The Great Wealth Transfer: What Family Business Owners Should Do Now

September 2, 2026

Key takeaways

- **Begin planning early.** For those who own family-held and closely held businesses, the business is usually the largest single concentration of the family's net worth. The choices made now about succession, governance, liquidity and growth will influence whether that wealth and legacy last.
- **Understand the four transition paths.** Owners typically navigate among four transition paths: intergenerational succession to the next generation (G2), minority investment, a sale to insiders and a complete exit to a bona fide third party. Each has its own trade-offs for enterprise value, legacy and operational continuity.
- **Align the buyer with your objectives.** Third-party buyers fall into three general groups: strategic acquirers, financial acquirers and, depending on the business size, search fund or Entrepreneurship Through Acquisition (ETA) operators. Each takes a different approach to price, deal structure and post-closing involvement.
- **Follow the private equity playbook to maximize value.** Buyers pay premiums for a defensible business model, proven organic growth, scalability and a sophisticated financial and governance structure. Using the private equity playbook to hone these traits takes years, not months.
- **Protect wealth through early estate planning.** Without proper planning, a business owner's death can trigger estate taxes as high as 50 percent, payable nine months after death, and may create pressure to sell the company quickly. A lack of basic planning may also derail a minority investment or sale transaction.
- **Understand the purchase price.** Understanding the components, timing and tax treatment of the purchase price is critical in analyzing whether to exit a family business. Most transactions are priced on a cash-free, debt-free basis adjusted for a targeted level of working capital and reduced by transaction costs and debt repayments. Moreover, purchase price may not be solely cash at closing; rather, it may include seller notes, earnouts, rollover equity and other contingent

payments, and may be subject to escrows and holdbacks. Each of these levers has its own benefits and trade-offs.

Why family business succession planning matters now

Cerulli Associates anticipates that more than $84 trillion will pass between generations over the next two decades. Known as the “Great Wealth Transfer,” this shift is critical for family and closely held business owners because successful business and wealth transfer requires sufficient and bespoke preparation. The stakes are high whether an owner plans to keep the business in the family or exit. Not every family has G2 that is willing or able to lead, and even when G2 is ready, a lack of clear governance can fracture both the family and the business. Moreover, owners who overlook estate planning risk exposing their families to substantial estate taxes and operational continuity issues.

Four paths to transition

Owners pour their time and effort into their family business, so naturally, they want a positive outcome when considering a transition. Owners can choose from a few transition options based on their priorities and circumstances:

1. **Intergenerational succession planning.** This works where G2 is educated, motivated and prepared, and its success depends on shared goals, strong governance (stockholder, operating and buy-sell agreements) and early leadership development.
2. **Minority investment.** This allows owners to take some chips off the table while bringing in growth capital and preserving a “second bite at the apple,” though it adds reporting and governance obligations.
3. **Sale to insiders.** Whether structured as a management buyout or a sale to employees, this option preserves culture and continuity and can carry tax advantages. However, insider sales can also add debt and operational complexity.
4. **Full sale to a third party.** This route may deliver the highest return and permit an owner to exit the business promptly. However, owners may have concerns over preserving legacies. Additionally, depending on the buyer, an owner may not be able to exit the business for years after the closing of the transaction.

It's crucial for owners to carefully consider each option and have appropriate guidance on which is best for their situation.

Choosing the right buyer for a third-party sale

When a third-party sale is an option, it helps to understand who the likely buyers are and how their priorities differ. This helps an owner understand the possible outcome once their business passes into new hands. Third-party buyers come in a few different types:

1. Strategic acquirers, which may include competitors or other larger, existing businesses, may pay a synergy premium and are more likely to pay the full purchase price at closing; however, they may absorb the business into their existing enterprise, altering its identity and potentially rewriting an owner's legacy.
2. Financial acquirers (for example, private equity) concentrate on growth and returns over a three- to five-year horizon and frequently use earnouts, seller notes, rollover equity and seller post-closing employment to keep interests aligned. However, in contrast to strategic acquirers, financial acquirers are more likely to keep the acquired business distinct and preserve existing branding and culture.
3. Search fund or ETA operator acquirers are becoming increasingly popular in lower mid-market transactions. ETA operators are more likely to preserve the seller's team and legacy, but they may be new operators with shorter track records and may be unable to pay the same value as strategic or financial acquirers.

Preparing for a third-party sale

Regardless of which option an owner chooses, a carefully prepared process tends to run more smoothly and can help maximize value. Engaging experienced legal, investment banking and financial advisors early pays for itself. Experienced advisors leverage market data and existing relationships to identify sophisticated buyers, maximize enterprise valuation or exit multiples and ensure confidentiality. They can also identify potential red flags and help owners mitigate the risk of these issues spooking a buyer.

From a business and financial perspective, prior to a sale, owners should ensure their financial statements are accurate, prepared in accordance with Generally Accepted Accounting Principles (GAAP) and reviewed or audited (as appropriate). Owners should pay special attention to cleaning up overdue payables, documenting reserves for litigation, writing off uncollectible accounts receivable (A/R) and confirming all tax filings are current. Moreover, owners should conduct a comprehensive review of critical business functions. For example, correcting employee/independent contractor misclassifications, validating chain of title for all company intellectual property (IP), identifying key person risk and streamlining commercial relationships. Engaging an experienced team to lead a sale process and proactively correcting financial and business issues will pay dividends in reducing transaction friction and reducing the risk of increased escrows or economic re-trades.

The private equity playbook

Regardless of whether a full or partial exit is anticipated, it is worthwhile to use the private equity playbook to strengthen the enterprise and make the business more attractive. Private equity teaches that a defensible business model (a natural moat), demonstrated organic growth, and scalability, profitability and diversification are critical drivers in enterprise value. Owners cannot pull these levers in the weeks and months leading up to a transaction; rather, they must navigate them years in advance. Building sophisticated processes and financial reporting systems early enables business owners to identify, track and optimize for these key drivers of value. Then, when it comes time to negotiate with a buyer, owners will have leverage to push up enterprise value and multiples or reduce contingent payments or escrows.

Legal and deal considerations

From a corporate perspective, a few factors can help ensure a successful sale for both parties. While the headline purchase price of a deal is an important part of the picture, the underlying legal terms shape what an owner ultimately receives. Analyze and understand the difference between full cash offers paid at closing and offers with material escrows and contingent payments paid, if ever, years down the road. Also understand that the final amount paid to an owner will be reduced by any outstanding debt and expenses, and will be net of taxes. Additionally, consider deal structure. Strong offers will include a seller-friendly indemnity package, with buyers obtaining an insurance policy as their sole recourse for most indemnification. This “walk away” structure means sellers can separate post-closing and not remain on the hook for potential issues years following the closing.

Moreover, it is important to understand the legal closing process. First, engage appropriate advisors to lead the sale process. Next, use non-disclosure agreements (NDAs) to ensure potential buyers and relevant stakeholders keep the business's confidential information confidential. Thereafter, buyers under an NDA will perform financial and legal due diligence on the enterprise. If possible, engage business and legal advisors in the years leading up to a sale process to complete “reverse diligence” on the business and identify, mitigate and resolve potential issues in advance of a buyer's diligence review. This will reduce the likelihood of any economic or structural re-trades with a buyer and will reduce an owner's legal spend as well. In parallel with diligence, negotiate a letter of intent or term sheet that addresses not only the purchase price but also working capital methodology, indemnification and closing conditions. Finally, negotiate and finalize a purchase agreement and ancillary documents with appropriately tailored provisions. The risk allocation and complexity for a $10 billion AI company are very different from those of a middle-market manufacturing business sale.

Wealth transfer strategies

sale of a family business is complicated because it's personal as much as it is professional. In addition to the preceding considerations around corporate readiness and enterprise value, family business owners should analyze their estate planning goals and implement wealth transfer strategies in advance of any transaction. In addition to core planning, including titling assets in revocable trusts (instead of personal names) to avoid probate issues, business owners should implement wealth transfer transactions to minimize transaction costs and taxes. Sophisticated estate planning counsel and related strategies often save owners materially more in taxes than they charge in fees. Core wealth transfer strategies include straight gifting of cash or business interests (capped at the annual exclusion amount, which is $19,000 per recipient in 2026), the use of grantor retained annuity trusts to pass appreciation above the IRS hurdle rate almost entirely gift-tax free to recipients, and recapitalization and sale transactions to move valuable business interests to G2 at discounted values.

Regardless of which avenue the owner takes to pass the business onto the next generation, the strongest results come from planning well ahead of a liquidity event, and timing is critical. Too little time between planning and a sale may invite IRS scrutiny.

Start planning early

It's clear that successful transactions are the result of thorough preparation. While there's no single roadmap, the most productive transitions are intentional rather than reactive. A favorable outcome flows from early planning, experienced advisors and clear communication among stakeholders. By tackling governance, growth, succession and wealth transfer together, owners can protect the business they have built and set up the next generation for long-term success.

Interested in learning more? Download our extensive guide, The Great Wealth Transfer: Strategies for Succession, Legacy and Wealth Generation.

CONTACTS

This article was written by Michael L. Sherlock, a partner in Katten's Chicago office. Emily Kay Watson and Julia Brook also contributed to this article. Please reach out to Michael, this article's contributors, or your existing Katten team with any questions.

Michael L. Sherlock
+1.312.902.5643
msherlock@katten.com

Emily Kay Watson
+1.312.902.5444
emily.watson@katten.com

Julia Brook
+1.312.902.5423
julia.brook@katten.com