6 FINANCING THE TRANSFER PROJECT

The financing set-up for a transfer differs from one business to another. Contrary to popular belief, there is no universal financial product for business transfers. Accordingly, Desjardins offers advantageous consulting services for you and your family members in regards to the financing your business transfer. Our advisors will assess your financial and business needs, and propose appropriate financing strategies and financial products.

6.1 THE MOST COMMON SOURCES OF FINANCING

Loans from financial institutions	The farm mortgage loan is the most common product in terms of financing the acquisition of business shares. The financial institution will also offer financial solutions to ensure that all businesses needs are met (cash flow, purchase of equipment, grants, etc.).
Individual capital funding	Capital can be in the form of cash (personal savings, RRSP) or assets that the successor(s) had acquired prior to the transfer (e.g. livestock, land).
Government assistant programs	There are several government assistant programs, including subsidies for new farmers, investment or expenditure grants, as well as low-interest loans. *La Financière agricole du Québec* (FADQ) and the *Ministère de l'Agriculture, des Pêcheries et de l'Alimentation du Québec* (MAPAQ) offer many farm succession programs.
Balance of sale (financing by the seller)	Financing method often used in transfers to family members. The parents finance a portion of the transaction and accept reimbursements over periods that can vary in length, usually at very low interest rates. The balance of sale is an excellent complement to a bank loan; it simplifies the transfer and enables the buyer to reduce financing costs.
Donations	In most cases when a farm is transferred to a family member, the parents set a sale price that is significantly lower than the market value in order to prevent the successor(s) from becoming overburdened with debt.
Development capital	Type of equity funding. Funding is provided by an outside investor and can take the form of financing with acquisition of shares in the business.

Because farm successor(s) are often young, they often don't have much personal capital. In the case of a transfer to a family member, the parents' often make a substantial contribution, either by accepting a lower-than-market selling price or by financing a portion of the transaction. In the case of a transfer to a non-family member, the seller is often asked to finance a part of the transaction.

6.2 STEPS TO FINANCING A BUSINESS TRANSFER

1. Document the transfer project and draft the business plan

You are the architect of the transfer project, therefore, it is up to you to design the plans. Preparing a solid business plan helps you ensure that the various factors required for a successful transfer are in place. Owning a business involves teamwork with various partners. You will need the support of financial experts, partners and/or government representatives. Your business plan will help you to accurately describe your vision to each stakeholder. Before meeting with your Desjardins advisor, be sure to fill out your application and draft your business plan.

2- Generate the financial statements

To complete your business plan, you must generate the financial statements for your business or the one you are acquiring. These financial statements must reflect any planned or ongoing business projects.

You must also prepare the following documents:

- your personal financial assessment and that of your buyer(s);
- your curriculum vitæ and those of your buyers, summarizing the main achievements;
- the details of the transfer project and its financing;
- an opening balance sheet;
- forecasted cash budget (over two years);
- forecasted income statement according to various scenarios (over three years);
- forecasted balance sheet (over three years).

3- Prepare the financing set-up

The financing of your transfer project must cover the needs related to the transfer of assets (acquisition of voting shares) and the key elements of smooth business operations: new investments, start-up costs, working capital, etc.

Once your needs have been determined, you must identify the possible sources of financing to meet them. The financing set-up is often presented in the form of a table, and it is essential that each transfer-related need be met. Our business transfer advisors can help you prepare it.

EXAMPLE OF A FINANCING SET-UP

COST OF THE TRANSFER PROJECT	
Purchase of assets (land, buildings, quota, livestock, equipment, inventory)	$700,000
Purchase of quotas	$150,000
Renovation of farm buildings	$25,000
Purchase and renovation of a home	$100,000
Purchase of equipment	$85,000
Other start-up costs (transaction costs, taxes and permits, etc.)	$5,000
Total	$1,065,000

FINANCING THE TRANSFER PROJECT	
Government-secured mortgage loan	$715,000
Term loan on equipment	$60,000
Balance of sale	$150,000
Line of credit	$75,000
Individual capital funding	$25,000
Government subsidy	$40,000
Total	$1,065,000

4- Preparing your financing application

You have identified your needs and determined which financial tools will enable you to meet them. You have created a network of resources (other entrepreneurs, mentor, agri-business account manager, agri-business financing advisor, farmers' association, other business associations, etc.) that you can consult as needed. The next step is to prepare your financing application.

Fill out your application

Your financing application will complete your business plan. Your application should include:

- the nature of the transfer project to be financed;
- the amount of financing required;
- the financial spin-offs of the transfer project (how they will enable the business to continue to grow while meeting its financial commitments);
- a description of the contributions of the various investors.

Present your application

Before meeting with your lender, be sure to provide your financing application and your business plan so that he can review it.

Prepare for this meeting by:

- specifying the length of the meeting and adhering to it;
- preparing a brief presentation that covers the key points;
- anticipating the lender's objections and making note of points that require further explanations;
- inviting an expert (accountant, attorney or other) to accompany you in order to provide more details on points related to his field of expertise;
- being attentive to the lender's comments and reactions during the meeting;
- offering your availability in case he wishes to obtain more information;
- asking the lender what the next steps are.

Reviewing your application

If your financing application is accepted by your lender, you will have to agree on the terms of the contract.

If your application is declined, take the opportunity to improve your file. It would be wise to ask your lender what prompted his decision. This will provide you with valuable information about your business plan or your approach, since it is likely that you will have to submit a new application to that institution.

In general, financing applications are evaluated based on the following six criteria:

1. Quality of the management

The owners (transferor and successor) are the driving force behind a business transfer. Their vision, energy and efforts will determine the success of the business transfer project. Experience, management skills and level of training are some of the factors evaluated.

2. Risks associated with the business environment

The lenders will ensure that your activity sector does not present a risk for them. The business must also have adequate insurance coverage that is tailored to the nature of its activities.

3. Credibility of the transfer

When a lender decides to invest in your transfer, he wants your business to succeed. Lenders will therefore ensure that your forecasts are realistic and based on verifiable facts.

4. The business's ability to pay and its financial structure

You must prove to the lenders that your business is able to meet its financial commitments. The financial structure of the business therefore must show a healthy balance between assets and liabilities.

5. Financial history of its backers

In your lender's eyes, the past predicts the future. It is highly likely that a credit check will be done for each buyer. The lenders will ensure that the buyers have met their past commitments. A bankruptcy or outstanding loan negatively affects a buyer's credibility.

6. Securities

Loan financing is granted in exchange for securities. These securities must be available in sufficient amount to enable your investor to cover his risks.

6.3 VARIOUS FINANCING PRODUCTS

Farm term loan	To finance equipment or miscellaneous projects.
Farm mortgage loan	To finance the acquisition of buildings and farm land, as well as any other major project.
Operating line of credit	To meet cash flow needs.
Bridge financing	Loan that meets your temporary cash flow needs while awaiting an influx of cash or a pending loan disbursement.
Investment credit (revolving credit)	Provides the funds needed to invest in your business: purchase of equipment, machinery or production inputs, or repairs/renovations to property.

Here is a brief description of the most common financing loans available at Desjardins:

Farm term loan

To buy supplies and equipment required for business operations or to improve the financial structure.

Features:

- amortization according to the useful life of the purchased supplies;
- fixed or variable interest rate;
- flexible repayment terms;
- available in Canadian or U.S. currency.

Benefits:

- enables you to finance capital projects without significantly affecting working capital;
- improves or consolidates the business's financial structure to enable the continued growth of the business;
- possibility of reborrowing a portion or all of the repaid capital without incurring new fees (Multiproject Option).

Farm mortgage loan

For capital needs, such as the purchase of land, the construction, renovation or extension of a building, or any other major project. The terms of credit (term, amortization period, rates and repayment terms) are tailored to the needs of the business.

Features:

- amortization up to 25 years;
- fixed or variable interest rate;
- available in Canadian or U.S. currency.

Benefits

Repayment terms based on the business's activity sector or financial results. Possibility of reborrowing a portion or all of the repaid capital without incurring new fees (Multiproject Option).

Desjardins revolving credit for farms

Preauthorized credit that enables a farm to finance the investments necessary to its growth. Investment credit simplifies the process related to the credit application and bond, while reducing the associated costs.

Features:

- adapted according to the business needs assessment;
- financing in the form of a line of credit or term loan;
- can be applied to development projects or to a project that will take place in stages over a given period of time.

Benefits:

- the authorized loan is disbursed more readily;
- enables you to know the credit amount at your disposal for future acquisitions;
- does not affect your business operating credit and reduces the fees for reviewing your file and registering collateral;
- offers the possibility of using the amount repaid for other purchases, once the capital has been reimbursed;
- offers more flexibility with respect to interest rates and repayment terms;
- enables you to take advantage of a grace period before you start reimbursing the principal on acquisitions.

Loans secured by the *Financière agricole du Québec* (FADQ)

These loans enable farmers to take advantage of better interest rates for the entire term of the loan. To purchase shares, the buyer must own at least 20% of the business.

Features:

- a farm loan up to $5,000,000;
- subsidies for new farmers, ranging from $20,000-$40,000.

Benefits:

- one of the best interest rates available at Desjardins;
- possibility of a discount on the interest rate during the transition phase;
- possibility of protection against rate increases, depending on eligibility.

6.4 GOVERNMENT AND ASSOCIATION SUCCESSION ASSISTANCE PROGRAMS

Farm successors can rely on several initiatives to simplify the transfer.

LIST OF ORGANIZATIONS AND PROGRAMS	
Financière agricole du Québec	Subsidies for new farmers ($20,000-$40,000) Part-time business start-up grant ($10,000) Consulting services support grant ($1,500) Sécuri-Taux for new farmers, which guarantees a maximum interest rate for 5 years Seller-lender collateral formula, which offers a loan guarantee to parents who finance the sale of the business directly
Ministère de l'Agriculture, des Pêcheries et de l'Alimentation du Québec (MAPAQ)	Farm succession program: • investment support for young farm owners • skills development support for young farm owners • support for CUMO and CUMA • support for regional and industry initiatives
Farm succession assistance cooperative fund (Desjardins, *Coop fédérée* and FRAQ)	Multi-phase financial support • Desjardins ($8,300 subsidies for new farmers for debt reduction, training, mentorship) • Coop fédérée (discount on the purchase of inputs and petroleum products, training and professional support components)
Centre local de développement (CLD)	Support for the drafting of a business plan Grants
Société d'aide au développement de la collectivité (SADC)	Youth Strategy (loans of $5,000-$10,000 over 5 years, at low interest rates and possibility of a capital repayment holiday) Start-up and succession funds (loans)
Fédération des producteurs de lait du Québec	Succession assistance: loans of 5 kg of quota over 10 years, no payments for 5 years, then paid gradually in Years 6-10 Start-up assistance: loan of 12 kg of quota
Fédération des producteurs d'œufs d'incubation du Québec	Start-up assistance: payment-free period for farm successor(s) Start-up assistance for new farmers (non-family successors): quota loan of 900,000 eggs
Fédération des producteurs d'œufs de consommation	Start-up assistance for non-family successor(s): quota loan of 5,000 layers
Éleveurs de volaille du Québec	Start-up assistance for successor(s): quota loan of 200 square metres for a maximum term of 17 years, to be repaid starting in Year 13
Fonds d'investissement d'aide pour la relève (FIRA)	This fund, which is unique to Quebec, is intended to simplify the transfer of a farm to a non-family successor. *Capital régional et coopératif Desjardins* and *Financière agricole du Québec* are partners in this fund. From the buyer's perspective, the financial contribution in the form of a loan, lease-to-own plan or shares in the business simplifies the purchase of the business and reduces the debt load. From the seller's perspective, this type of financing helps ensure the continuity of the business.