



Exploring Business Succession Options

**EARLY PLANNING SETS THE STAGE
FOR A SUCCESSFUL TRANSITION**

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The Great Ownership Transfer

Planning for the eventual transition of your business is a critical exercise.

For many owners, their company represents years — if not decades — of dedication, risk-taking and personal sacrifice. As you begin to think about the next chapter, it's essential to consider how and when to transition ownership in a way that supports your financial goals, preserves your legacy and ensures the continued success of the business.

You may have heard the phrase “the Great Ownership Transfer.” Over the next decade, as baby boomers retire, the owners of about 6 million small and medium-

sized businesses are expected to transition out of their companies.¹ If you're among them, now is the ideal time to start thinking about what comes next.

This paper explores six common business transition options. Each offers unique advantages and considerations related to liquidity, control, taxes and legacy. There is no one-size-fits-all solution. By starting the planning process early and working closely with financial, tax and legal experts, you can design a transition strategy that aligns with both your personal and business objectives.

¹ “The Great Ownership Transfer: A New Era of Business Stewardship,” McKinsey Institute for Economic Mobility, 2026.





Option 1: Selling Your Business

Selling your business to a third party is often the most straightforward and familiar transition strategy. Potential buyers may include competitors, strategic acquirers seeking expansion, or financial buyers such as investment groups. A well-executed sale can provide significant liquidity and allow you to transition away from day-to-day responsibilities.

WHY IT MAY MAKE SENSE

- ▶ **Immediate liquidity:** A sale typically provides the largest amount of cash at closing, enabling you to diversify your wealth and support retirement or other financial goals.
- ▶ **Potentially higher valuation:** Strategic buyers may be willing to pay a premium due to synergies, market expansion opportunities or cost efficiencies.
- ▶ **Clean transition:** Responsibility for operating the business shifts to the new owner, allowing you to step away.

CONSIDERATIONS

- ▶ **Loss of future upside:** Selling 100% of the business means you will not participate in future growth or appreciation.
- ▶ **Limited ongoing involvement:** Many transactions involve a defined transition period, after which you may no longer be involved.

- ▶ **Non-compete agreements:** Buyers often require restrictions on your ability to re-enter the industry.
- ▶ **Taxes and transaction costs:** Proceeds are typically subject to capital gains taxes and potential income taxes, and advisory fees can be significant.
- ▶ **No ownership track for managers:** A sale eliminates the possibility of transferring the business to top managers.

Additional Insights

Many sales include deferred payments in the form of seller financing or earn-outs, where a portion of the purchase price is tied to future business performance. While these structures can help bridge valuation gaps, it's generally advantageous from a wealth planning perspective to receive as much cash as possible at closing, along with strong guarantees for any deferred payments.





Option 2: Private Equity Group (PEG) Recapitalization

A private equity group (PEG) recapitalizes the company by purchasing a majority stake, providing capital and strategic resources to accelerate growth. The PEG becomes an owner of the business, executing, as partners, on the exiting owner's growth strategy. The original owner often retains a minority interest, offering the potential for additional value upon a future sale.

WHY IT MAY MAKE SENSE

- ▶ **Partial liquidity:** You can access cash while retaining an ownership stake.
- ▶ **Continued involvement:** You can remain active in the business.
- ▶ **Strategic partnership:** PEGs often bring operational expertise and growth resources.
- ▶ **Potential "second bite of the apple":** A future sale of the business may generate additional value.

CONSIDERATIONS

- ▶ **Reduced control:** Strategic and financial decisions are shared with the new partners, which can be difficult

for an entrepreneur after so many years of independence.

- ▶ **Cultural changes:** An increased focus on performance metrics can alter company dynamics.
- ▶ **Leverage:** Debt used in the transaction may reduce financial flexibility and increase pressure to meet performance targets.
- ▶ **Defined investment horizon:** PEGs typically plan to exit their investment within five years or so.

Additional Insights

A PEG recapitalization can be an attractive option if you're seeking liquidity while remaining involved in the business.





Option 3: Employee Stock Ownership Plan (ESOP)

An ESOP is a qualified retirement plan that can purchase shares of your company, creating a market for your company while rewarding employees with an ownership interest.

WHY IT MAY MAKE SENSE

- ▶ **Gradual transition:** Sell shares over time while maintaining control, salary and reasonable perks.
- ▶ **Employee engagement:** Ownership can enhance employee motivation and retention.
- ▶ **Tax advantages:** Under certain conditions, capital gains taxes on the sale of shares may be deferred or reduced.
- ▶ **Ongoing participation:** You can continue working in the business and benefit from future growth.

CONSIDERATIONS

- ▶ **Complexity:** ESOPs require careful planning and ongoing administration.
- ▶ **Management continuity:** A strong leadership team must be in place, as the ESOP does not replace the owner's operational role.

- ▶ **Leverage:** Financing the ESOP with debt may impact cash flow.
- ▶ **Personal guarantees:** In some cases, owners may be asked to guarantee financing.
- ▶ **Compensation adjustments:** Excess compensation or perks may need to be normalized.

Additional Insights

ESOPs have been around for more than 30 years and, despite many misconceptions, are very flexible tools for assisting with the design of a transition strategy plan.

ESOPs can be the right tool for the right company. However, they are complex, so it takes some in-depth analysis to determine if one would be a good fit.





Option 4: Management Buyout (MBO)

If leaving the business in the hands of trusted leaders is important to you, a management buyout (MBO) can be a rewarding solution. This approach allows key managers to acquire ownership and continue the company's legacy.

WHY IT MAY MAKE SENSE

- ▶ **Continuity:** Managers already understand the business and its culture.
- ▶ **Flexible transition:** The sale can be structured over time and can include tax minimization for owners.
- ▶ **Rewarding loyalty:** Provides an opportunity to recognize and empower key employees.
- ▶ **Limited disruption:** No need to involve an external buyer.

CONSIDERATIONS

- ▶ **Financing challenges:** Managers often rely on seller financing or bank loans.
- ▶ **Ongoing involvement:** You may need to stay engaged during the transition.

- ▶ **Leadership readiness:** The success of the transaction depends on the management team's capabilities.
- ▶ **Evolving relationships:** Your role may shift from employer to partner, changing decision-making dynamics.

Additional Insights

To support a successful MBO transition, many owners implement management incentive plans, such as performance-based bonuses, deferred compensation arrangements, phantom stock plans and stock appreciation rights (SARs). These tools help retain key talent and provide managers with the financial resources needed to participate in ownership.





Option 5: Gifting Ownership Interests

Some owners choose to gift shares of their business to family members, key employees or charitable organizations as part of their broader estate and legacy planning.

WHY IT MAY MAKE SENSE

- ▶ **Wealth transfer:** Allows you to pass assets to the next generation or valued individuals.
- ▶ **Estate planning benefits:** Gifting can combine with advanced estate planning to achieve a number of tax efficiencies.

CONSIDERATIONS

- ▶ **Financial security:** Make sure you retain sufficient assets to meet your own lifestyle needs.
- ▶ **Leadership alignment:** Ownership and management responsibilities may not always align.

Additional Insights

Gifting strategies are often combined with other transition options, such as MBOs or ESOPs, to create a more comprehensive transition plan.

Sometimes gifting company shares can help create a culture of ownership within a business. However, in other cases gifting shares becomes an administrative and legal burden when an employee leaves (particularly if they leave and are unhappy).



Option 6: Continue Growing the Business While Increasing Personal Savings

If you're not quite ready to step away — or if additional liquidity is needed to support your retirement lifestyle — continuing to operate the business while strengthening your personal financial position can be a practical approach.

WHY IT MAY MAKE SENSE

- ▶ **Greater financial independence:** Building personal savings enhances flexibility.
- ▶ **More time to plan:** This option allows you to prepare for a future internal or external transition.
- ▶ **Continued engagement:** You remain actively involved in the business you've built.

CONSIDERATIONS

- ▶ **No immediate liquidity:** Your wealth remains largely tied to the business.
- ▶ **Potential growth trade-offs:** Diverting cash flow to personal savings may slow business expansion.

Additional Insights

This strategy can be particularly beneficial for owners who are passionate about their business and not yet ready to transition. A comprehensive financial plan can help determine how much liquidity is needed and identify strategies to gradually diversify wealth.





The Benefits of Early Transition Planning

Regardless of the path you choose, early planning significantly enhances the likelihood of a successful transition. Starting the process well in advance allows you to:

- ▶ **Enhance business value:** Implement operational improvements and growth strategies.
- ▶ **Optimize tax outcomes:** Structure transactions to minimize tax liabilities.
- ▶ **Prepare leadership:** Develop a capable management team to ensure continuity.

- ▶ **Align personal and business goals:** Integrate your transition strategy with your retirement and estate plans.
- ▶ **Mitigate risks:** Address potential legal, financial and operational challenges.
- ▶ **Preserve legacy:** Ensure the business continues to reflect your vision and values.

Early planning also provides the flexibility to combine multiple strategies — for example, gifting shares while pursuing an ESOP or completing a partial sale to private equity.



A Defining Life Event

Exiting your business is more than a financial transaction — it's a defining life event that marks the transition to a new chapter.

Whether your goal is to maximize value, preserve your legacy, reward loyal employees, or gradually step back from day-to-day responsibilities, thoughtful planning is essential.

There is no single “right” transition strategy. The best approach depends on your unique goals, financial needs and vision for the future of your company. By exploring your options early and working with experienced advisors, you can approach this milestone with clarity and confidence.

If you're beginning to think about your next chapter, contact your banker today. Your wealth advisor can help guide you in assembling a team of external professionals, including legal and tax experts. Collaborating with that team, you can design a transition plan that reflects your aspirations and ensures the continued success of the business you have worked so hard to build.

Our team is ready to help you achieve your financial goals. Contact your banker today.

Please consult your tax professional.

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