



News & Views

Feature Article

SUMMER 2005

Assignment
Spotlight

Welcome to the first issue of "FSAT News", an electronic newsletter to be sent periodically by Durward Jones Barkwell & Company LLP (DJB's) Financial Services Advisory Team (FSAT) to better inform clients of FSAT services, news, updates, and other information.

Question &
Answer

Financial
Information

As always, we recognize that your time and privacy are extremely important. If you wish to be removed from our mailing list, [click here](#) and type *remove* in the subject line.

Contact Us

If you wish to receive further information regarding the services published in this issue of FSAT News, please contact our FSAT leader:

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News & Views

Who we are and What we do

With increasing economic pressures and business complexities, it is imperative for businesses and individuals to seek professional assistance in current operating decisions and long-range planning in order to reach their financial goals. DJB's FSAT can work with you in all areas requiring specialized financial services. Our trained and experienced financial consultants (including a fully accredited member of the Canadian Institute of Chartered Business Valuators) can provide assistance with business valuation

services for:

- Litigation or Negotiation
- Estate and Tax Planning
- Business Investments, Mergers, Acquisitions, Divestitures
- Shareholder Agreements or Disputes
- Matrimonial Disputes
- Internal Management Use

Other FSAT services include:

- Preparation & Review of Insurance Claims
- Preparation of Financial Forecasts and Projections
- Child and Spousal Support Income Calculations
- Forensic Accounting
- Arrangement of Business Financing Plans
- Business and Management Reviews & Consulting

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Feature Article

Are you Considering the Purchase or Sale of a Business?

We've heard it said that the average life cycle of an owner-managed business is no more than 30 years. By that we don't mean that the average business succumbs to the ravages of competition in that time frame. No, what we are referring to is the length of time that a shareholder-operator would own and run a business before proceeding with a sale, transfer to the next generation, or windup of the business.

If we assume that there are at least 100,000 owner managed businesses in the Ontario marketplace (mostly concentrated in the Toronto-Niagara region) and that the average time from market to sale is at least one year, then at least 3,000 area businesses are for sale at any time.

The vast majority of new business startups fail. Therefore, someone looking to get into business quite often prefers to purchase an existing one.

Statistics also show that the likelihood of an existing business failing increases with each transfer between generations. To be sure, some of this can be attributed to the difficulty in keeping any business at the top of its market for such an extended timeframe. However, the problem can also be blamed on the old "square peg in a round hole" theory. In other words, the next generation is not always willing or able to carry on the family tradition. If this is the case, then, in order to maximize your proceeds from the termination of your relationship with the business, you need to sell it, rather

than wind it up.

On a windup the shareholders cash in on the accumulated net worth of the company, built up over years and often decades. But before they get to keep the cash, they have to convert all assets into cash, generally at a discount from their going concern value, pay the corporate taxes payable and then the personal taxes on the distribution of funds from the company. Often worse still is that the owner does not realize anything for the goodwill that has accumulated in the company over all those years.

To get paid for goodwill, an owner has to be able to transfer the operations to another party. This means that he or she had better not be “indispensable”. If the customers, suppliers, staff and/or contacts walk with the owner...then the goodwill does as well. Therefore selling a business is something an owner needs to plan for well in advance to ensure that the mechanics of transition are entrenched into the company.

On the other hand, if someone is looking to acquire a privately held business, where do they look? If they find one, is it any good? If it appears to “pass the mustard”, how much should be paid and how should the deal be structured? This process can be very difficult and time consuming without help.

Whether you are a potential seller or an interested buyer, the professional staff at DJB can help. Our FSAT, coupled with our general service, tax and other specialty service partners and staff, offer the following areas of expertise to assist you:

- maintenance of a list of active buyers and sellers
- development of the “sales package” to take your business to market
- identification of transitional issues to be addressed before trying to sell
- assisting management throughout the identification, introduction, due diligence, negotiation and sale consummation process
- business valuation – determination of the asking price
- identification of short and medium goals to maximize the proceeds you will realize on sale
- development and implementation of optimal tax strategies to maximize your cash retention
- preparation of financial projections
- contact with commercial and private sources of financing

Whether a buyer or seller, or perhaps an owner trying to provide the best structure for transfer of the family business to the next generation, be sure to contact us to get the advice you need and deserve.

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Assignment Spotlight

Insurance Litigation Services

We serve many clients with insurance litigation needs. Example assignments we've been involved in include:

- Quantification of past and future economic losses resulting from injuries received due to:
 - motor vehicle accidents with claims against the insured's insurance company and claims against the insurer of the 'at fault' driver
 - slip and fall accidents
 - alleged medical malpractice.
- Quantification of losses covered by business interruption insurance.
- Quantification of inventory losses due to fires and theft.
- Assisting investigations in connection with fraud and arson claims.

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Question & Answer

What is *SDE* - "*Seller's Discretionary Earnings*"?

Seller's Discretionary Earnings (SDE) is the earnings of a business enterprise prior to the following items:

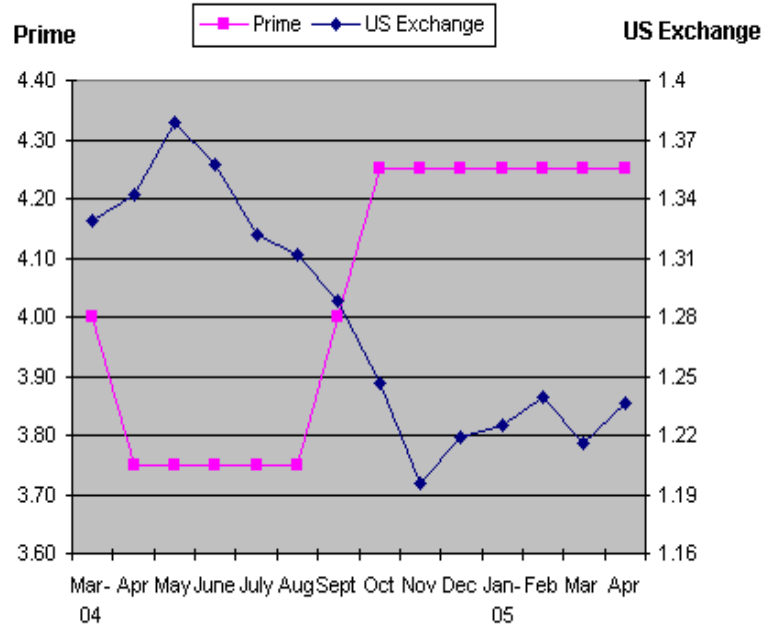
- income taxes
- nonrecurring income and expenses
- nonoperating income and expenses
- depreciation and amortization
- interest expense or income
- owner's total compensation for one owner/operator, after adjusting the total compensation of all owners to market value.

SDE is often used to estimate the price at which a business might sell. We have rules of thumb for hundreds of business categories providing a price range based on a multiple of SDE.

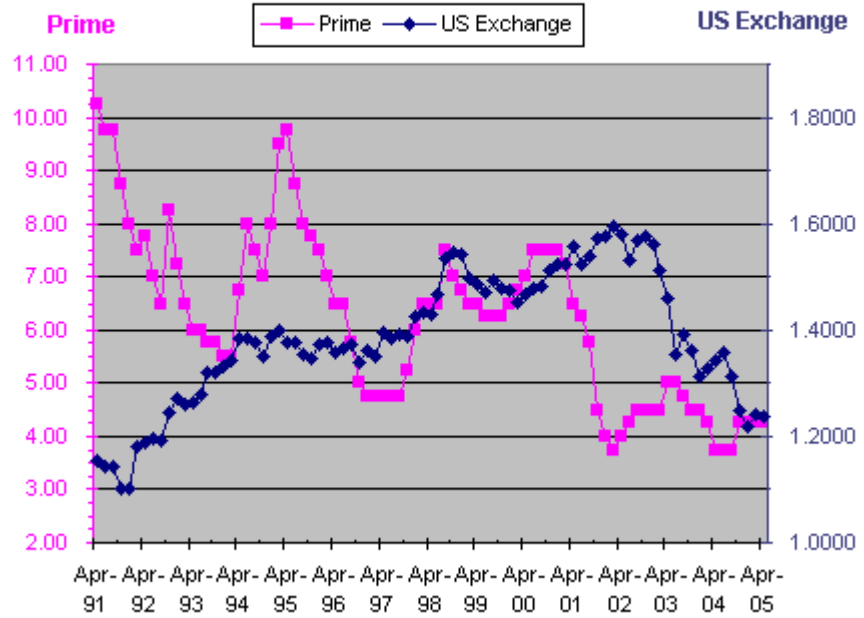
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Financial Information

Prime Interest & US Exchange Rates Over Past 12 Months



Prime Interest Rate and U.S. Exchange Rate Trends Over Past 15 Years



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Contact Us

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