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## **Selling Your Company? Look to Your Employees as Potential Buyers**

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I am often approached by business owners that are starting to think about selling their business. Many would like to sell to key employees, but frequently, these employees don't have the resources to finance such a large transaction. One option that I like to explore as an alternative is selling to an ESOP (Employee Stock Ownership Plan) which accomplishes many of the same goals of a management buyout:



- The selling owner is able to reward the loyalty of the employees who helped build the business,
- The selling owner doesn't have to worry about an acquirer relocating operations, leaving many in the local community without a job, and
- The selling owner preserves the legacy of the company they have built.

In addition to these benefits, an ESOP transaction offers financial and legal advantages. An ESOP transaction is always a stock sale which is generally more favorable from a tax and legal standpoint than a traditional asset sale. Additionally, if the selling owner does not have immediate liquidity needs, they can structure the transaction with seller financing for most or all of the transaction. The typical return for an owner-financed ESOP transaction is often higher than the selling owner would get from traditional investments. Lastly, for companies that are taxed as an S-corporation, the portion of the company owned by the ESOP does not pay federal income taxes. Therefore, a 100% ESOP-owned S-corporation would not pay any federal income tax which frees up cash for investments in workforce, expansion, and acquisitions to grow the business.

Selling to an ESOP is not right for every business owner or company, and the selling owner must perform their due diligence to determine if an ESOP is the correct approach for their business. An ESOP may not be feasible if the company doesn't have enough employees. Additionally, the company must have a strong management team in place. The best place to start is by talking to an experienced financial advisor or an accountant with experience in ESOPs.