

Considerations in Selling Your Family-Owned Business

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For most family-owned businesses, a sale is a once-in-a-generation event. Sale outcomes usually turn less on deal-day heroics than on the work done in the 12 to 24 months beforehand. The quiet months of preparation allow a business to command its best price. Below is a framework for readying a family business for sale and navigating the early negotiations that set the tone for the deal that follows.

Preparing a Family-Owned Business for Sale

Start early: Begin readiness work 12 to 24 months out or sooner. Buyers pay premiums for clean financials, consistent accounting policies and a lack of obvious legal liabilities. Buyers will discount for the opposite.

Separate the family from the business: Personal expenses that run through the company, related-party leases at below-market rent, and underperforming and overcompensated relatives on the payroll all give a buyer room to chip away at earnings before interest, taxes, depreciation and amortization (EBITDA). Identify and quantify these add-backs before the buyer does it for you.

Clean up the legal punch list: Confirm a clean cap table and clear title to intellectual property, real estate and equity. Resolve minority-holder disputes and paper over undocumented oral agreements. Have your counsel perform internal due diligence to identify any other legal risks or liabilities (misclassification of independent contractors, employee paperwork and authorization documentation, environmental permitting). Discuss with counsel whether you should obtain an environmental site assessment to proactively address any environmental issues. These are the issues that stall or kill deals in diligence.

Align the family before going to market: Divergent expectations among siblings or generations are a common cause of deal collapse. Confirm who actually wants to sell, at what price, the timeline and terms. A seller group that fractures mid-process loses both leverage and credibility.

Assemble the deal team: Engage an investment banker or M&A advisor, transaction legal counsel, and tax specialists before launch. Tax structuring (especially asset versus stock, F-reorg, rollover equity, qualified small business stock) should be modeled early, as it drives net proceeds as much as price does.

Navigating Early-Stage Negotiations Control the information flow: Get a tightly drafted non-disclosure agreement (NDA) in place before any real discussions occur and hold competitively critical data until later rounds. A clean, well-organized and pre-populated data room speeds up the process and reduces advisor fees.

Treat the Letter of Intent (LOI) as substantive: Price is the headline, but other LOI terms are still critical: earnouts, escrows, working-capital pegs, indemnification and rollover terms all deserve real negotiation up front. A seller's strongest leverage position is typically in the LOI negotiation, before

exclusivity is granted. If a deal term is omitted from the LOI or "punted" to the definitive agreement, you can expect that the buyer will introduce that deal term in a buyer-favorable position. A term ignored or conceded in a "non-binding" LOI is harder to recover later.

Manage the emotional dimension: For a family, this is often a once-in-a-lifetime, identity-laden transaction. Experienced counsel who sees the emotional inflection points coming and keeps principals focused on economics rather than sentiment earns their fee.

Keep the business running: Sellers who let performance slip during the process hand the buyer a reason to retrade. A missed quarter mid-diligence is an open invitation to renegotiate or walk away entirely.

Selling a family-owned business is an emotional and difficult decision. Ensuring that the sale process is executed efficiently and properly to protect and preserve the value that the family has built over the years (and possibly generations) is critical. This requires careful evaluation, planning and execution, as well as

reliable advisors to provide guidance as early in the process as possible.

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