

CONCENTRATION BEFORE AN EXIT:

What business owners should think about

If you're a business owner nearing an exit, you've spent decades of your life building, managing and ensuring the success of your company.



You may discover that the business you've worked so hard to build represents far more than a source of income; it's the single largest asset in your personal portfolio. In fact, it's not uncommon for business owners to have up to 90% of their net worth tied up in their business.¹

However, this extreme concentration of personal wealth can expose you to significant risk, especially as you **near an exit**. Failing to diversify your wealth may jeopardize your retirement plans, legacy potential and long-term financial security if your transition doesn't go as expected.

Concentration risks leading up to an exit

If you're a business owner with a large percentage of your wealth invested in your company, you could face the following risks as you near your exit.

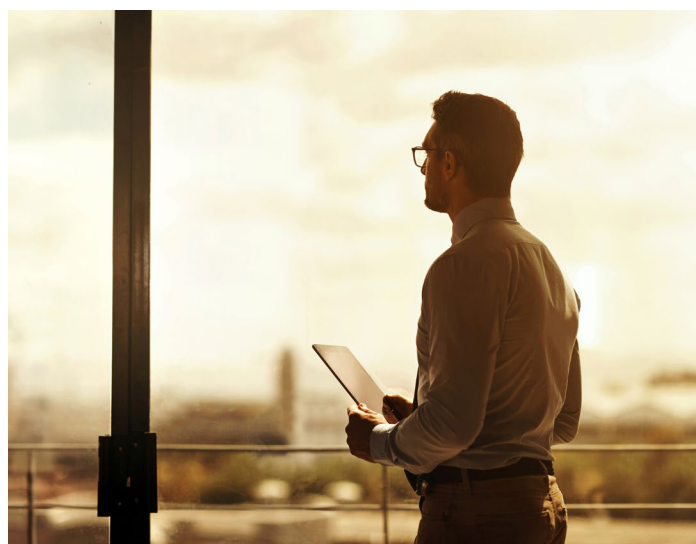
- **Valuation and deal risk:** When a business interest represents the majority of your wealth, any downward revision in your company's valuation can have an oversized impact on your lifestyle and future goals. Unexpected circumstances, such as a market downturn, industry slowdown, rising interest rates or economic uncertainty, can quickly derail your retirement plans, children's education funding, estate planning goals and more.
- **Personal financial vulnerability:** Concentrated assets can place your personal finances at risk in the event of unexpected business setbacks, such as the loss of key customers or employees, supply chain disruptions or lawsuits. Also, a buyer may sense your vulnerability and use it as leverage to push more seller-friendly terms, including lower upfront cash, a larger escrow or a longer earn-out.

- **Emotional decision-making:** A high concentration of personal wealth in a business can lead to overly emotional decision-making. For example, you may feel pressured to accept a suboptimal offer out of fear or desperation. Lifestyle expectations and family pressure can add to the stress and emotion of the decision, further clouding your judgement.
- **Unnecessary tax exposure:** Some business owners may discover after their exit that they face higher-than-expected taxes that leave them with fewer assets than expected.

Diversification strategies

There are several strategies that may help minimize your concentration risk in the years leading up to your exit.

- **Consider diversifying assets three to five years before your planned exit:** It's wise to begin the diversification process three to five years before your intended exit, as this gives you adequate time to reduce your personal wealth concentration without disrupting operations. Following an extended timeline also allows for more thoughtful planning, tax-efficient wealth extraction and market-timing flexibility, which may help put you in a stronger negotiating position during the eventual sale.
- **Engage in regular business valuations:** Engaging in a formal **business valuation** every 12 to 24 months allows you to maintain an objective benchmark, gauge progress and identify opportunities to increase your company's value in the years leading up to your sale. Regular valuations may also help you identify and address any potential issues that may present a risk during your sale.
- **Gradually extract value in a tax-efficient manner:** Rather than waiting for your business sale to access your equity, it may be wise to systematically extract profits over time by paying yourself a reasonable salary, bonuses, distributions and other tax-efficient distributions. This gradual approach can help you reduce the percentage of your personal wealth that's tied up in the business and may help minimize your tax exposure.
- **A minority recapitalization:** A minority recapitalization allows a business owner to sell a non-controlling equity stake (typically 10% to 40%) in the company—often to a private equity or institutional investor—while retaining majority control and operational direction. This approach is often used to help reduce concentration risk by converting a portion of an otherwise illiquid, business-heavy net worth into cash that can be diversified across other investments.



At the same time, the owner maintains meaningful potential upside through their remaining ownership. In practice, it offers a balanced way to “take some chips off the table,” which may help improve personal financial diversification while still participating in the company's long-term value creation. The owner can continue running the business while de-risking their balance sheet.

- **Establish and diversify your personal investment portfolio:** As you gradually extract assets from your business, consider investing these assets in a diversified portfolio. Doing so provides an opportunity to enhance your liquidity and support your long-term financial security. Your advisor can help you establish a diversified allocation that aligns with your goals, time horizon, risk tolerance and overall financial plan.
- **Maximize contributions to retirement accounts.** Another effective way to diversify is to maximize the tax advantages of retirement accounts, such as 401(k)s, IRAs, profit-sharing plans and cash balance plans. These contributions allow business owners to systematically move profits out of the closely held business and into a separate, tax-favored qualified plan, where assets can be invested in a diversified portfolio rather than remaining concentrated in the operating company (subject to plan design, contribution limits, coverage requirements and withdrawal restrictions).

This strategy can serve two purposes: It can help reduce concentration risk by building a pool of non-business assets, and it may add a layer of ERISA/qualified-plan creditor protection, which generally helps shield those assets from business and personal creditors in bankruptcy and most lawsuits (subject to applicable law, plan structure and the nature of the claim).

For many closely held business owners, cash balance plans can allow for significantly larger contributions than a stand-alone 401(k) or profit-sharing plan. This is because cash balance plans are defined benefit plans, which are governed by the higher IRC §415(b) annual benefit limit rather than the lower defined contribution limit under IRC §415(c). As a result, actuarial funding—especially for older owners with few years to retirement—can support substantially larger deductible contributions than the 401(k) or profit-sharing caps. However, these plans typically involve ongoing funding obligations, actuarial assumptions and administrative complexity, which may not be appropriate for all businesses.

In addition, contributions to tax-deferred retirement accounts may reduce your income in the year they are made, while assets can grow tax-deferred until they are withdrawn in retirement. Retirement accounts can also protect your assets from the company's risks and volatility. Most importantly, **maximizing your retirement plan contributions** can help build a reliable pool of liquid assets to support your retirement lifestyle.



Business owner support

Planning for a successful business exit requires a deliberate, proactive approach. The business exits that typically achieve favorable outcomes often begin years in advance and focus on mitigating risks, maximizing value and ensuring a seamless transition to the next generation of business owners. Working with your advisor, you can help position your company for success at every stage and facilitate a smooth business transition that aligns with your long-term goals and preserves the legacy you've built.

For more information visit: mariner.com

¹Exit Planning Institute, [The Exit Planning Blog](#), 2025

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