



# FSAT NEWS

FINANCIAL SERVICES ADVISORY TEAM

SPRING/SUMMER 2020

Welcome to our 24th issue of FSAT News, a newsletter published by DJB's Financial Services Advisory Team (FSAT) to better inform and help you manage your business's potential.

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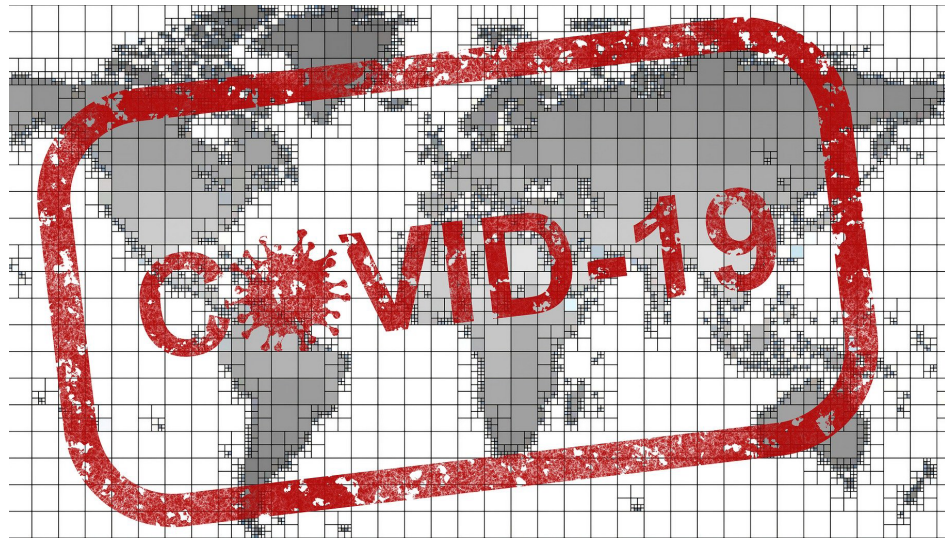
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## COVID-19 Issues in Economic Loss and IRBs



The coronavirus COVID-19 has affected all of us in many ways. Socially, mentally, and economically. But the affect will be different on each of us.

Many people are out of work, or are earning less than they otherwise would be. Fortunately, for many of these people there is, at least some, government assistance. Others are able to continue to work and are earning their full regular wages. Many people are seeing reductions in their income now. However, many others are able to continue work full-

time now, due to pre-existing orders, but are not receiving many orders for new work. For them, their income may not have suffered yet, but it likely will in the coming months.

### Economic Loss Calculations

Our Firm prepares economic loss calculations for people who have been injured (in a slip and fall, motor vehicle accident, or medical malpractice, etc) and can no longer work, or can't work to the same degree, because of their injury. Special consideration will have to be given in virtually all cases, with

*(article continued on page 2)*

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respect to COVID-19 employment issues. And these issues will have to be considered on a case-by-case basis. Some items to consider include:

- How has the coronavirus restrictions affected the industry the person was working in? Many industries have essentially been shut down. Others have been only moderately affected. Some are able to continue working, but with significant changes to the way they do business and the number of people they employ.
- If self-employed, how have the coronavirus restrictions affected that person's business? Have they suffered a loss currently, or will they suffer a loss at some point in the near future?
- If the accident occurred before the COVID-19 outbreak, and the person is off work because of their injuries, we have to consider whether the person would have continued working through this time, or been off work? Further, if they would have continued working, would they have worked less hours, more hours, or about the same?
- How long will the coronavirus restrictions affect the person's potential employment, or self-employment earnings? Will it be a short-term affect, until say September 2020 or January 2021, or will there be a much longer affect?
- If the person was employed, but now isn't working and is receiving government benefits, such as the Canada Emergency Response Benefits (CERB), do we include those benefits as post-accident earnings?

There are no pat answers to these questions. We will want to discuss these issues, among others, with the injured party.

## **Income Replacement Benefits**

The calculation of Income Replacement Benefits (IRBs) has some additional complications. If you have been injured in a motor vehicle accident you may suffer significant economic losses. The amount of IRBs you are entitled to receive from your auto insurance company is based on specific formula set out under the SABS Legislation. Although the legislation contains numerous complicated rules, the overall general approach to the calculation is essentially as follows:

The IRB you are entitled to is based on 70% of your pre-accident gross earnings, less 100% of any Other Income Replacement Assistance (OIRA) benefits (i.e. short-term disability (STD), long-term disability (LTD) and/or Canada Pension Plan (CPP) disability benefits) that you are entitled to receive pertaining to the accident. A self-employed individual can then add to this, 70% of post-accident losses that they incurred because of the accident. The resulting amount is limited to \$400 per week (unless optional benefits are purchased) less 70% of any post-accident gross employment income earned. The benefit is payable for up to two years providing you suffer a "substantial inability to perform the essential tasks of" your employment, or beyond two years if you suffer a "complete inability to engage in any employment" for which you are "reasonably suited by education, training or experience".

In determining the amount of IRBs a person will be entitled to, some of the additional issues to consider include:

- Under the SABS, will government assistance payments, such as the CERB, qualify as pre-accident income?
- If the CERB does qualify as pre-accident income, then presumably it is also post-accident income. Does that mean that everyone receiving an IRB, has to have that benefit reduced if they qualify for a CERB?

- If the CERB does not qualify as earnings under the SABS, do you have to consider it as OIRA? I expect you would not, as the amount is not being received "as a result of the accident".
- If a self-employed person is sustaining a loss in the post-accident period, how much, if any, of the loss incurred during the coronavirus restriction period, is due to the "accident", as opposed to being due to the coronavirus restrictions?

Again, there are no simple, straightforward answers to all these questions. Some of these issues may become more clear as we deal more with these calculations.

*The professionals in the Financial Services Advisory Team (FSAT) at Durward Jones Barkwell & Co. LLP are able to help navigate these issues and more. If you have any questions or require assistance with such calculations, please contact a member of our team.*

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# Commercial Insurance and COVID-19

**D**uring this time many businesses have been forced to close, and those that have not are facing a new unexpected operating environment. The businesses that have closed are trying to figure out what is next and how to prepare for the time when they can safely reopen. In the meantime, evaluating government support programs, managing remote working, carrying out additional cleaning, and the cost of physical/social distancing are all key considerations.

Many are also wondering what other options may be available and how commercial insurance may fit into this situation. Most insurance policies are there to protect from losses resulting from traditional perils such as fire, equipment failure, storms, and other natural disasters that cause physical damage. However, how do insurance policies respond to a pandemic like COVID-19?

The answer is, it depends. Each insurance policy is very specific and the coverage available is based on the detailed policy wording, exclusions identified and any additional extensions of coverage/endorsements purchased.

There will likely be many legal coverage matters to be addressed from COVID-19 at some point in the future, including whether the direct "physical damage" requirement of most insurance policies has been triggered. Although uncommon, there are certain policies that do respond to this situation and include "pandemic outbreak extensions." Other areas where the coverages may be less explicit, possibly include:

1. Civil authority restrictions;
2. Event cancellation;
3. Extra expense to mitigate the loss;
4. Ingress/egress access restrictions;
5. Contingent business interruption; and
6. Disease/virus and other non-physical damage extensions.

Each of these extensions to the coverage will require a careful evaluation of the declarations and policy wording. If these extensions are included, there still may be a requirement for physical damage to occur, but in other instances they may provide partial recovery of losses incurred as a result of COVID-19 and related events.



## Summary

While the impact on businesses is yet to be fully recognized, it is recommended that you consult with an insurance claims professional to understand the insurance policy and coverage available.

Early consultation will also build an understanding of the claims process. It is also helpful in preparing an approach that integrates accounting and operational management into a properly prepared claim in accordance with the insurance policy. This will also result in the following benefits:

- Establish a process up front with all parties;
- Coordination with the insurance company, adjusters and insurance claims accountants;
- Smooth the process of delivering timely communications and reports;
- Prepare clear, well organized calculations;
- Improve the settlement and payment process;
- Provide a confident understanding of the loss; and
- Allow management to focus on the business and recovery from the loss.

*DJB has commercial insurance claim preparation and review experience under various policies. In the event you have an eligible claim or are considering your options, we are available to provide assistance.*

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## Discount Rates Set at 0% for 2020

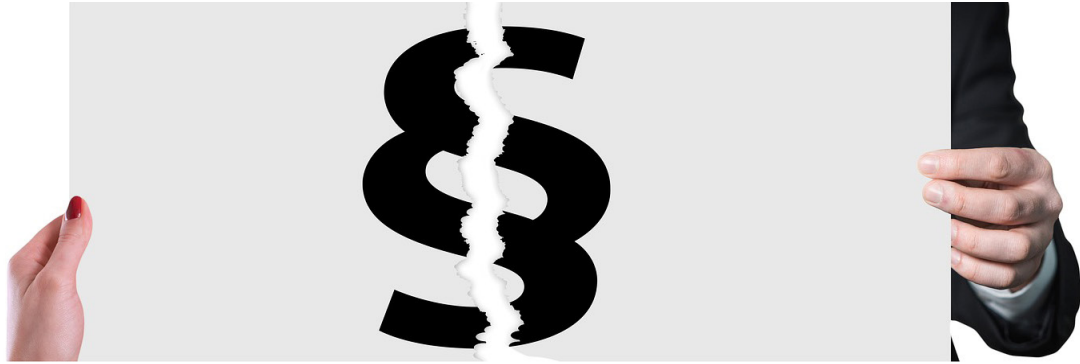


**E**ach year the Ministry of the Attorney General of Ontario publishes the discount rates to be used for the calculation of awards for future pecuniary damages under rule 53.09 of the Rules of Civil Procedure. The rates are based on calculations set out in the Rules of Civil Procedure. For trial scheduled to commence after January 1, 2020, the rates are as follows.

- The discount rates to be used for amounts expected to increase with inflation (i.e. salary) for trials scheduled to begin in 2020 are set at 0% for the first 15 years and 2.5% thereafter.
- For amounts that are static (that don't increase with inflation), such as Income Replacement Benefits (IRBs) or many Long-Term Disability benefits, a higher discount rate would be warranted. Based on the Attorney General published inflation rates, the discount rates for such amounts will be 1.7% for trials beginning in 2020, down from 2.3% for 2019. As this discount rate has decreased, the present value amount will be slightly higher under the new rates.

*Our Financial Services team has significant experience preparing these present value calculations. If you have any questions or require assistance with a calculation, please contact a member of our team.*

# Guideline Income



Couples who are going through a matrimonial separation often need to determine the amount of income available for child and/or spousal support purposes. This income is determined based on the applicable legislation, regulations, and guidelines. It is often referred to as “Guideline Income.” When one or both spouses own a business, the determination of Guideline Income may be more complicated than it is for non-business owners. This often requires a detailed analysis of the net income and cash flows of the business.

The determination of Guideline Income is generally required in order to initially set child and/or spousal support amounts. The calculation of Guideline Income may also need to be updated if there is a material change in circumstances. While establishing what is considered to be a material change in circumstances is a legal issue that requires the advice of legal counsel, it may include significant changes to the earnings or operation of the business.

While COVID-19, and the steps various governments and other bodies have taken to address it, have had a large impact on most businesses, the impact on specific businesses has varied greatly. Some have been forced to shut down completely, while others have continued to operate, but on a modified basis. The reality of this situation is a factor that must be considered in determining Guideline Income.

The impact of COVID-19 may be felt in two main areas:

- **Net income** – If the business has suffered a significant change in net income, established support amounts may need to be reconsidered. For many businesses this will likely mean a significant reduction in net income or incurring losses. However, some businesses may have experienced increased demand for their products/services and as a result have increased net income. Any significant change to net income may require a revision to the established support amounts.
- **Cash flow** – The cash flow requirements of the business must be considered in the determination of the amount of income from the business available to the owner for support purposes. In periods of decreased profits, or losses, cash reserves may be needed in order to allow the business to survive until operations can return to normal.

Even if the business has been able to continue to operate and maintain its profitability, the impact of COVID-19 may require an adjustment to its cash requirements. For example, if the business must extend greater credit terms to its customers or alter how they operate (i.e. incur capital costs to move to a more remote workforce, alter operations to promote safe distancing for employees who cannot work remotely, adjust how services/products are provided to customers, etc.) it may require greater cash

levels in order to continue to operate. This in turn may impact the amount of income that could reasonably be considered available for support purposes.

Passive sources of income may also be impacted by COVID-19. For example, many investment portfolios may experience significant decreases to regular interest and dividend payments. Rental properties may experience a decrease in activity and/or delays in the receipt of rental payments, creating significant cash flow difficulties. Any significant changes to net income and/or cash flows from passive sources of income should also be considered in determining Guideline Income.

Undoubtedly, COVID-19 has had a significant impact on most of our lives and will this will continue for a currently unknown period of time. The determination of Guideline Income must take into account the impact COVID-19 has on net income, cash flow and the ongoing operations of businesses and passive investments owned by one or both of the spouses.

*Our Financial Services Advisory Team (FSAT) have significant experience in this regard. Please contact one of the Chartered Business Valuators in our group if you have any questions or would like any further information.*

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# DJB Contacts Interested in Buying & Selling Businesses - April 30, 2020



We have clients and contacts that are interested in buying or selling businesses. If you see a possible fit, please contact us so that we can arrange an introduction for you.

## BUYERS

- ▶ Private Equity Group that buys majority positions in Canadian companies with EBITDA → \$2M for long-term hold and growth.
- ▶ Looking for a cleaning/vacuuuming (not janitorial) company in Southern Ontario.
- ▶ Private Equity Group providing capital and strategic partnerships to \$.5 to \$3.0M EBITDA businesses in CAN, primarily ON and BC.
- ▶ Interested in an owner operator retirement situation with approx \$250K to lever with VTB for acquisition.
- ▶ \$500K to \$4M, in any industry, will consider partnership and investment opportunities, including managing or running a business with a minority stake.
- ▶ Two entrepreneurs backed by 16 investor fund looking for \$1.5M+ EBITDA and =→ 20% ROC.
- ▶ Wholesaler of welding supplies interested in similar businesses in Canada or USA with an EV up to \$5M.
- ▶ Foreign (US) shareholders' investment company makes acquisitions across North America in the manufacturing and agricultural sectors (large farming corporations) with an EV up to \$5M.
- ▶ Food Producer (Pasta/Pizza sauces, Salsa, etc.) and Distributor with \$4.5M sales looking to buy complementary profitable food production company with about \$1M in sales.
- ▶ Looking to grow by acquiring HVAC or related companies in the \$1-10M sales range in the Hamilton/Halton/Niagara regions.
- ▶ Operates an importing business specializing in household (ie – kitchen) gadgets sold to grocery and box store chains. Interested in complementary businesses as well as Hamilton based real estate investment opportunities.
- ▶ Diversified asset management firm focusing particularly on the technology, media, service, renewable energy, real estate and hospitality sectors.
- ▶ Entrepreneurial investment firm seeking to acquire and grow a small to medium-sized business. Looking for a company with annual revenues

- from \$5 to \$30M and EBITDA from \$1 to \$5M, anywhere in Canada.
- ▶ Retired individual looking for business to run part time possibly involving his son.
- ▶ Potential client with \$25M annual revenue in mechanical systems for industrial, commercial and institutional construction looking to acquire complementary businesses in SW Ontario.
- ▶ Investment partnership acquiring Canadian companies with \$1M to \$6M EBITDA.
- ▶ Acquires controlling interests in Canadian companies with \$1M to \$5M EBITDA.
- ▶ Manufacturing business within 100 km of Hamilton, sales \$5M to \$10M, EV \$2M to \$3M, could buy in over time or take a significant ownership % and a senior management role.
- ▶ Up to \$7M to invest in auto dealership, wholesale distribution of electrical or HVAC and/or businesses that serve the construction or manufacturing industries.
- ▶ Broker looking for larger real estate offices for acquisition. Would consider any office over 15 people in the Kitchener, Guelph, Milton, Mississauga or Brampton markets and any office with over 50 agents in the Burlington, Hamilton or Oakville market places.
- ▶ Two partner firm in the GTA looking to acquire \$3M to \$10M EV businesses in the GTA/Hamilton area.
- ▶ Interested in troubled situations, successions or high growth companies in distribution or manufacturing.
- ▶ \$1.5M to lever into a business acquisition.
- ▶ Private Holdco looking for investments in the GTA in the industrial manufacturing or services industry. Revenue → \$8M and pays 3 to 4 times EBITDA.
- ▶ Lives in N-O-T-L with approx \$250K cash to lever into business acquisition.
- ▶ Investment group, enterprise value up to \$12M, within 90 minutes of Kitchener.
- ▶ Investment group, Oakville or West GTA, EV \$1M to \$10M.
- ▶ Investment group with approx \$10M equity to place.
- ▶ Marketing individual looking to become co-owner/manager in small company.
- ▶ Private equity firm, seeking \$10M to \$15M enterprise value, 100% sale, owner-operator looking to transition out, Niagara region.

- ▶ Seeking an enterprise with a strategic fit to their business, serving Industrial Distributors, with sales in the range of \$1M to \$20M.
- ▶ Already made one acquisition in the food service industry and are interested in related industry and/or other good opportunities.
- ▶ Historic earnings with potential, located in the Toronto through St. Catharines area, existing management and price of \$1M - \$3M.
- ▶ Anything profitable. Niagara Falls to Oshawa. Up to \$1M.
- ▶ Investment group looking for companies with \$3M-\$30M in sales, focused on B2B services, Healthcare services and software.

## SELLERS

- ▶ Medical-legal personal injury graphics business. Sales approx \$1.2M with 10 to 15% pre tax income.
  - ▶ Custom brokerage. Sales approx \$900K p.a. Asking \$1.5M for 100% of shares.
  - ▶ Security systems and equipment. Sales approx \$1.6M and EBITDA approx \$250K.
  - ▶ Engaged in the development, training, and sale and support of business applications software. Revenue of approximately \$4M per annum.
  - ▶ Manufacturing business in the Kitchener/Waterloo/Guelph area with approx \$3M in sales and EBITDA of \$250 - \$500K.
  - ▶ Retail pet food and supplies store.
  - ▶ Corporate group includes a poultry wholesale, distribution and refrigerated logistics company and a boutique retail food store company. Total sales \$7M.
  - ▶ Exterior building, vehicle, driveway, sidewalk cleaning service with 2 self contained trucks. Annual revenue approx \$165K.
  - ▶ Engaged in removal & disposal of liquid waste & the performance of environmental audits. Sale of 50% interest by one of two shareholders.
  - ▶ Restaurant including the land and building. Asking \$3M.
  - ▶ Machine shop specializing in large machining and fabricating and also providing comprehensive support services. Sales approx. \$2.9M and EBITDA approx. \$325K.
  - ▶ A distribution company with \$5M+ in sales.
- For more information contact:**  
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# DJB Welcomes Bob Plenderleith to the Team!



**Robert Plenderleith, CPA, CA, CBV, CFF**  
Principal, Financial Services

**R**obert (Bob) joined DJB as a Principal in April 2020. His areas of expertise include Business Valuation and Economic Loss Quantification.

Robert is an experienced Chartered Professional Accountant (CPA), Chartered Business Valuator (CBV), and Certified in Financial Forensics (CFF) with a focus on private companies. He provides advice on corporate reorganizations, financial reporting, strategic planning, tax and estate planning, matrimonial/family law, and shareholder transactions.

Robert has over 15 years of experience with insurance claims and has assisted insurance companies and insurance claimants to quantify losses, such as business interruption, inventory/stock loss, income replacement benefits, motor vehicle accidents, and slip-and-fall incidents. In addition, he has experience with commercial disputes related to breach of contract, professional liability, and theft of intellectual property.

Robert qualified as a Chartered Professional Accountant in 2006 after graduating from McMaster University with a Bachelor of Commerce (Hons) degree. In 2009, he completed all requirements of the CBV Institute, thereby obtaining his CBV designation and is also Certified in Financial Forensics by the American Institute of Certified Public Accountants.

In his spare time, Robert enjoys running, hiking, and exploring the outdoors.

## FSAT SERVICES

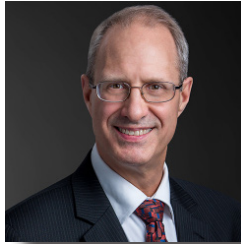


- Assistance with Business, Acquisitions & Divestitures, Including Due Diligence & Quality of Earnings Reports
- Business Interruption Insurance
- Business Valuation
- Collaboratively Trained Professionals
- Child & Spousal Support Income Calculations
- Economic Loss Calculations regarding Motor Vehicle Accidents, Slip and Fall, Medical Malpractice and Dependency Claims
- Experienced Expert Testimony
- Forensic Accounting
- Income Replacement Benefit (IRB) & Other Accident Benefit (AB) Calculations
- Long-Term Disability Calculations
- Matrimonial Disputes
- Mediation Services
- Shareholder Agreements & Dispute Resolution
- Value of Future Care Cost Analysis

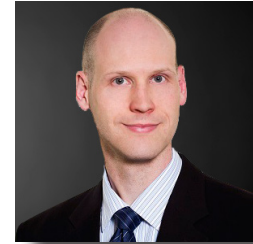


Connect  
With Us

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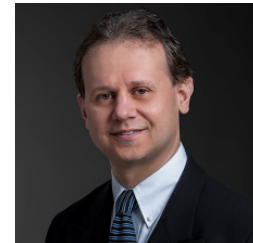


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