

Business Owner Pre-Sale Planning: Exit Planning Strategies to Maximize Business Value

By: Greg Belatti, J.D., Wealth Advisor & Bryan Walls, J.D., Wealth Advisor

For established business owners, business owner pre-sale planning is not simply about preparing to sell a business. It is about understanding the full range of exit options available and the trade-offs associated with each path before a transaction is underway. This early planning process is critical to maximize business value before a sale and align your exit strategy with long-term financial goals.

Many owners approach a transition thinking in binary terms: sell or do not sell. In practice, the decision is more nuanced. Owners are often weighing competing priorities such as liquidity, control, risk, and legacy. A clear understanding of these trade-offs is central to effective business exit planning strategies and preparing your business for sale.

Understanding Exit Options When Selling a Business

Business owner pre-sale planning begins with identifying the potential ways a business can transition. These transactions are often central to a business owner's exit planning strategy and can significantly impact valuation and deal structure. These options generally fall into several categories, each with distinct characteristics.

Third-Party Sales to External Buyers

One of the most common exit paths is a sale to an external buyer. These buyers are typically categorized as either strategic or financial.

A strategic buyer is often a competitor, supplier, customer, or adjacent industry participant. These buyers may pursue acquisitions to create synergies within their existing operations.

Owners may choose this path because it can offer:

- Higher valuations due to synergies
- A clean exit with a greater likelihood of full liquidity
- Faster integration in some cases

However, there are important considerations:

- Limited flexibility around culture and legacy
- Increased diligence and integration risk
- Noncompete agreements and shorter transition roles are common

This path is often best suited for businesses with strong market positions where synergies are clear, and the owner is ready for a full or near-full exit.

A financial buyer, such as a private equity firm or family office, approaches the business as an investment and is often a key consideration in business owner exit planning strategies.

Owners may be drawn to this option because it allows:

- Retention of equity through a rollover
- Participation in future growth and a potential second exit
- Flexible deal structures, including minority or majority investments

At the same time, these transactions often involve:

- Earnouts or performance-based components
- Increased leverage within the business
- Greater governance oversight

This approach may be appropriate when the owner wants to remain involved and continue participating in the company's growth.

Partial Exit Strategies in Business Owner Exit Planning

Not all owners choose a full exit. Business exit planning strategies often include partial liquidity events that balance current proceeds with future upside.

A majority recapitalization typically involves selling a controlling interest while retaining a minority stake.

This can provide:

- Significant liquidity at closing
- Continued participation in future growth
- Ongoing operational influence

However, it also introduces:

- Continued exposure to business risk
- Less control over the timing of a future exit

A minority investment allows the owner to sell less than half of the business.

This approach may offer:

- Liquidity without giving up control
- Capital to support growth or reduce risk

But it can also lead to:

- Valuation discounts for minority ownership
- More complex governance structures

Internal Transition Strategies for Business Owners

Some owners prefer to transition the business internally, preserving continuity and relationships.

A management buyout (MBO) involves selling the business to the existing management team.

Potential advantages include:

- Strong cultural continuity
- A more confidential process
- Flexibility in structuring seller financing

Challenges may include:

- Limited capital, which can result in lower valuations
- The need for the seller to finance part of the transaction

This option is often best suited for businesses with a trusted and capable management team.

An employee buyout or ESOP transfers ownership to employees through a structured plan.

This path may provide:

- Potential tax advantages
- Preservation of company culture and independence
- Gradual liquidity over time

However, it also introduces:

- Ongoing complexity and fiduciary responsibilities
- Suitability limitations depending on the business

Family Succession Planning as an Exit Strategy

For some business owners, preserving family legacy is a primary objective.

A family transfer involves gifting or selling the business to family members.

This approach may offer:

- Continuity of ownership within the family
- Estate planning opportunities
- Control over the timing of the transition

At the same time, it often involves:

- Limited immediate liquidity
- Potential family dynamics and governance challenges

Planning tools used in these transitions may include trusts, installment sales, and buy-sell agreements.

In some cases, a hybrid approach is used, combining a partial third-party sale with a family transition to balance liquidity and continuity.

Alternative Exit Paths

Less common exit strategies may still be relevant depending on the business and the owner's objectives.

An initial public offering (IPO) can provide access to public capital and long-term liquidity, though it involves significant complexity, regulatory requirements, and market risk.

A liquidation or wind-down involves selling assets and closing operations. This is typically the simplest path, but often results in the lowest value realization.

Structured and Creative Exit Strategies

These approaches are often used to optimize tax outcomes and structure a business sale more efficiently.

Some transactions incorporate more customized structures.

An installment sale allows the seller to receive payments over time, which may offer tax deferral but introduces credit risk.

An earnout ties a portion of the purchase price to future performance, aligning incentives but increasing uncertainty.

For businesses with significant real estate, a sale-leaseback can separate property ownership from operations, providing liquidity while allowing the business to continue operating.

While less common, these options may still play a role in comprehensive business exit planning strategies depending on the owner's objectives.

Comparing Exit Paths: Liquidity, Control, and Risk

While each exit strategy has unique characteristics, comparing business sale options within a structured exit planning framework can help clarify trade-offs.

Exit Path	Liquidity	Control Post-Close	Risk Level	Common Buyer
Strategic Sale	High	None	Low	Corporation
PE Recapitalization	Medium to High	Partial	Medium	Private Equity / Family Office
Minority Sale	Medium	Majority Retained	Medium	Private Equity / Family Office
Management Buyout	Medium to Low	Gradual Transition	Medium	Management
ESOP	Medium	Varies	Medium	Employees
Family Transfer	Low to Medium	Retained	Family-Dependent	Family
IPO	High (over time)	Partial	Market Risk	Public Investors
Liquidation	Low	None	Final	Asset Buyers

This comparison highlights a consistent theme in business owners' pre-sale planning. No single option optimizes every outcome. This is why thoughtful business owner exit planning and pre-sale strategy development are essential well in advance of a transaction.

Higher liquidity often comes with reduced control. Retaining control often means accepting continued risk. Faster exits may limit legacy considerations, while legacy-focused strategies may reduce immediate proceeds.

Framing the Decision: Key Trade-Offs

When evaluating how to prepare your business for sale, these trade-offs become central to decision-making.

Across all business exit planning strategies, the decision is rarely about choosing a single path in isolation. Instead, it involves evaluating trade-offs.

Common considerations include:

- Liquidity versus control
- Certainty versus future upside
- Speed versus legacy
- Tax efficiency versus simplicity

A well-developed exit plan often keeps multiple paths available until later in the process, allowing the owner to adapt as priorities evolve.

Final Thoughts

Business owner pre-sale planning begins with understanding your options and the trade-offs associated with each path. Evaluating these decisions in advance can help you maintain flexibility and approach a future transition with greater clarity.

If you would like to explore how these strategies may apply to your situation, connect with one of our wealth advisors who specializes in business owner exit planning, pre-sale strategy, and preparing to sell a business: https://hbwealth.com/meet-the-team/wealth-advisors/?_specialization=business-owners-and-entrepreneurs

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