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A SPECIAL REPORT BY THE NATIONAL CENTER FOR THE MIDDLE MARKET  
AND THE FIFTH THIRD PRIVATE BANK BUSINESS TRANSITION ADVISORY TEAM

# OWNER TRANSITIONS IN THE MIDDLE MARKET

**When Business Gets Personal:  
A Business Owner's Perspective  
on Selling a Middle Market Company**

IN COLLABORATION WITH



THE OHIO STATE UNIVERSITY  
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# Middle Market Business Owners Remain Inextricably Tied to Their Companies—Even When It's Time to Sell

Middle market businesses are the lifeblood of the U.S. economy. Because these organizations tend to be privately owned—many by members of the same family for generation after generation—the men and women who founded the businesses are deeply and intimately tied to their companies' success stories. They play a hands-on role in many aspects of their businesses, even as their companies mature, grow and evolve.

When a business owner sells all or part of the organization into which he or she has poured blood, sweat and tears, it is no surprise the transition is much more than a business transaction. It is an extremely personal event in the business owner's life. Indeed, personal considerations impact every aspect of the sale, from key drivers to how owners prepare for the transaction to the concerns and challenges along the way. In many cases, these personal factors bear more weight and affect the sales process to a greater degree than purely business or economic factors do.

Most middle market business owners who sell do not attempt to address all these issues on their own. They build teams of advisors around them and report the critical importance of having access to the right advice during the process. Ultimately, most sellers with an experienced advisory to put the funds to work in new ways.

However, few owners make a complete break from the businesses they sell. Nearly nine out of 10 remain involved in some capacity. Sometimes, this happens because buyers need sellers to ensure a smooth transition and other times for personal reasons. Maintaining a connection or degree of control in the business is a top consideration for most sellers.

Whether or not owners stay connected to the business, most owners admit to struggling with the process of letting their companies go. This may help explain why more than a third of owners report negative feelings post transition. Fully eradicating all feelings of regret, concern or worry when it comes to such a momentous event in the life of the business owner may not be possible; but, an extra dose of preparation or trusted advice may help ease some of these less positive emotions.

In the end, selling is a (mostly) rewarding endeavor for middle market business owners. It need not spell the end of their business careers or even their personal involvement in the businesses they sold. While it appears that you can take the owner out of the business to some degree, you cannot take the business out of middle market company owner. These passionate leaders are deeply entwined in the success of the organizations that fuel

the U.S. economy and will continue to be so into the future.

## HOW THE RESEARCH WAS CONDUCTED

To better understand how owners' personal considerations, feelings and perceptions impact every aspect of middle market business transitions, the National Center for the Middle Market, in partnership with Fifth Third Private Bank's Business Transition Advisory Team, surveyed a group of 300 middle market executives. The sample included 75 owners of privately held middle market businesses, who benefited from the sale of all or part of their companies in the past 24 months. Of these 75 organizations, more than half are family-owned, with more than three-quarters of these family-owned organizations in their second, third, or fourth generation of ownership at the time of the sale.

We asked these owners about their reasons for selling, the length and the activities involved in the preparation phase, the challenges faced, advisors consulted and the range of emotions experienced. We asked for the sellers' perceptions of their transactions' overall success. The center fielded the survey in April 2022; all transactions occurred during or in the aftermath of the pandemic.

This report shares the summary findings related to the personal dynamics of the sales for these 75 organizations along with insights based on Fifth Third Private Bank's Business Transition Advisory Team's real-world experience advising middle market business owners undertaking sales transitions.

### *Key Findings*

1. Key sales drivers are often tied to accessing funds for investments or other business opportunities and are not primarily motivated by the owner's retirement.
2. The degree of personal preparedness for a sale is often much lower than the degree of business preparedness, and owners voice significant personal concerns throughout the process.
3. The most challenging aspect of the sales process for middle market business owners is contending with the many emotions entwined with "letting the company go."
4. Business owners' post-sales perceptions are generally positive with feelings of personal satisfaction driven by the success of the negotiations and the sales price secured.



## INSIGHT #1 - Sales Drivers

# Being ready to sell does not necessarily mean being ready to retire.

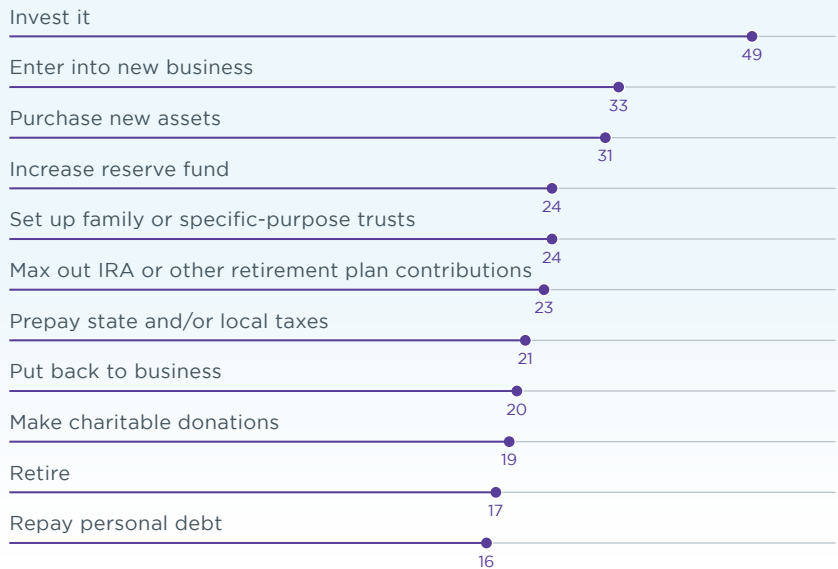
Leadership changes, access to new markets, growth and other business-related drivers can and do factor into the sale of middle market businesses.

Macroeconomic conditions also play a role; we saw sales activity slow during COVID-19, but it has since rebounded and continues to increase. However, when the owner of an organization makes the decision to sell a business, personal reasons that may have nothing to do with the economy or the business itself almost always factor strongly into the decision. These personal considerations are often the primary drivers of the transaction.

One may easily assume that personal reasons for selling are tied to the owner's retirement, yet this is rarely the case. While nearly a quarter of middle market business owners who sold all or part of their businesses in the past 24 months say they will use some proceeds to make retirement plan contributions, slightly more than one in 10 (12%) cite retirement or exit opportunity as a key factor in the sale. An even smaller proportion— 7%—list retirement as the primary impetus for the transaction.

### Owners' plans for the proceeds of the sale

What owners plan to do with money received from the sale (%)



### Middle market business owners' primary reason for selling all or part of the business



Owners were

# 3X

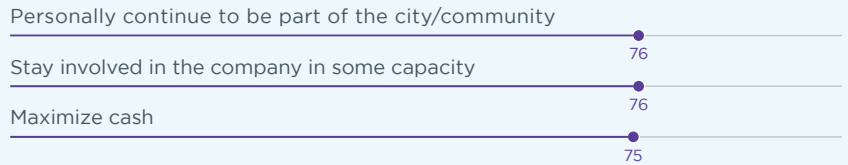
more likely to reinvest than retire.

In most cases, personal reasons for selling have much more to do with gaining access to funds for other investment or business opportunities—the top two destinations for money received from the sale. In other words, sellers are not looking to finish their careers; rather, they are merely ready to try something new. Pursuing new business opportunities factored into nearly a quarter of middle market business sales over the past two years and is, overall, the primary reason for selling.

Even as middle market business owners head in new directions (and look to maximize their cash-out to help finance those endeavors), many are not entirely letting go of the businesses to be sold. For many owners, staying involved in the company in some capacity is an equal, if not bigger, consideration than the money when planning the transaction. Remaining involved in their city or community is more important still. These stated priorities pan out: 76% of the owners who sold their businesses continue to have roles in their companies today.

### Extremely/very important consideration relative to the sale

Percent of owners citing the following considerations





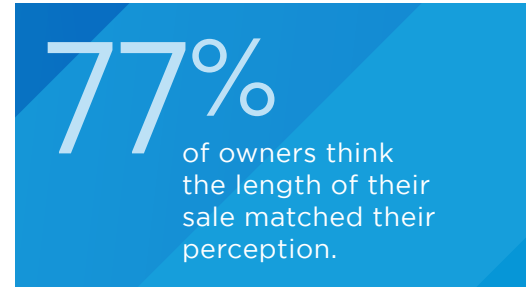
## INSIGHT #2 - Personal Preparedness

Owners report feeling well prepared for the sale; however, they voice concerns related to outcomes for themselves, their families and the future of their businesses.

### FOUR OUT OF FIVE MIDDLE MARKET BUSINESS OWNERS WHO SELL CLAIM TO BE VERY WELL PREPARED FOR THE TRANSACTION.

Selling a business does not happen overnight. In the middle market, owners typically take one to two years to plan and prepare. Many owners who sold in 2020 and 2021 had even more preparation time than they originally scheduled, due to delays caused by the pandemic. Putting that extra time to good use likely contributed to greater feelings of preparedness overall. As one owner mentions, “It was a long time coming. I had actually wanted [the sale] to happen before the pandemic. Once that hit, everything slowed to a crawl. But I was able to map out a game plan that made sense.”

Further, many middle market business owners start their businesses with the intention of eventually selling them. If a sale has “always been part of the plan,” then it can be assumed owners spend some time contemplating future transactions even before launching official preparations. “I had always planned an exit,” one owner says. “It was time.”



#### The process for preparing for a transition almost always begins within 2 years

How long owners planned for the transition (%)



#### Most sales transitions are completed in less than a year

How long the transition took (%)



## DESPITE BEING READY, MOST OWNERS DEAL WITH SIGNIFICANT PERSONAL CONCERNS RELATED TO THE SALE.

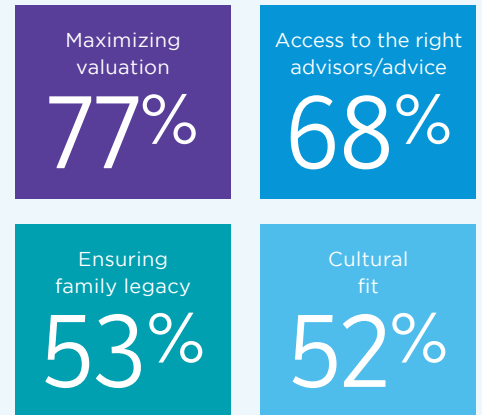
Being well prepared for a major transition does not completely eradicate all areas of apprehension. From a personal perspective, maximizing valuation ranks as the number one issue, with more than three-quarters of owners citing this as a major concern. A majority of owners also worry about building an effective advisory team, ensuring family legacy and maintaining the culture of the organization they worked hard to build.

While all these issues are likely on the minds of the owners going into the sale, some report running into unanticipated issues usually related to the length and scope of the process or predicting the best timing for the deal.

In general, middle market business sales take between six and 18 months to complete, and most sellers believe this timing is just about right. Nevertheless, several owners express wishing they had a better time estimate for some specific aspects of the transition (e.g., discussions with lawyers) or the total time overall. One seller mentioned that if something could have been done differently, it would have been applying “more aggressive pressure to get the deal done faster and [to] negotiate a shorter consulting period than three years.”

### Areas of personal concern related to the sales transition

*Percent of owners stating they were extremely/very concerned about each of these aspects of sales transition.*



## EXTERNAL ADVISORS ARE CRITICAL TO THE SALES PROCESS AND TO ADDRESSING KEY AREAS OF CONCERN.

Middle market business owners do not attempt to go it alone when it comes to selling all or part of their businesses. Rather, they work to build the right advisory team who can help them with navigating key concerns and ensuring the objectives for the sale are met.

These owners are likely to include external consultants in their inner circle as they contemplate the various aspects of the sale process. On average, advisory teams typically include four resources representing a mix of high-level business leaders and trusted external consultants. Lawyers and investment bankers are the most popular choices from outside the business. Many owners also involve other external consultants, such as their corporate banker and/or their tax advisor, in the process. Among external advisors, lawyers are considered most important and most likely to have the owners' ears, followed by corporate bankers.

Interestingly, while 92% of middle market business owners work with one or more personal financial advisors, only about one in five owners involves their personal wealth managers as consultants in the sale of their business. This is even more surprising, considering the care most owners put into vetting and selecting their individual advisors as well as the organizations for which those advisors work. Middle market leaders evaluate the experience and individual approaches of their advisors, along with the overall performance, quality of research and breadth of services offered by those advisors' firms.

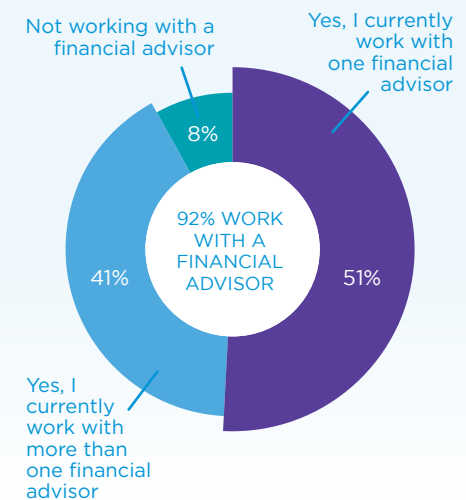
### Top advisors consulted by owners during a sales transition

*Percent of owners who included the following advisors as part of their transition team*

C-suite executives	49%
Top management/finance leader	43%
In-house lawyer	36%
External lawyer/law firm	33%
Investment bank	33%

### The vast majority of owners work with a financial advisor

*Percent of owners working with a financial advisor*



### Most important criteria for selecting a financial advisor

*Percent of owners ranking the criteria as most important*

History of success	23%
High-quality research	21%
Offers a variety of investment options	11%
Technology-focused	8%
Industry leader	8%
Compensation structure	7%

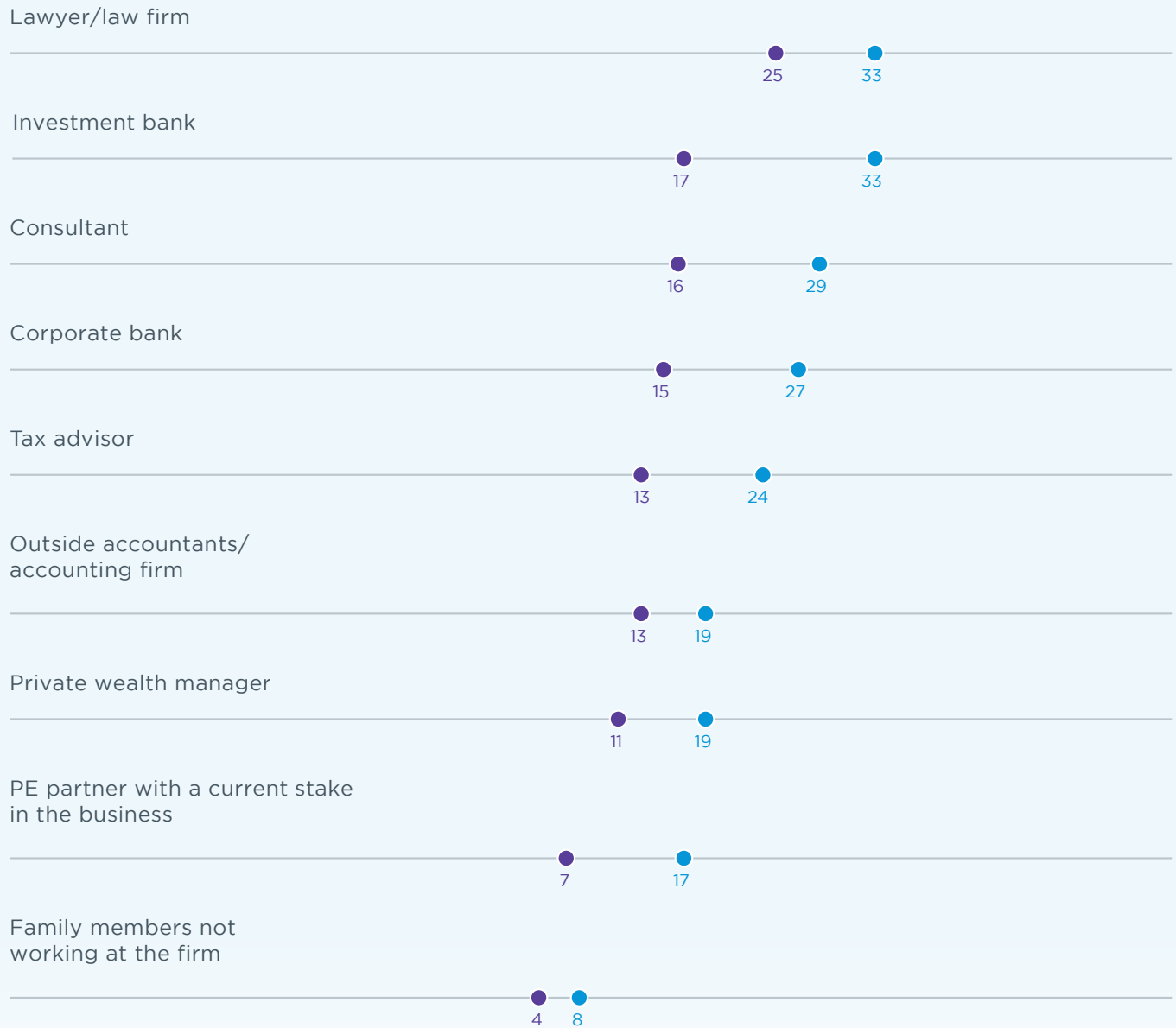


## 88% of owners used external advisors during the sales transition

The external advisors owners used and found first/second/third most important (%)

● IMPORTANCE OF EXTERNAL ADVISORS AS MEMBERS OF THE ADVISORY TEAM TO OWNERS DURING A SALES TRANSITION

● PROPORTION OF EXTERNAL ADVISORS THAT OWNERS CONSULTED WITH DURING A SALES TRANSITION





### INSIGHT #3 - Challenges

While owners face a variety of challenges related to the sale, the most difficult aspects appear to be personal and are related to mixed emotions around “letting the company go.”

Most middle market business owners who recently sold all or part of their business do not view those transactions as especially difficult. Still, significant proportions of owners cite several key challenges faced throughout the process. Many of these issues are personal, either in nature or in their impact on the business owner.

Assessing the true value of the business and, in turn, the payout the owner ultimately receives is one of the most common challenges arising during the process: 29% of owners admit to struggling with this issue to some degree. A significant proportion of owners express frustration with employee, family and advisory team issues: 15% cite challenges with maintaining privacy and controlling rumors during the transition period.

A much greater proportion of owners have at least some trouble with the various emotional aspects of “letting the company go.” Those emotions shift considerably between the different phases of the sales process. Excitement reigns supreme during the pre-sale period, but for 71% of owners, this time is also filled with less positive emotions such as anxiety, worry and concern.

As the process moves along, owners begin to feel more confident. As a group, they report their most positive feelings —including happiness, relief, fulfillment, and accomplishment — after the wrap up of the sale. Post transition, 87% of sellers report positive feelings. The number of owners reporting negative feelings declines considerably, but 37% of owners continue to report at least some misgivings related to the sale, such as concern, sadness, and regret.

Overall, seven out of 10 leaders who sold report that the emotional roller coaster ride experienced during the sale is at least somewhat difficult to manage while 29% dubbed it an extremely or very difficult experience.

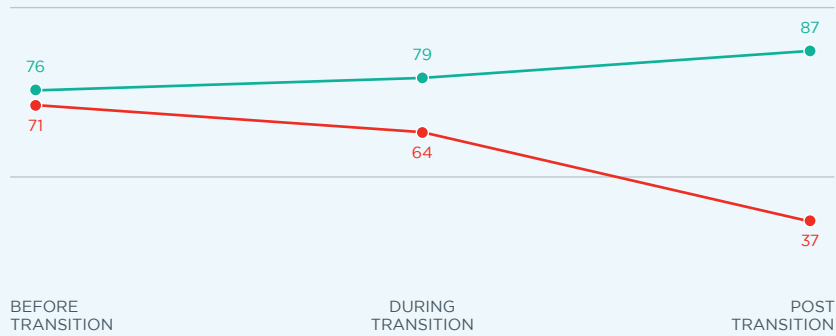
#### Top personal challenges owners experienced during a sales transition

*Percent of middle market business owners experiencing challenges with various aspects of the sales transition*

Assessing the true value of the business	29%
Employee communications	25%
Dealing with tax issues	24%
Dealing with family issues	20%
Bringing together the right internal/external team	19%
Getting fair valuations from potential buyers	19%
Maintaining privacy/control of information and rumors	15%
Getting alignment from family members	15%
Prepping owners' personal finances to position for the sale	13%

## Emotional feelings became more positive and less negative throughout the sale transition

Percent of owners who stated emotional feelings with each stage of the transition

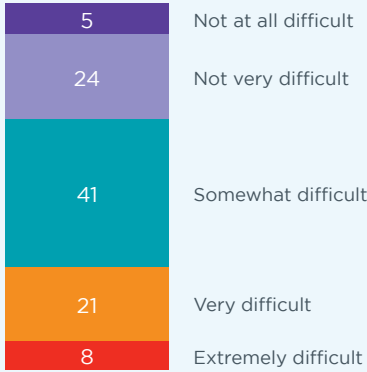


NEGATIVE FEELINGS	
Anxious	Angry
Worried	Desperate
Concerned	Regretful
Overwhelmed	Sad
Confused	Lost
Frustrated	

POSITIVE FEELINGS	
Happy	Proud
Relieved	Free
Confident	Excited
Fulfilled	Content
Accomplished	Inspired

## Most owners found letting go at least somewhat difficult

Percent of owners that found it difficult to let go of their company





## INSIGHT #4 - Post-Sale Perceptions

Feelings of personal success with the sales negotiations and the ultimate price received drive owners' overall sense of satisfaction with the transition.

When all is said and done, most middle market business owners are highly satisfied with the outcome of the sale. A majority report a relatively easy and smooth process overall, with three-quarters of sellers expressing that the experience went better than expected. Perhaps even more important than the process is the outcome. Sellers feel personally satisfied with the decisions they made and the roles they played. Nearly nine out of 10 leaders feel they sold at the right time, leaving just 11% believing they may have sold too soon. Furthermore, more than three-quarters of owners (77%) report a high degree of satisfaction with the sales negotiations, and 61% believe they exacted a higher sales price compared to other companies.

With 87% of owners continuing to play a role in the companies they sold, it appears that they effectively addressed concerns related to staying involved in their companies and communities in some way. Whether the sellers remained involved as consultants or continued to own a portion or even a majority of the business, this ongoing involvement likely helps to address the emotional implications related to feelings of giving up or saying goodbye to their companies.

For middle market business leaders who have played—and will presumably continue to play— significant roles in the success of what is arguably the most vital segment of the U.S. economy, this win-win situation is assuredly deserved. It promises wide-reaching benefits in the form of new innovations, new organizations and new job and GDP growth to come.

Majority of owners feel they sold at the right time with a successful negotiation.

*Percent of owners stating they were extremely/very concerned about each of these aspects of sales transition.*

89%

feel they sold at the right time

11%

feel they sold too soon

77%

were extremely/very satisfied with their sales negotiations

61%

feel their sales price was somewhat/much higher than their peers



# Perspectives

## Are middle market business owners truly as prepared to sell as they claim to be?

On one hand, the data from our survey spell out a compelling success story for the owners of middle market businesses who chose to sell all or part of their organizations during the past 24 months. These owners report high levels of satisfaction with the process and the sales price received. The vast majority of them remain involved in their businesses in some capacity, which is a primary personal concern and goal for most business owners going into a sale.

On the other hand, a considerable 37% of owners continue to experience negative emotions post transition. The data clearly show that middle market business sales are extremely personal in nature and that experiencing a range of emotions tied to letting the business go is natural. However, when feelings of concern, regret or frustration linger in the post-transaction period, this suggests that owners do, at some point in the process, uncover personal or transactional issues they have not or cannot fully address before the deal concludes.

Fifth Third Private Bank's Business Transition Advisory Team (BTAT) sees this phenomenon play out in practice time and time again. Owners engage BTAT believing they are extremely prepared for their impending sale; but in nearly all cases, BTAT uncovers additional issues that have yet to be considered.

### **EVEN WHEN OWNERS ARE WELL PREPARED ON THE BUSINESS SIDE, THEY OFTEN OVERLOOK PERSONAL PREPARATION.**

Based on BTAT's experience, personal preparation for the sale of a business can take even longer than the business-related prep work. However, owners who have not been through the process before often simply don't know what they don't know.

Myriad personal considerations span everything from planning for future financial needs to ensuring the next generation is well positioned to setting up the owner's ongoing role (if any) in the business. This can include financial planning, fully fleshing out the next phase of life after exit, solidifying family member roles and succession planning, tax optimization, legacy planning, setting up trusts for wealth transfers, charitable intentions and planning and even ensuring access to for-profit and nonprofit boards,

just to name some of the key issues. It can require a full 36 months for owners to thoroughly flesh out plans and strategies in all these areas. Since owners usually carry more gravitas when they are still at the helm of the business, it makes sense to do this work—especially anything involving the owner's or family members' ongoing roles in the business—before the exit is finalized.

Owners who do allot sufficient time for personal planning—including time to consult with experts who can help them identify the full scope of issues to be addressed—almost always experience better outcomes for themselves and their families. This is because a comprehensive personal planning process empowers business owners to begin with the end in mind. When owners keep sight of their personal objectives throughout the entire transition process, it naturally leads to greater feelings of happiness and fewer misgivings when the deal is done.

# Perspectives

*Continued*

## **OWNERS LACK A CLEAR UNDERSTANDING OF EXACTLY HOW FAR EXIT PROCEEDS WILL GO.**

This key component of the financial planning process is often not explored in enough detail. It's one thing to consider the lump sum of the cash-out, but it's another matter when that sum begins to be allocated to a long list of personal goals and objectives. Because many owners have plans to invest a portion of the proceeds in other businesses, this process involves a full risk analysis and understanding how investment risk can impact other priorities. When owners take the time to consider the big picture, they often find they are not as confident as they would like to be in how their finances will ultimately look, both for themselves as well as for the next generation. To be the best possible stewards of their wealth, it is critical for owners to be proactive in optimizing their financial planning and to invest as much (if not more) time in preparing themselves as they do their companies.

## **OWNERS UNDERESTIMATE THE PERSONAL COSTS INVOLVED IN THE PROCESS.**

Considering the high personal stakes involved in the sale of a middle market business, it is not surprising that owners will incur significant out-of-pocket costs during the process. However, owners often lack a clear understanding of which costs they will cover versus which costs the business will incur. As a result, they often underestimate the full personal cost of the transaction.

Typically, the quality of earnings review, valuation, a variety of legal fees and taxes are paid directly by the owner. These expenses can be significant and add up quickly. They should be carefully studied and factored into the personal financial planning process.

## **OWNERS ARE OFTEN UNSURE WHOM TO HIRE FOR THE ADVISORY TEAM.**

Two thirds (68%) of selling owners say that having access to the right advisors and advice is a primary area of concern; one in five owners admits to facing specific challenges putting the right team together. Yet, while almost all owners undergoing a sale seek advice from trusted professionals both inside and outside the business, companies may be missing opportunities to have a wider range of advisors involved, involved sooner, or involved to a greater extent.

# Perspectives

*Continued*

Most often, exclusions fall into two critical areas: 1) legal advice and differentiating between the various types of lawyers needed and 2) personal advice and bringing their own team into the conversation. While almost all owners have relationships with trusted and vetted financial advisors, these professionals are only occasionally invited to the table.

Given the importance and complexity of personal preparation for a business transition, excluding wealth advisors is often a particularly costly oversight. We find that owners who surround themselves with expert advisors in all areas of a transition—including the personal side—are much more confident and overall better prepared for their futures. A sale of a business is probably one of the most important times for great advice. Bringing in trusted personal financial and wealth advisors who are most in tune with the owners' individual objectives and concerns is key to a transition that works on every level.

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*Deal fatigue is a real thing. Overcoming it is critical to the seller's ultimate happiness.*

Our survey data illustrate that middle market business owners understand the complexity involved in the sale of their businesses. They respect that the process will take time and involve a variety of different types of work to prepare the company, but they don't often consider the full scope of the personal preparation activities needed.

It can be extremely frustrating for owners who, feeling they are prepared on the business side, find that they must take a step back to consider the personal implications. Personal due diligence is often even more exhausting and emotionally draining than business due diligence. However, working through the deal fatigue is well worth the additional time and effort involved.

Ensuring the deal is structured correctly and that no important personal box is left unchecked will go a long way in eradicating negative emotions that can plague owners after the exit. With the right mindset, degree of effort, and team to help, sellers can fully look forward to the sense of happiness, fulfillment, and accomplishment that they deserve.

## **ABOUT FIFTH THIRD'S BUSINESS TRANSITION ADVISORY TEAM**

Fifth Third's Business Transition Advisory Team (BTAT) is a private bank team solely dedicated to preparing business owners financially and personally for their business transition. With 75-plus years of combined experience, BTAT provides deep education and expert advice across a diverse range of industry sectors. To learn more, visit [53.com/BTAT](https://www.53.com/BTAT).



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