



KDV



# Successfully Selling Your Business to Insiders

**Presented by the Central Minnesota  
Business Transition Advisory Group**

# Successfully Selling Your Business to Insiders

*Presented by Dan Mulvaney, Sunbelt Business Advisors*



- It is one of the largest transactions in an Owner's lifetime
- Most Owners have not sold before
  - With Insider sales, most Buyers have not purchased before

How can the Owner Maximize Success and Minimize Risk?

- Employ Best Practices

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- Can You Afford to Sell to Insiders?
  - Most have no Cash
  - What are the Owner's Needs?
- Use the Market as a Proxy to Determine Value and Transaction Structure

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- What is the Business Worth?
  - Potential Risk if Seller determines Value
  - Obtain a Valuation from KDV
- Cash at Closing
  - Market can often obtain 70%-80%
  - If Insiders offered a lower down payment how will this be communicated?

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- Typically a Sale to Insiders requires Seller to subsidize relative to the market
  - How will this be communicated?
  - How will Buyers be Educated?
    - Buyers should acknowledge (appreciate?) Subsidy

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- It is Optimal of Seller and Buyer for Buyer to properly Manage the Business
  - Proactive
    - Training
    - Education
    - Delegation of Responsibilities
    - Define Roles of Multiple Buyers, Spouses
  - Is the Buyer
    - Capable?
    - Embracing Responsibility/Opportunity
      - Is Owner following Seller's or Buyer's Agenda?

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- The Economics of a Transaction
  - Address, Be Proactive
  - Not discussing the hardest, most controversial issues can create long-term negatives
    - Money
    - Management
    - Ownership

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- Issues that may Damage Business and Personal Relationships
  - Seller Subsidized Transaction but Buyer does not recognize
  - Seller Over-Priced Business and Buyer cannot Recover
  - Post-Closing Roles not Defined or Adhered to
    - Decision-Making Conflicts, Ambiguity

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- Solution
  - Resolve Issues (Ownership and Management) Using Arms-Length, Market-Based Practices
  - Communicate then Understand how both Seller and Buyer view a Successful Transaction and Post-Closing Management Structure

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100 Years of  
Merger Volume

*Presented by Steve Kutscheid, Gray Plant Mooty*

## Strategies for Succession Planning

- Characteristics About the Family Business
  - Only 30% Survive to the Second Generation; 12% to the Third Generation
  - Strengths are Independence, Feeling of Accomplishment and Money
  - Main Sources of Tension in a Family Business are:
    - Fear of effects of estate taxes on business
    - Emotion and control issues
    - Sibling rivalries
    - Older generations fear over being forced to retire
  - Of Business Owners Expecting to Retire in 5 years Only 45% Had Selected a Successor and 30% Had No Plans to Ever Retire

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## Issues Facing The Business Owner

- Should Owner Sell to Outsiders, Family Members or Key Management
- Who Will Manage the Business After the Owners Death
- Who Will Own the Business After the Owners Death
- Who Will Manage the Business After the Owner Retires
- Treatment of Owner After Transfer of Business
- Treatment of Employees After Transfer of Business

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## Goals of Business Owner

- Retain Control
- Retain Income or Generate Liquidity
- Satisfy Estate-Planning Objective
- Treating Children “Equally or Fairly”
- Providing For Key Employees
- Providing Employment
- Community Concern
- Contributing to Local Civic, Cultural and Charitable Organizations

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## Eight Keys to Successful Succession Planning

- Motivated Successors Who Possess Knowledge and Experience Beyond the Founder
- Organized Team of Key Managers who Approach Their Responsibilities Professionally and Agree to Accept Leadership Enthusiastically
- A Group of Competent Advisors who Understand the Business; Know and Respect the Successors; and Are willing and Capable of Helping the Business Through Uncharted Waters Ahead
- An Uncomplicated Rational Ownership Structure

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## Eight Keys to Successful Succession Planning

- Accommodating Heirs
- The Presence and Influence of a Working Board of Directors of Outside Advisors
- A Plan for Meaningful Contributions by the Outgoing Owner That Does Not Conflict with New Management
- Estate Planning that Recognizes Family and Business Needs

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## Structuring the Sale to Family Members Or Insiders

- Asset Sale
- Stock Sale Combined with Deferred Compensation Plans
- Stock Sale to an Intentionally Defective Grantor Trust
- Recapitalization and the Sale or Gifting of Non-Voting Stock or Units
- Retention of Ownership and Creation of Equity Flavored Incentive Plans for Key Management

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## Structuring the Sale to Family Members Or Insiders

- Leveraged Recapitalization of Business
- Sale to an ESOP

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*Presented by Chris Shorba, KDV*



## Grooming and Mentoring Insiders

- Educating Your Successor
- Building Relationships
- Facilitating Skillsets
- Timeline Goal

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## Keeping Family Peace

- Equitable to All
  - Non-Controlling Interest
  - Life Insurance
  - Other Assets with Emotional Importance
  - Gifting/Will
- Open Communication
  - Transferor's Wishes
  - Reasoning Behind Who Gets What

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## Financing a Sale

- Seller
- Bank/SBA
- Structure
  - Affordable Payment Stream
  - Gift a Part, Sell a Part

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## Business and Real Estate Packaging

- Rental Payment Stream
- Keep Real Estate, Transfer Business
- Limit Liability and Potential Losses

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## Resources

Dan Mulvaney, Sunbelt Business Advisors

651-484-2677 [dan@mulvaneysun.com](mailto:dan@mulvaneysun.com) [www.sunbeltmandagroup.com](http://www.sunbeltmandagroup.com)

Steve Kutscheid, Gray Plant Mooty

320-202-5311 [steven.kutscheid@gpmlaw.com](mailto:steven.kutscheid@gpmlaw.com) [www.gpmlaw.com](http://www.gpmlaw.com)

Chris Shorba CPA/ABV, KDV

320-251-7010 [cshorba@kdv.com](mailto:cshorba@kdv.com) [www.kdv.com](http://www.kdv.com)

Barry Kirchoff, SCSU Small Business Development Center

320-308-4059 [bckirchoff@stcloudstate.edu](mailto:bckirchoff@stcloudstate.edu) [www.stcloudstate.edu/sbdc](http://www.stcloudstate.edu/sbdc)

Linda Laitala, Inner Circle of Central Minnesota

612-889-5848 [linda@theinnercircle.com](mailto:linda@theinnercircle.com)