

## Why owners want to sell to their employees

Many advisors to business owners think a sale to key employees is a great option for companies that don't reach the "sale to third party" threshold. Typically, they define this threshold as the point at which a business can be sold for (largely) cash. Depending on a variety of factors, this threshold is usually around \$10 million. While this may cause some owners to consider a sale to key employees, it is not the reason that most of them **want** to sell to key employees. Over the years, we've found that owners choose to transfer their companies to key employees for different reasons, including these seven.

1. Some owners feel that they owe their employees something. They feel that their key employees have helped create the company and certainly have contributed to its success. These employees "deserve" the opportunity to purchase the business.
2. A variation on this "owe" idea is owners who want to provide their key employees the same opportunity they had to become financially successful.
3. Other owners choose this transfer because they have *already promised* their employees that they would sell to them. They feel committed to following through on this off-times vague promise.
4. Some owners feel that the only way to continue their legacies, "do right" by their customers or carry on the culture that they have worked so hard to create is to transfer to their key employees.
5. Some owners are convinced (and some correctly so) that their companies are only valuable to the key employees who work there. With few exceptions, there is a market for companies worth more than \$2 million. Historically, businesses worth less than \$2 million (businesses with free cash flow of less than between \$300,000 to \$500,000) hold little attraction to outside third parties.
6. Maximizing their own income motivates some owners. They may believe that key employees will pay more for their companies than any other type of buyer. This assumption, in turn, may be based on another assumption that the business is not attractive to, or would be misunderstood by, outside buyers.
7. Lastly, some owners use the gradual sale of ownership interest to key employees as a way to motivate those employees to stay with the company.

No matter which of these is your reason to want to sell your business to key employees, it is prudent to investigate your motives thoroughly. For example, if you believe that your business (at a favorable valuation) is simply not attractive to outside buyers, I urge you to talk to others (particularly the advisor who sent you



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this newsletter) to test your hypothesis.

When owners want to transfer their businesses to key employees, do they actually do so? If you have any questions about this type of transfer, please contact me.

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