BUSINESS SUCCESSION PLANNING

Preparing for deal-stage challenges

Learn how to navigate transaction obstacles before they derail your succession plan

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You've figured out what you need, chosen your path and assessed your readiness. Now comes the execution, the phase where plans meet reality and obstacles surface.

No matter which succession route you've chosen, every transaction encounters resistance. Valuations get challenged. Key employees threaten to leave. Buyers ghost you mid-process. Family members fight over terms. Financing falls through.

These obstacles aren't signs you've failed. They're normal friction points in any complex transition. The goal isn't to avoid them entirely, but to recognize them early — so you can navigate them strategically.

Here's what to expect and how to manage it.

Obstacles are normal friction points in any complex business transition.

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Common deal obstacles

Once you're actively negotiating — whether with a buyer, family members or employees — certain problems appear consistently.

Valuation gaps

You've had a number in your head for years. Then reality hits: the appraiser comes back 30 percent lower, or your kids can't afford to buy you out at fair market value, or the ESOP trustee takes a conservative position that cuts your payout by millions.

It stalls momentum, forces renegotiation and sometimes kills transactions entirely.

A valuation gap is the most common deal-breaker. It stalls momentum, forces renegotiation and sometimes kills transactions entirely.

What causes it:

- Most owners don't know what their company is worth until they try to sell it
- Without regular valuations, you're anchoring on a number that feels right — not one grounded in market realities
- "Add-backs" the owner considers legitimate get challenged during diligence
- Market conditions shift between initial discussions and closing
- Successors simply can't afford what the business is worth

How to navigate it: Get a defensible third-party valuation early, before you're emotionally committed to a number. Model multiple deal structures. Understand the difference between enterprise value and what you'll actually net after taxes and transaction costs.

Deal structure disputes

Even when valuation aligns, how you structure the deal can become contentious. Cash versus earnout. Seller financing terms. Employment contracts post-close. Rollover equity requirements.

The buyer wants an earnout tied to metrics you can't control after you leave. Your family wants gradual ownership transfer but you need liquidity now. The management team wants a buyout stretched over 10 years while you need to fund retirement in five.

What causes it:

- Misaligned incentives and risk tolerances between parties
- Different liquidity needs and timelines
- Tax considerations that favor one structure over another

How to navigate it: Model multiple structures with your tax and financial advisors before negotiations begin. Understand what each structure means for your cash flow, tax liability and risk exposure. Be willing to walk away if the structure doesn't support your financial goals.

Financing falls through

The deal is agreed in principle. Then financing collapses. The bank won't lend as much as expected. Your son's personal financial situation prevents him from qualifying. The ESOP trustee determines the company can't support the debt service.

This is especially common in family and employee transitions, where successors depend on seller financing or bank loans.

What causes it:

- Overestimating what banks will lend or what successors can borrow
- Changes in lending environment mid-process
- Successors' personal credit or balance sheets limiting borrowing capacity

How to navigate it: Verify financing feasibility before you commit to deal terms. Get pre-approvals from lenders. If you're seller-financing, model the risk and ensure you can absorb it if successors default. Consider alternative structures if traditional financing isn't available.

Due diligence surprises

Buyers, family members and trustees all conduct diligence. And diligence reveals issues: outdated financials, customer concentration, deferred HR problems, contracts that can't transfer, intellectual property that isn't properly protected.

Sometimes these are minor. Sometimes they're material, forcing price reductions, earnouts or extended transition periods.

What causes it:

- Businesses run by founders often lack formal systems
- Issues that seemed manageable suddenly become deal risks
- Buyers use diligence findings as leverage to renegotiate
- Timeline pressures make it hard to address problems mid-process

How to navigate it: Conduct a "pre-diligence audit" six months before you engage buyers or successors. Hire someone to examine your business the way a buyer would. Address weaknesses before they become negotiating points.

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Operational risks during transition

While you're negotiating, the business still has to run. And the transition process itself creates operational risk.

Key employees leave

Your CFO gets exhausted by diligence requests and quits three weeks in. Your head of sales hears you're selling and starts interviewing elsewhere. Your operations manager doesn't want to work for new owners. Talent flight during transition is common and it directly affects valuation.

What causes it:

- Uncertainty about their future under new ownership
- Increased workload from diligence without additional compensation
- Perception that their role will change or be eliminated
- Lack of communication about what transition means for them

How to navigate it: Communicate early with key people. Consider retention agreements or transaction bonuses. Give them visibility into what happens post-close. If selling to an outsider, involve them in management presentations so buyers see the strength of the team.

It's critical to show that the business can run independently of you.

Customer reactions

Word gets out that you're selling. A major client gets nervous about continuity and starts evaluating alternatives. Another client demands contract renegotiations. Some simply wait to see what happens, which slows sales cycles and affects revenue.

What causes it:

- Customers worry about service disruption
- Long-standing relationships with the owner, not the company
- Competitors using the transition to poach accounts

How to navigate it: Control the narrative. Communicate directly with major clients about what the transition means for them. Introduce successors early. Lock in long-term contracts before you go to market. Show that the business runs independently of you.

Management team readiness

You assumed your leadership team could run the business without you. Then buyers start asking detailed operational questions and it becomes clear they can't. Or your kids want to take over but lack the skills, or your management team has the skills but not the confidence.

What causes it:

- Founders underestimate their own operational involvement
- Successors haven't had enough autonomy to develop leadership capability
- Gaps in financial acumen, strategic thinking or decision-making

How to navigate it: Test readiness before you commit to exit. Step back for six months and see how the team performs. Identify skill gaps early and invest in training. If successors aren't ready, delay the transition or structure a longer handoff period.

Gaps in personal preparedness

Even if the business is ready, sellers (and their families) often aren't.

Emotional unreadiness

You thought you were ready to exit. Then closing approaches and you realize you haven't planned what comes next. The loss of identity and purpose that seemed abstract suddenly feels visceral. Sometimes that surfaces before closing, showing up as cold feet, last-minute hesitation or deal delays.

"I'm not ready," "Maybe we should wait," "What if I stay on longer?" These questions are normal when you're transitioning something you built over decades, but can kill deals or force renegotiations.

What causes it:

- Loss of professional identity and purpose
- Underestimating the emotional impact of exit
- Realizing you haven't planned life after exit
- Seeing your business valued lower than expected

How to navigate it: Do the emotional work before you engage buyers or successors. Start imagining post-exit life years before you need to. Define what success looks like beyond the business — financially, structurally and emotionally. If you're not ready, don't start the process.

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Financial miscalculation

The deal closes. The proceeds hit your account. Then you realize it's not enough to support the lifestyle you expected. You forgot to account for taxes, or didn't factor in debt payoff, or assumed the earnout was guaranteed cash when it's actually contingent and illiquid. The gap between enterprise value and what you actually net can be devastating if you haven't modeled it.

What causes it:

- Not understanding your long-term financial needs before setting deal terms
- Anchoring on enterprise value instead of after-tax proceeds
- Underestimating transaction costs
- Overestimating earnout likelihood
- Not modeling multiple scenarios

How to navigate it: Work backward from your lifestyle needs (this is Step 1). Model the tax impact of different deal structures. Understand exactly what you'll receive, when you'll receive it and whether it supports your financial goals. Run scenarios: best case, worst case, most likely case.

Family conflict

Your daughter wants to buy the business but can only afford half what it's worth. Your son, who isn't involved, expects equal inheritance. Your spouse thinks you're selling too soon. Family dynamics that seemed manageable become deal obstacles when money and control are at stake.

What causes it:

- Unspoken expectations about fairness and equity
- Siblings with different capabilities and inheritance needs
- Confusion about ownership versus management
- Lack of advance planning

How to navigate it: Address family dynamics before you engage in transition. Have explicit conversations about fairness versus equality. Define who leads the business and who simply owns equity. Use governance structures — advisory boards, family councils, shareholder agreements — to create neutral space for difficult decisions.

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Tax surprises

You structure the deal for business reasons. Then you realize you're losing 40 percent of proceeds to capital gains or triggering gift tax in a family transfer, or creating estate tax exposure you didn't anticipate.

What causes it:

- Structuring deals without tax modeling
- Waiting until late in negotiations to involve tax advisors
- Not coordinating business transition with estate planning

How to navigate it: Model tax impact before you commit to deal structure. Understand the difference between stock sales and asset sales. Coordinate with estate and gift tax planning. Involve tax advisors early, before terms are agreed.

Path-specific obstacles

Even with strong preparation, different transition paths introduce different kinds of friction. Here are the issues most likely to surface depending on the route you choose.

If you're selling to an outsider

Third-party sales move faster than family or employee transitions, but they introduce different risks.

- **Buyers back out late in the process.** Deal fatigue, financing issues or diligence findings cause buyers to withdraw. Sometimes this happens weeks before closing, after you've incurred significant legal and advisory costs.
- **Earnout and performance-based structures create tension.** Earnouts tied to post-close metrics often lead to disagreements about how results are calculated, whether targets were achievable or how buyer decisions affected the business.
- **Cultural and operational fit matters more than most sellers expect.** Buyers may require you or key leaders to stay on for a transition period. If there's misalignment on strategy, autonomy or culture, retention suffers — and so does value, especially if you have rollover equity or earnout exposure.
- **You may face long-tail obligations.** Representations and warranties can trigger disputes 12 to 24 months post-close. Integration decisions (new systems, reorgs, cost cuts) can also temporarily disrupt performance in ways that affect your payout.

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If you're keeping it in the family

Family transitions feel more "natural," but emotional complexity and financial constraints introduce challenges that require equally diligent planning.

- **Successors may not be able to finance the business at full value.** Children often can't borrow what's required for a fair market buyout. You're forced to accept below-market terms, extend the timeline or introduce outside capital — which can undermine the goal of keeping ownership in the family.
- **Fairness and inheritance expectations surface quickly.** Active children want control commensurate with their contribution; non-active children expect equal inheritance. Without clear upfront expectations, this becomes a major source of tension.
- **Founder influence can unintentionally undermine the transition.** If the founder doesn't fully step back or employees continue deferring to them, the successor struggles to establish authority. This affects credibility, performance and long-term continuity.

If you're transferring to employees

Employee transitions reward loyalty, but they introduce valuation, leadership and cultural challenges that don't always surface until ownership shifts.

- **ESOP valuations may not meet expectations.** While ESOPs function as financial buyers with their own valuation standards, trustees often take conservative positions that result in valuations below what you've anchored on.
- **Leadership capability becomes more visible once ownership shifts.** Employees who excel operationally may not be ready for ownership responsibilities (strategic planning, financial management, governance). If this gap emerges post-close, performance and value can decline.
- **Ownership changes culture.** Employee-owners must shift from "my job" to "our company." Some embrace the responsibility; others struggle with decision-making, accountability or how ownership is allocated. This can introduce friction during the first few years of the transition.

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Staying on course

As transitions move from planning to execution, complexity increases. Issues rarely surface one at a time — valuation questions, financing constraints, leadership readiness and family dynamics often collide. What keeps transitions on track is not eliminating every challenge but having a coordinated advisor who understands how all the pieces connect.

A coordinated advisory team can help you:

- Pressure-test valuation, financing and tax assumptions before negotiations begin
- Sequence decisions so tax, estate and deal-structure considerations support one another
- Prepare successors and key leaders for what buyers, lenders or trustees will expect
- Maintain momentum by anticipating bottlenecks and keeping negotiations aligned

Friction is normal. What matters is identifying root causes early and making decisions that preserve value.

Talk to a Private Business Strategist about managing your transition.

At PNC, our Private Business Strategists focus solely on helping business owners optimize personal and business finances. Our team of specialists can help you assess readiness, structure your transition and preserve value throughout the process.

Whether you are planning ahead or responding to an unexpected inflection point, having someone who sees the full picture and can integrate financial, structural and personal considerations helps you stay on course when it matters most.

To start the conversation, contact your PNC representative.

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