, and legal team together.

**Uros:** Before selling, I think the vendor should hire a tax professional to be certain that everything is in place for them to benefit from if there is potentially the capital gain exemption to use if they've never used it. Making sure that structure that's necessary is there at least two years before the sale. From the accounting perspective, making sure like we talked about earlier that the internal reporting is done properly. You have the external accountants going through the financials at year-end and everything is nice and smooth.

**Keith:** All right. This has been an absolutely fantastic show today, Uros. We're going to wrap up. We've pretty much covered A to Z in terms of what entrepreneurs can think about in terms of running their business, the tax and accounting and financials throughout their business, and then preparation for sale. What are some of the big takeaways you want to leave the audience with our listeners?

**Uros:** Selling a business is a long process. There are a whole lot of aspects that you need to consider from tax planning to preparing the company to go to market, requesting bids, going through the due diligence and negotiating on the contracts. Basically, it's a marathon. My advice is don't wait until the last minute if you think you may want to sell the business. Even if it's in the next two to three years, contact your team, your professionals, the M&A, tax person, lawyer right away. The sooner we can come in and help, the smoother the process is going to be.

**Keith:** That's great advice. I'd even add one last thing, which is if you're serious about selling your business, you have to start thinking about these 10 years, even five years before. In our industry, the consultants suggest minimum five years to get your business really fine-tuned, get your management in place and really get your business set for then your section, which is get the accounting and the financials done.

**Uros:** Absolutely. One last thing to mention is to your point, you don't want to be getting into transactions like this when your backs against the wall. You want to do it from a position of power where you're doing well, things are healthy for the business, and you have the energy to keep going through this marathon.

**Keith:** Uros, thank you so much for taking the time to join us today, for sharing your thoughts and ideas. It was very thorough, really, really great episode for business owners. Like I said, The Wall Street Journal said hug your accountant. Be careful. There might be a lot of people trying to reach out and hug all your accountants in your team and your firm.

**Uros:** I appreciate the kind words. I appreciate the time and thank you for having me on and hopefully we'll get the opportunity to do it again sometime soon.

**Keith:** All right. Thank you so much. Thanks so much. Bye for now.