

Selling Your Mid-Market Business [\$2M – \$200M]

A Comprehensive Guide To Success



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Exit Planning for Your Mid-Market Business

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Selling a Mid-Market business represents a pivotal moment, as the business is often the primary income source and a disproportionately large portion of the owner's net worth. As such, exiting your business should be an intentional process driven by your specific objectives – not a rushed event based on circumstances. Careful planning focused on maximizing proceeds, minimizing taxes and achieving your goals is crucial for a successful exit.

Know Your Objectives and Goals

The first step is clearly defining your end goal for exiting the business. Without knowing the intended outcome, it will be difficult to select the appropriate path forward.

Some potential objectives include:

- **Monetizing the business to maximize income and cash flow during your lifetime.**
- **Maximizing net cash proceeds from an outright sale to a third party.**
- **Preserving the business's future by transferring ownership to key employees.**
- **Optimizing operations to “step out” while collecting dividends in retirement.**
- **Establishing a multi-generational, legacy family business.**

Know Your Numbers

Once you determine your specific goals, the next step is calculating the key financial figures that impact your exit plan:

Personal number: How much you need to fund retirement and living expenses and how much of that is tied up in the business.

Current business value: The business's value based on its current operations and financial performance.

Potential business value: The potential elevated value if the business was optimized and marketed for a premium sale.

Net sale proceeds: Estimated cash remaining after sale expenses, taxes, debts and any employee bonuses/payments.

Legacy number: The amount you want to leave to children/beneficiaries through your estate plan.

Collectively, these numbers guide the ideal timeline, exit method and value drivers.

Know Your Stakeholders and Buyers

Before determining the exit path, consider the key stakeholders – partners, employees, family, vendors, customers, competitors. Open communication upfront allows you to understand their goals and explore opportunities to collaborate on the future of the business. Potential buyers typically fall into these categories:

Family

If continuing a family legacy business is the goal, you must assess family members' skills, interest and commitment to taking over operations and future ownership. A well-designed transition combines business succession planning with estate planning to prepare the next generation and transfer responsibilities and equity over time.

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Internal

Selling to existing business partners or key employees facilitates a smoother transition, as they are already familiar with the business. However, you may need to provide financial incentives and establish grooming plans to retain talent and foster their commitment to growing the business's value before selling your stake.

Third parties

If maximizing sale value is the priority, an external third-party buyer (strategic competitor, private equity, etc.) may be the best option. But third-party sales are often the most complex in terms of preparing the business to be market-ready and navigating different deal structures.

Know Deal Terms

The specific deal terms and structuring can significantly impact taxes, timelines and how much you ultimately walk away with. Aspects to consider:

Stock vs. asset sale: Sellers prefer stock/equity sales for preferential tax treatment, while buyers tend to favor asset purchases.

Partial vs. full sale: In some cases, owners sell just a portion and retain upside. In others, they desire a complete exit.

Lump sum vs. installment: An all-cash lump sum is ideal, but sellers may need to accept installment payouts over time.

Earnouts/equity rollovers: Buyers may require ongoing performance incentives like an earnout or rolling equity into the buyer's entity.

Know Tax Consequences

Taxes significantly erode cash proceeds from a sale so tax planning and minimization strategies are crucial:

Reducing annual income tax: Improve cash flow leading up to the exit by taking advantage of deductions, deferral strategies, etc.

Transaction taxes: Structuring the deal and implementing strategies pre- and post-sale can help reduce capital gains taxes.

Post-sale income tax: After retiring, maximize disposable income by investing sale proceeds into tax-efficient vehicles.

Estate tax: Proper planning well in advance is required to minimize estate/inheritance taxes and ensure sufficient liquidity.

Know Your Team

Exit planning for a Mid-Market business requires a coordinated team of professionals, as there are many moving parts to navigate:

Attorney: M&A advisors structure deal terms, negotiate with buyers and handle transaction legalities. Estate attorneys integrate personal/business succession planning.

CPA/valuation: Accountants calculate tax liabilities, prepare returns and validate business valuation/financials.

Financial advisors: Manage the liquidity event and investment of the sale proceeds in alignment with personal goals.

Insurance: Proper risk mitigation and wealth replacement/transfer strategies are key components of an effective exit plan.

About Stone Bybee & Associates

At Stone Bybee & Associates, our experienced team takes an interdisciplinary approach to exit planning for Mid-Market businesses like yours. We carefully assess your objectives and integrate business, personal, tax and estate considerations into one cohesive plan maximized for your unique situation. Let's have a conversation about designing an exit strategy that checks every box for you.

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