Comparing Your Exit Options: A Guide for Canadian Business Owners

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Who this is for: Business owners who are beginning to explore exit options and want to understand the landscape: what the different paths are, how they work, and what questions to ask yourself before choosing one.

Why it matters: Most owners spend years building a business and months executing a sale, but very little time understanding the full range of options available to them. The exit you choose shapes not just how much you receive, but how you receive it, how long you stay involved, and what happens to the business and people you leave behind.

The Exit Landscape: Two Categories

Exit options for Canadian private business owners fall into two broad categories:

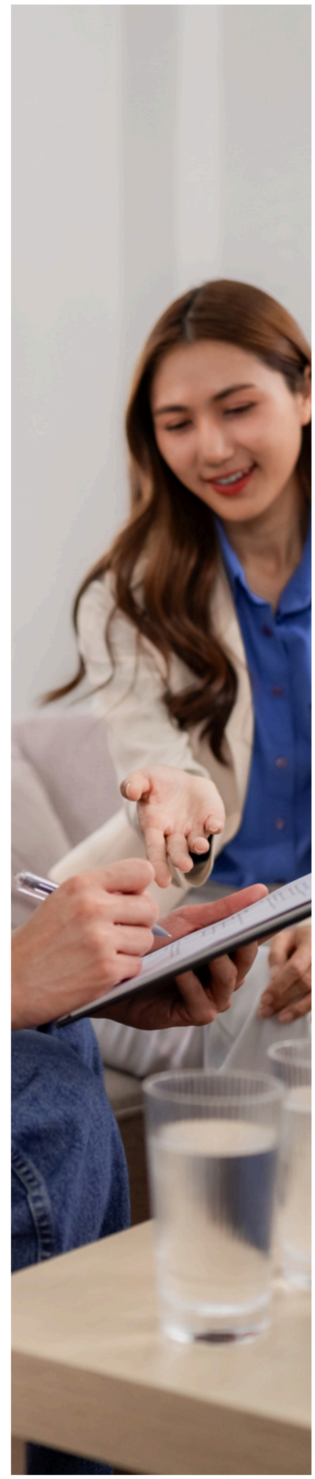
- External Sales (to a third-party buyer)
- Internal Transitions (to employees or management)

These are not mutually exclusive. Some owners use a combination, but understanding each category on its own terms is the right starting point.

External Exit Options

Strategic Buyers

Strategic buyers are operating companies; competitors, suppliers, companies in adjacent industries, or businesses looking to enter a new market. They acquire because they want to integrate your business into their own operations.



What they focus on:

Fit, synergies, and culture. They want to understand how your business complements theirs.

Advantages for sellers:

- Typically offer the highest headline price, because they're paying for synergies beyond the standalone value of your business
- Already have management teams and industry expertise, so they're less dependent on you staying on post-sale
- Can offer a quick, clean exit

Trade-offs:

- They want full control: expect to give up operational autonomy
- Your brand, culture, and legacy are likely to be absorbed over time
- To maximize price, you need to create competitive tension by approaching multiple buyers, which reduces confidentiality

Private Equity

Private Equity (PE) firms are financial buyers. They raise institutional capital and deploy it to generate returns, typically by acquiring a company, growing it, and selling it again within 5 to 7 years.

What they focus on:

Returns, strong growth trajectories, quality of earnings, cash flows, and Key Performance Indicators (KPIs). Because they are not operators, they require a strong management team already in place.

Two types of PE deals to understand:

A **platform investment** is when your company becomes the anchor of a new PE portfolio. You'll be expected to stay on longer, and potentially lead future acquisitions as part of a "buy and build" strategy.

An **add-on investment** is when your company is acquired to bolt onto an existing platform. The seller's involvement requirement is often shorter, since the management infrastructure of the platform already exists. Companies that thought they were too small for private equity are often good add-on targets.

Advantages for sellers:

- More confidentiality than a strategic process; PE firms are not competitors
- Potential for a "second payday": you retain a minority equity stake post-sale and participate in the upside when PE eventually exits
- Operational autonomy is often preserved, at least initially

Trade-offs:

- Less cash upfront: you'll keep some equity and need to stay involved
- You are accountable to the PE firm's growth expectations and financial reporting requirements
- They control the ultimate exit, not you

Private Equity-Backed Strategics

These are operating companies whose ownership is controlled by private equity. They behave like a strategic in that they are operators in the business, but they have a strong acquisition mandate and PE backing to grow aggressively. An increasingly active buyer group in Canada.

Search Funds

Search funds are individuals, or small groups, who have raised capital specifically to acquire and operate a business. Think of it as entrepreneurship-through -acquisition (ETA). They plan to work in the business day-to-day, which means the seller typically does not need to stay on.

The trade-off: search funds tend to be value-oriented buyers and will generally offer less than strategic or PE buyers. That said, they are a growing and active buyer group in Canada; roughly 250 active search funds as of mid-2026, compared to almost none a decade ago.

A Note on the Current Market (July 2026)

Across all buyer types, deals are taking longer than they used to, averaging just over 11 months today, up from roughly 9 months before 2020. Buyers of all kinds are taking more time on due diligence and risk assessment in response to ongoing market uncertainty. Sellers should expect more scrutiny and build extra runway into their planning timelines accordingly.

Deals are also rarely 100% cash at close. The structure of how you receive your proceeds (cash upfront, vendor financing, earn-outs, rolled equity), is as important as the headline price. Understanding the structure before you enter a process is essential.

Internal Exit Options

Internal transitions involve selling the business, fully or partially, to the people already inside it. These paths tend to move more slowly, but they preserve legacy, culture, and community in ways that external sales typically cannot.

Employee Share Ownership Plan

An Employee Share Ownership Plan involves employees buying shares directly; using their own funds, a company loan program, payroll deductions, or a bonus arrangement. Employees become personal shareholders.

Key characteristics:

- Highly flexible: the owner can sell a small minority or a majority, to a broad group of employees or a focused subset, over whatever timeline suits them
- The owner can remain in control during the transition and step back gradually as management matures
- Can be structured to improve and grow the business alongside the transition, employees with skin in the game tend to be more engaged
- Requires ongoing administration as share transactions happen over time

Best suited for: Owners who want a phased, flexible exit on their own terms, with maximum control over timing and scope.

Management Buyout (MBO)

An MBO involves a smaller group, typically the senior leadership team, buying out the owner and taking control of the business.

Key characteristics:

- The management team finances the purchase, typically through a combination of personal funds, bank financing, and sometimes seller financing
- Because buyers already know the business intimately, due diligence is less intensive than an external sale
- Post-sale, the owner's involvement is typically shorter, the goal is to hand off to a management team that is already running the company
- Simpler ongoing administration than a broad ESOP, since there are fewer shareholders

Best suited for: Owners who have a capable, motivated leadership team that is ready to take over and want ownership, and who want a relatively clean transition.

Employee Ownership Trust (EOT)

An EOT involves selling a controlling interest (51% or more) to a trust, which holds the shares for the benefit of all eligible employees. Employees become beneficiaries of the trust, not direct shareholders.

Key characteristics:

- The most structured of the three internal options, governed by specific federal legislation with defined eligibility requirements
- All eligible employees participate as beneficiaries, it cannot be limited to a subset. Different benefits for certain employee groups can be structured.
- The $10 million capital gains tax exemption (now permanent) applies to qualifying EOT sales, which is a significant tax advantage not available through other internal structures
- Typically financed through a combination of bank financing and a vendor take-back note
- The seller gets fair market value for the business. The business' future cash flow pays the seller or bank lender over time. Employees do not invest their own capital
- Owners can stay involved in the business, but lose majority control
- Post-sale administration is relatively clean; one transaction, one trust
- Employee communication and education is essential

Best suited for: Owners whose primary motivation is to keep the business local, in employees' hands, preserve culture and legacy, and take advantage of the permanent tax exemption.

How to Choose: Questions Worth Asking Yourself

There is no universally right exit option. The best path depends on your personal goals. These questions are a starting point:

When do you want to be fully out?

A clean exit in 12 to 18 months points toward a strategic sale, EOT or MBO. A phased exit over 5 to 10 years may point toward an ESOP or PE partnership with rolled equity.

How much cash do you need at close?

If maximum liquidity on day one is the priority, a strategic buyer is likely your best option. EOTs and PE deals involve longer payment timelines.

How much risk can you tolerate?

Earn-outs and rolled equity offer upside but require you to stay on and bet on future performance. Vendor financing in an internal sale (EOT or MBO) carries its own repayment risk. Know your threshold before you enter a process.

How important is legacy?

If preserving your company's culture, brand, and community presence matters deeply, internal transitions (especially an EOT), are designed for exactly that purpose. External buyers, particularly strategics, will integrate and rebrand over time.

What is your number, and which path gets you there?

Work backward from the outcome you need, not forward from the option you've heard about.