



SMART EXITS AND SUCCESSFUL SUCCESSIONS:

2023 Mid-Market Report

Houser Henry
& Syron LLP

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- *The Great Retirement is underway.*
- *Older generation CEOs at Canada's mid-market companies are eyeing the doors and a new generation of CEOs is starting to take over.*
- *Succession planning and protecting family wealth is this year's mid-market topic.*

For this year's mid-market report, we sat down with clients from various industries to find out more about their exit plans, how they are preparing for succession or sales, and the steps they are taking to protect their wealth for their retirement and their future generations.

What we found was slightly worrying. Most older generation CEOs say they have a succession plan, but few have anything formal and written. Many seem to be hoping for a sale, but some have yet to engage with the appropriate service providers to prepare for a successful exit. Some admit they are not sure what they will do if the right offer does not materialize.

On the positive side, our survey indicates that efforts to ensure intergenerational wealth are more robust. The new generation of CEOs seems keen to take over the reins and grow the businesses. For some CEOs who have recently gone through a succession process of their own, they are keenly aware of the need for robust succession plans and have made good progress given their short tenures.

Older generation CEOs have a succession plan, but few have anything formal and written.

In this report, we **uncover** some of these issues and explore what Canada's mid-market CEOs are doing – and should be doing – to prepare their companies for their eventual exit. At Houser Henry & Syron LLP, our focus is on helping mid-market owners, CEOs and Founders build, maintain and protect their business and their wealth. We encourage you to contact our team of experienced legal professionals to find out more about the topics raised in this report, or to discuss your own company's succession planning strategy.

Older generation CEOs are hoping to retire within the next three to five years.



The Great Retirement is Underway

If you are the CEO of a Canadian mid-market company, there is a good chance you are either on your way in or you are on your way out. With only a handful of exceptions, our survey respondents fell into one of two distinct personas: either they had spent 40+ years in the business and wanted to retire, or they had spent less than 5 years running the business and were just getting started with their ambitions.

“I’m ready to retire now,” admitted one CEO. Most were a bit more patient. But the vast majority of the older generation CEOs say they are hoping to retire within the next five years – three if they get their preferences.

Our survey suggests that – while the stresses of the pandemic have had some impact on mid-market CEOs – the key influencers pushing mid-market CEOs to retirement are more traditional. Many say they simply feel it is time to enjoy life – golf, travel, time at the cottage and so on. Some point to wider health issues, either their own or their spouse’s. A small number suggest the current economic climate has made them reconsider their timelines.

That being said, few actually expect to step away from the business entirely. The vast majority say they plan to stay on as an ‘advisor’ or ‘consultant’ if they can. Those who plan to entrust the company to a family member often assume they will be able to play a silent guiding role. Even the most passive seem likely to remain tied to the company entity for some time based on their retirement, corporate and wealth planning structures.



*The majority of CEOs plan to stay
on as an ‘advisor’ or ‘consultant’
after retirement.*

Formalizing the Succession Plan

Given the three-to-five-year retirement timeline set out by the older generation of mid-market CEOs, one would expect succession planning to be quite mature and robust. Our survey of CEOs and business leaders, however, suggests more progress needs to be made.

The vast majority say they have a succession plan in mind. But just 12 percent say they have formally documented their succession plan. “We have a framework of what we would like to have happen, but nothing has been officially done or written,” admitted one CEO. Many point to clauses in shareholder agreements as the basis of their succession planning.

Our survey also suggests that CEOs could be doing more to groom new talent to take responsibility in the organization. Generally speaking, the average reported age of the senior management at firms led by older generation CEOs is between 50 and 65. Yet, outside of those with children active in the business, only a handful of respondents said they have an established program for developing executive talent.

For many CEOs and Founders, formalizing the succession plan forces them to make difficult decisions about their future and assess their mortality. “I didn’t start this sooner because I had the sense of being invincible,” admitted another CEO. “I know I need to transition but I don’t know what I’m going to do after that. Most people retire and get away from a job they don’t like, but this is a way of life for me, so planning for succession is difficult.”

Of course, succession planning can be focused on family members or external parties – and those without an obvious heir or successor to the CEO seat seem highly focused on making a sale.

CEOs could be doing more to groom new talent to take responsibility in the organization.



Ready For a Sale

Most Mid-market CEOs (even some of those with children active in the business) suggest that – if the price and conditions were right – they would be willing to sell the business. In a handful of cases, the most likely sale process would be to an existing management team. More often, however, CEOs seem to be open to offers from other companies seeking to grow.

“We were approached about three years ago by a US company looking to expand into Canada. Those negotiations fell through in the end. And we’ve had plenty of other offers since then that we’ve declined because we want to sell to a buyer that won’t make any changes to our company or brand,” added one Toronto-area CEO.

Our survey indicates that most mid-market CEOs in Canada are fairly well prepared to entertain offers. Many say they have made contact with brokers, tax advisors and M&A advisors to assess and explore the potential for a deal. A significant number also say they have already started to restructure their business to be better prepared for future deal offers.

While most seem prepared to entertain a deal if it came tomorrow, many of our respondents also admitted they could be doing more to prepare for an eventual sale. We heard from many CEOs who would want to improve their recordkeeping and reporting. Some talked about the need to sharpen operational efficiency to enhance the eventual valuation and sale price. There were also a number who mentioned the need for further reflection on corporate structure and holdings.

If the price and conditions were right – CEOs would be willing to sell the business.



Are

You

Ready?

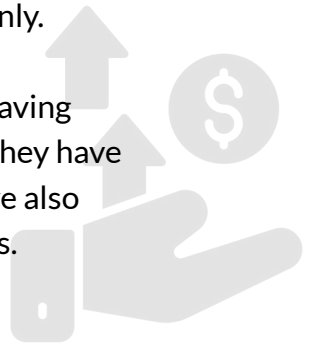
Protecting Family Wealth

Not surprisingly, our survey suggests that most CEOs and Founders have put consideration towards funding their retirement and leaving some of their wealth behind for future generations. A range of retirement funding strategies were raised – reflecting the often complex and nuanced nature of different company structures, savings plans and retirement goals.

Many of our respondents have been diligent at ensuring their family wealth will benefit current and future generations of their family. “We set up holding companies to make sure that the wealth is protected so that my family is taken care of,” noted one CEO we interviewed.

All but one of our survey respondents (a new generation CEO) reported having a current will in place. And while most say they haven’t updated it in the past five years, our survey suggests that mid-market CEOs and Founders have taken appropriate steps to ensure their wills are in order. A smaller number also say they have stipulated what happens to their shares upon their death within their shareholders agreement. Others take a much simpler approach. “Everything is divided in two for the kids,” noted one CEO plainly.

Our survey also suggests that many CEOs and Founders are also interested in leaving behind a legacy with their personal wealth. Around half of our respondents say they have already strategically planned their philanthropic and legacy goals. A number have also created philanthropic trusts and foundations to help deliver on their legacy goals.



CEOs and Founders have put consideration towards funding their retirement and leaving some wealth behind for future generations.

Under New Management

As might be expected, the 'next generation' of mid-market CEOs are smart, ambitious and focused on enhancing their company's value proposition.

The younger generation CEOs we surveyed tended to have significant experience working in the family business before taking the reins. They understand their markets and their customer expectations. Some have put particular attention towards improving their business management skills. "Both my brother and I went to school for business so that we could take over the business," noted one second-generation leader.

They are also ambitious. Indeed, noting the lack of succession plans at competitor companies with older generation CEOs, one next-gen respondent suggested this would be a great time to be making acquisitions. "I'm looking at other businesses that are boomer-owned and don't have family members involved. Those are opportunities to pick up people, equipment or new customers," he explained.

The majority of the next-generation leaders we interviewed seem committed to enhancing their company's traditional value propositions. Younger CEOs spoke of keeping up tradition, building the family legacy and treating employees like family. They understand what made the original company great and they plan on building upon that heritage.

Interestingly, the younger generation of mid-market business leaders also seem to be more attuned to the importance of robust and formalized succession planning for the business. "I didn't realize how important it was until I watched my dad do it when he was passing the business to me," said one next-generation CEO. "As a younger person, I'm already taking steps like buying insurance and making provisions in my will. I've been able to take smart steps at a much younger age than my dad did."



CEOs are interested in leaving behind a legacy with their personal wealth.

Are You Prepared?

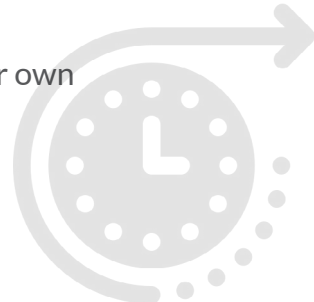
We spend a lot of our time helping mid-market business leaders, owners and founders to prepare their organizations for the next phase of their business lifecycle. As a trusted advisor to the CEOs and decision-makers at many of Canada's top mid-market companies, we have a unique view on the issues facing the market – and we can explain the legal implications to you in plain English.

At Houser Henry & Syron, our entire focus is on serving the mid-market. We recognise that the mid-market is the engine of Canada's economy and we are dedicated to helping this vital segment succeed. Our professionals work hand-in-hand with mid-market decision-makers to help them plan the best future for their organisation. That is why our firm is increasingly viewed as the Champion of the Mid-Market in Canada.

To learn more about the issues facing mid-market organisations, or to discuss your own unique market challenges and opportunities, we encourage you to contact:

Michael Henry at (416) 860-8021

Alex Levy at (416) 860-8016 or Lisa Hegedus at (416) 860-8032



The 'next generation' of mid-market CEOs are smart, ambitious and focused on enhancing their company's value proposition.

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www.houserhenry.com | 416-362-3411

145 King Street West, Suite 2701 | Toronto, Canada, M5H 1J8
