



BUSINESS SUCCESSION PLANNING

From business ownership to business transition

Designing a succession strategy that protects what you've built

As a business owner, you've overcome countless strategic, financial and operational challenges to build what you have. But there's one challenge many business owners struggle to face: knowing when and how to plan an exit.

The reality? Succession planning should start years before you're ready to leave. Whether you're in growth mode or considering retirement, think of it as another critical strategy — one that can turn your hard work into lasting rewards for you and your family.

Here's a brief-but-comprehensive primer about how to begin in the succession planning process today.

Proactive succession planning transforms what could be a last-minute scramble into a disciplined process.

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Start early

The best succession plans start early and are updated annually. Without that, even the most detailed plans can lose momentum or collect dust. Starting well ahead of time (ideally, years before you intend to exit) gives you the ability to shape the process on your terms. A well-prepared plan can help you:

- Maximize the value of your business
- Mitigate federal income and estate tax
- Control the timing of your exit
- Reduce exposure to posttransfer litigation risk
- Cultivate opportunities for key management
- Retain employees
- Develop an effective retirement plan
- Keep the business within the family (if desired)
- Fulfill your philanthropic goals

Early planning also builds resilience. It helps you position your company to weather leadership changes, market shifts or unexpected challenges — and empowers you to make thoughtful, strategic decisions rather than reactive ones. Just as importantly, it allows time to communicate openly with stakeholders and align their expectations, ensuring that everyone understands the vision for the next chapter.

The best succession plans start early and with a clear purpose.



Build value today

What makes your business transferable?

An integral part of starting the process early is understanding the value of your business. And value is more than just financial performance. It's the story your business tells to anyone considering what kind of future it might have. Buyers, partners, family members and employees all want to see a company that can thrive independently of its founder.

Potential buyers will go through a due diligence process that examines business operations, history, property, employees, financials, documentation and legal matters. Some of the value drivers they will consider include:

- Stable and predictable cash flows
- A strong customer base that is well established, reliable and diverse
- Documented growth potential
- Barriers to entry into industry (e.g., patents, copyrights, trade secrets and licenses)
- Diverse product and service offerings
- Human capital, especially the level of employee experience and knowledge
- Appropriate company policies and procedures
- Goodwill (e.g., a company built on a strong reputation and with brand-name recognition)

When these fundamentals are in place, your business becomes transferable — not just valuable because of you, but valuable on its own merits. That's what true continuity looks like. It's the difference between selling a company and passing forward a living, breathing enterprise.

Your people drive your business's value

Behind every valuable business is a valuable team. While financial preparation often takes center stage, human readiness is just as critical. Your employees, managers and partners are the ones who will carry the company forward, which makes their trust and engagement essential.

Buyers want to see that key employees will stay. Employment agreements, non-compete agreements and compensation arrangements that incentivize retention can strengthen your position and your valuation.

When you identify and nurture future leaders early, you instill the culture and decision-making framework that make your company distinctive. When people feel ownership, they protect and grow the business as if it were their own.

With the right fundamentals in place, your business becomes transferable — valuable on its own merits.

Businesses with strong management retention agreements command higher valuations, with an average

20–25% higher sale multiple compared to similar firms without them.¹

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Keeping it in the family

Balance fairness with readiness

For family-owned enterprises, succession is where emotion and economics intersect most delicately. It's not just about transferring assets — it's about balancing fairness, readiness and long-term harmony.

Avoid common conflicts

Some parents consider transferring equal ownership to all children, regardless of involvement. But this can create substantial conflict.

For example: If the business needs to retain profits for a growth opportunity, nonactive children accustomed to dividends may clash with active siblings who understand the strategic need. It may be better to limit ownership to children actively participating in the business.

Create clear governance structures

Clarity is the best safeguard. Establishing clear ownership and management boundaries early reduces future conflict. Be explicit about who will lead the business, who will hold ownership stakes and how decisions will be made.

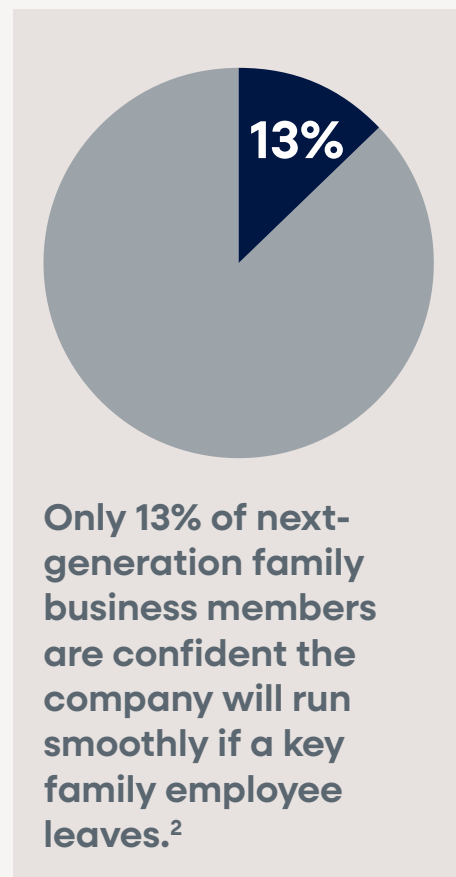
Equal ownership isn't always equitable, and formal governance structures — such as advisory boards, shareholder agreements or family councils — can create a neutral space for dialogue and decision-making, helping to maintain alignment and respect among family members. This helps ensure that business priorities remain distinct from personal dynamics, protecting both the enterprise and relationships that matter most.

Preserve your legacy — intentionally

Finally, your legacy shouldn't be defined by the moment you step down. It's defined by what remains after. Your leadership lives on through the people, systems and culture you leave behind. Documenting your company's mission, mentoring future leaders and codifying core values make your influence tangible and enduring.

A well-planned transition is one of the most meaningful ways to preserve your legacy. It's an act of stewardship, guiding what you built into the next generation with strength, integrity and clarity.

For family-owned enterprises, the intersection of emotion and economics can be the most delicate part of succession.



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Selling to a third party

If your goal is to remove yourself from active management and employment in the business immediately upon completion of the transfer, having a strong management team in place can help facilitate your exit.

Otherwise, a third-party buyer may require you to remain involved with the company under an employment contract or independent contractor agreement.

Steps such as organizing the business financials, locating and updating relevant organizational documents and conducting necessary maintenance on equipment and property can mean the difference between exiting the company in a timeframe close to your choosing or having to push your exit back.

Transferring to employees

If you plan to transfer the business to employees, you may want to reserve the right to step back into the business if circumstances change. Such a provision — often called a buy-back right — allows you to transition out when you're ready, knowing you could return to an ownership position if needed. Buy-back rights help protect your financial interest in the ongoing success of the business.

Plan for overlap and transition

With all of these factors in mind, it's easy to see how business succession is not just a single event. It's a carefully choreographed process that blends planning, communication and timing, like another step in the evolution of your business rather than just a hand-over. The most effective exits unfold gradually, enabling overlap between old and new leadership.

A well-structured succession timeline can help balance leadership change with business continuity. It's imperative to:

- **Identify when authority, equity and client relationships will shift**, and communicate those milestones clearly to employees, customers and advisors.
- **Establish a written transition roadmap** that brings structure to an inherently emotional process. (It also demonstrates professionalism to investors, employees and clients.)

When executed correctly, the right succession plan can preserve enterprise value while positioning the business for sustained growth under new leadership.

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- **Integrate succession into your broader governance plan,** outlining responsibilities and contingencies for key roles.
- **Stay engaged through mentorship and structured overlap,** ensuring successors understand both the operational and cultural foundations of the company.

A well-executed succession plan preserves value and sets the business up for its next chapter. And remaining involved as a mentor, even temporarily, can ease the learning curve for successors. Your experience becomes a resource that allows the next generation to lead confidently while still benefiting from your insights.

Universal considerations

Regardless of which path you choose, these foundational steps apply:

- **Ownership Planning:** Decide how ownership will shift, whether gradually, through sale, gift or hybrid approaches.
- **Legal Foundation:** Keep contracts, shareholder agreements and succession documents up-to-date and aligned.
- **Financial Integration:** Align the business transition with your personal wealth and retirement strategy.
- **Accurate Valuation:** Understand your company's worth and the factors influencing it like performance, market position and risk.
- **Tax Efficiency:** Evaluate ways to manage tax exposure and preserve the most value through careful structuring.

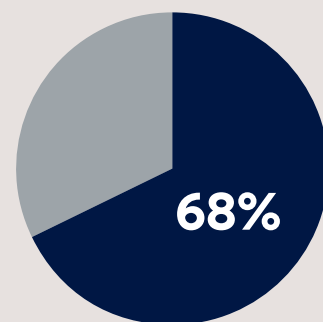
Don't go it alone

With the immediate demands of running your business, succession planning easily falls to the bottom of the list. But every year you delay narrows your options.

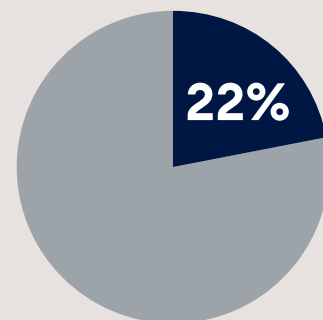
Succession planning is both a financial strategy and a long-term leadership responsibility. You've built professional networks to discuss business strategies — apply that same approach here. It's a formidable task you shouldn't take on alone.

At PNC, our Private Business Strategists focus solely on helping business owners optimize personal and business finances. Our team of specialists can help you assess readiness, structure your transition and preserve value throughout the process.

In 2023, 68% of owners sought transition advice, yet only 22% have a formal transition team.³



Percentage of owners who sought transition advice in 2023



Percentage of owners who have a formal transition team

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Key Reminders

- ✔ **Begin with the end in mind.** Determine what you need financially and personally, and design your exit to achieve it.
- ✔ **Build value today.** Strengthen systems, cash flow and empower your team.
- ✔ **Clarify your goals.** Know what success looks like for your business *and* for you.
- ✔ **Choose your path.** Third-party sale, employee transfer or family succession — each has unique benefits and challenges.
- ✔ **Think beyond the sale.** Integrate tax, estate, retirement and philanthropic strategies.
- ✔ **Honor the emotional side.** Exiting your business isn't just a transaction — it's a transformation.
- ✔ **Don't go it alone.** A coordinated, knowledgeable advisory team can make all the difference.

To start the conversation, contact your PNC representative.



¹ Pepperdine Private Capital Markets Report, 2023

² Deloitte Private, 2024

³ Exit Planning Institute, National State Of Owner Readiness Report, 2023

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