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Banking & Succession Planning

What to consider before selling your business

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In this week's Thought Leadership roundtable, experts at First Merchants discuss financial, emotional, and legacy issues that business owners should consider before selling their business.

Q: Preparing to sell a business requires a thorough financial and operational assessment. How does a business owner get started?

When evaluating whether your business is financially ready to be sold, owners should begin by assessing the company's profitability, cash flow stability, and debt levels. Clean, accurate financial statements and a track record of attractive performance are critical for attracting serious buyers and justifying a strong valuation. Business owners should identify and resolve any outstanding liabilities, streamline expenses, and ensure revenue-stream diversity when possible. Business owners should also consider near-term working capital. A well-prepared financial picture will enhance credibility and maximize potential sale value.

Q: How does a prospective seller know if a sale will make sense for them financially?

When deciding if you are financially ready to sell your business, an owner should evaluate how the sale will affect their current cash flow, overall financial goals, and future lifestyle. This includes understanding how much you need from the sale to fund a lifestyle, pay off debts, or invest in new ventures. You should consider the after-tax proceeds of the sale, factoring in capital gains and other tax obligations, and whether those proceeds align with your long-term financial plan. Diversifying wealth away from the business can reduce risk, but owners must be confident the sale will provide sufficient liquidity.

Q: Finances aren't the only factor to consider. How does an owner know if they are emotionally ready to part with the business?

Before selling your business, you should reflect on the emotional impact of parting with something you've likely built over many years or even generations. The business may represent not just financial success, but also personal identity, purpose, and relationships—with employees, customers, and the community.

Consider how you'll feel about losing daily involvement, decision-making authority, and the sense of control that comes with ownership. It's also important to think about what comes next: retirement, a new venture, or another role. Without a clear post-sale plan or readiness to let go, sellers can experience regret or a sense of loss, even after a successful transaction.

Q: Potential buyers can be external or internal. What should a seller know about those two options?

Internal and external buyers come with their own distinct benefits and challenges. Internal options include selling to: **Family members**, often as part of a succession plan, which can preserve legacy but may involve complex family dynamics. **Existing management or employees**, through a management buyout (MBO) or an Employee Stock Ownership Plan (ESOP), which can ensure continuity and be less disruptive, though financing may be a challenge.

External options include selling to: **Strategic buyers**, such as competitors or companies in related industries, who may pay a premium to take advantage of synergies. **Financial buyers**, like private equity firms, which are focused on return on investment and may offer flexible deal structures. **Individual buyers or entrepreneurs**, often through business brokers or marketplaces, which might require more due diligence to ensure fit and financing capability.

Each option varies in terms of control, timeline, valuation, and legacy considerations, so choosing the right path depends on your goals and priorities.

Q: How can a business owner maximize the value of their company before a sale and who can help determine the true value of a company?

To maximize the value of your company before a sale, owners should focus on strengthening its financial performance, operational efficiency, and overall attractiveness to buyers. This includes improving profitability, diversifying your customer base, reducing reliance on the owner, documenting processes, and showcasing consistent, clean financials. Demonstrating growth potential—such as untapped markets, scalable systems, or recurring revenue—can also boost perceived value. It's wise to address any legal or compliance issues and ensure key contracts and talent are secure.

You can get help from professionals, such as **Business valuation experts or certified appraisers** (e.g., CVA, ASA), **Accountants or CPAs** (for clean, credible financials and tax planning), and **M&A advisors or business brokers** (who understand market dynamics and buyer expectations), **Corporate attorneys** (to handle legal risks and ensure sale readiness), and **Financial Advisors** (to align sale proceeds with personal financial goals). These should all be considered potential parts of a business owners pre-sale team.

Q: Understanding the financial, legal and regulatory/compliance consequences of a sale is crucial. How can a business owner understand the tax implications of their chosen succession strategy?

To best understand the tax implications of selling your business, it's essential to engage with qualified tax and financial professionals early in the planning process. The taxes you owe will depend on several factors, including the structure of the business (e.g., LLC, S corp, C corp), how the sale is structured (asset sale vs. stock/equity sale), and your overall tax situation. Key considerations include: **Capital gains taxes** (typically applied to the profit from the sale, with rates depending on how long you've owned the business). **Ordinary income taxes** (may apply to certain assets or earnouts, like inventory or recaptured depreciation). **State and local taxes** (vary by jurisdiction and can affect your net proceeds). **Installment sales** (may allow you to spread income over several years, reducing your tax burden annually). **Tax credits and exemptions** (opportunities like the Section 1202 exclusion for qualified small business stock could offer significant benefits).

Understanding how to structure the deal in the most tax-efficient way, forecasting your tax liability, and ensuring compliance while optimizing your after-tax proceeds are critical to an owner's successful exit.

Q: How should a business owner get started mapping out their post-sale personal and financial goals?

Determining your personal financial goals after the sale of a business starts with gaining clarity on your desired lifestyle, responsibilities, and long-term vision. Steps to building an appropriate plan should include: Assessing your current and future lifestyle needs, defining your long-term objectives, evaluating your risk tolerance, considering financial, estate and tax planning matters, and reassessing your insurance and asset protection post-sale.

The clearer your personal goals are, the better you can structure the sale and your finances to support a fulfilling and secure post-sale life.

Q: Is legacy typically an important consideration for sellers?

Leaving a legacy after the sale of a business is a deeply personal and meaningful process that goes beyond financial success. Start by reflecting on what matters most to you—whether it's supporting family, contributing to your community, preserving your company's values, or advancing causes you care about. Additional consideration should be given to whether the buyer will preserve your business's culture and mission. Will the sale allow you to support your family and community in accord with your desires? Will there be an opportunity to provide mentorship and involvement in the company, your industry and community?

Ultimately, legacy is about the impact you leave behind. Defining it early allows you to align your decisions—financial and personal—with the mark you want to make.