A framework for owners weighing their exit

Exit Options to Employees

ESOP vs. Employee Ownership Trust vs. Management Buyout.
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Three ways to exit to your own people

Preparation

Diligence

Process

Post- Sale

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What each option actually means for you

ESOP

Parties: Owner + individual employees who buy shares directly

Control: Owner can keep control as long as they choose

Cash on exit: Staged/multi-method — paid out as employees buy in over time

Timeline: Flexible: one purchase, or many over several years

Tax lever: Lifetime Capital Gains Exemption (LCGE) on QSBC/CCPC shares

Management Buyout

Parties: Owner + a small leadership buyout group

Control: Full change of control at closing

Cash on exit: Bank debt + management equity/personal cash

Timeline: One transaction, roughly 5–8 months

Tax lever: Lifetime Capital Gains Exemption (LCGE) on QSBC/CCPC shares

Employee Ownership Trust

Parties: Owner + a single trust, on behalf of all employees

Control: Full change of control at closing

Cash on exit: Full price — usually bank debt + a vendor take-back note

Timeline: One transaction, roughly 6–12 months

Tax lever: $10M CGE (now permanent) plus the LCGE

Employee Share Ownership Plan (ESOP)

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ESOP: The Parties & The Basics

Selling to your team, on your timeline

1. The Owner

The owner decides how broad the plan is — some or all employees — and how much control to keep. Selling can happen in one tranche or many, over years.

Control & Timeline

Control transfers gradually. The owner can remain the majority shareholder for years, selling down opportunistically as employees are ready and able to buy.

2. The Buyers

Individual employees buy shares directly, using their own funds, a loan, payroll deduction, bonus program. Each purchasing employee is technically a separate counterparty,

Cash on Exit & Tax

The owner receives cash in stages, as tranches of shares sell. Gains on qualifying small business shares can use the Lifetime Capital Gains Exemption.

3. The Corporation

The company keeps running as normal. It sets the valuation methodology and, if it helps finance purchases, may facilitate employee loans or a bonus-funded buy-in program.

1. Preparation

- Clarify the goal: broad-based culture play, or a key-person succession plan
- Assess employee interest and financial readiness to buy in
- Choose a valuation approach that will repeat for future rounds

2. Due Diligence

- Lighter than a third-party sale — there's no outside buyer to satisfy
- Financial (valuation) and legal
- Not negotiating with each individual buyer

3. Sale Process

- Not one event, but a series of purchase rounds *as employees buy in*.
- Information sessions come first, then individual purchase agreements. The owner can retain majority control for years, selling down opportunistically.

4. Post-Sale Experience

- The owner often stays involved for years, since control doesn't have to transfer all at once.
- Ongoing plan administration: cap table, tax slips, and buy-sell mechanics when someone leaves.
- Employee-shareholders now carry real financial risk tied to performance — both upside and downside — which is new for most of them.

Management Buyout (MBO)

Your leadership team buys you out

1. The Owner

The owner decides how much (if any) vendor financing to carry, and aligns valuation expectations early with the very people who run the business.

2. The Buyout Group

A small group of leadership employees — typically two to five people — becomes the buyer, sometimes alongside a mezzanine lender or private equity co-investor.

3. The Corporation

The buyers already know the business intimately — this can shorten operational diligence but sharpen negotiation over price.

Control & Timeline

Control transfers fully at closing. Because it's a small, known buyer group, negotiations can move faster than a broad market sale.

Cash on Exit & Tax

The owner receive purchase price in cash if employees finance it. A vendor take-back note is also sometimes used. Only the standard LCGE applies — no special exemption.

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1. Preparation

- Identify the leadership group and confirm their appetite and financial capacity
- Address the financing gap early — management might not have enough capital alone
- Align valuation expectations before talks with lenders or a co-investor begin

2. Due Diligence

- The individuals buying already know the business, which can shorten operational review but sharpen negotiation over price and liabilities.

3. Sale Process

- A conventional private-sale structure*: LOI, financing commitment, purchase agreement, closing*.
- Funding usually blends bank debt, management's own equity, and a vendor take-back note or earnout.

4. Post-Sale Experience

- The owner's involvement is usually short and transitional — a consulting period, not ongoing ownership.
- New owner-managers are now personally leveraged — this changes their risk tolerance and decisions.
- Employees outside the buyout group see no ownership change themselves — culture impact is narrower than ESOP or EOT. A vendor note ties the seller's payout to the new owners' success.

Employee Ownership Trust (EOT)

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EOT: The Parties & The Basics

A clean, full exit — one transaction

1. The Owner

The owner can still participate in the governance post-sale, but they are selling a controlling stake and must be genuinely ready for the change on closing day — that's the real go/no-go filter for choosing an EOT.

2. The Trust

The Trust becomes the sole buyer of the shares, acting on behalf of all employees as a group. Employees don't sign anything or pay anything personally — the Trust is the one counterparty.

3. The Corporation

The company's future cash flow services the bank debt and vendor take-back note used to fund the purchase.

Control & Timeline

Control transfers fully and immediately at closing. This is a single transaction, not a gradual handover.

Cash on Exit & Tax

The owner receives the full purchase price, funded by bank debt plus a vendor take-back note. The first $10M in capital gains is exempt — permanently, as of June 2026.

1. Preparation

- Confirm the company qualifies to be an EOT and eligibility for the tax exemption
- Confirm percentage to sell (not less than 51%)
- Line up financing: how much bank debt vs. vendor take-back note

3. Sale Process

- Design the trust structure, trustee governance, and distribution formula
- A single closing, much like a standard sale*: valuation, financing, purchase agreement*. Price is funded through senior bank debt plus a vendor take-back note — rarely 100% cash at close.

2. Due Diligence

- Full financial, legal, and tax diligence, plus lender diligence on the financing
- Trustee advisor

4. Post-Sale Experience

- The owner has fully exited ownership on day one — though they may stay on as an employee under contract.
- Company cash flow now services the note and any bank debt for years — this shapes near-term capital allocation.
- Employees receive distributions per the trust's formula, with no personal cost or risk. Trustee governance needs real resourcing to function well long-term.

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LCGE — ESOP & MBO

- The Lifetime Capital Gains Exemption applies to qualifying small business corporation (QSBC) shares
- It's a per-individual lifetime limit, indexed periodically — it isn't specific to any one exit path
- It is still available even if you claim the EOT tax exemption

$10M EOT Exemption — Now Permanent

- The first $10 million in capital gains on a qualifying sale to an EOT **is exempt from tax**
- As of Bill C-30 (June 2026), this exemption is permanent — the 2026 sunset clause was removed
- Stacks with the LCGE: a seller could realize $11M+ tax-free on a qualifying EOT sale

Which Path Fits Your Goals?

All three paths can work for the same company — the right one depends on the owner's goals, not just the balance sheet.

Use the questions below as a quick, practical filter before bringing in relevant advisors.

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Which of these matters most to you:

Want to keep control for years → ESOP

Want a clean, no employee financing, full exit → EOT

Have a leadership team ready to finance and take over → MBO

Culture & broad retention → ESOP or EOT

Need one transaction → EOT or MBO

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Whichever path fits,
the best exit is the one you start preparing for early. In the conversation with your advisor, start with your goals and preparation needs.

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