

Employee Ownership as a Strategic Liquidity and Growth Solution for the Middle Market

By Jeff Buettner,
Managing Director, ButcherJoseph & Co.

The middle market is at an inflection point. Across industries, founders and family owners are contemplating how to balance liquidity, succession, and talent retention against a backdrop of tighter credit markets and intense competition for skilled leadership. Meanwhile, private equity sponsors are rethinking traditional exit strategies as capital becomes more expensive and strategic buyers grow increasingly selective. Amid these pressures, one structure is quietly gaining momentum: Employee Stock Ownership Plans (ESOPs).

A Pragmatic Approach to Liquidity

Too often, ESOPs are viewed as mission-driven or overly complex, or a niche reserved for owners motivated by legacy. In reality, they are an underutilized corporate finance tool that offers a unique combination of liquidity, continuity, and cultural preservation.

At ButcherJoseph & Co., we've seen an increasing number of middle-market companies explore employee ownership as a strategic alternative to a traditional sale. An ESOP transaction allows an owner to achieve fair-market value liquidity, along with potential tax advantages for the selling shareholders and the company, while sustaining operations and preserving culture—two priorities that are often difficult to reconcile in conventional M&A.

Creating Competitive M&A Optionality

In today's deal environment, optionality matters. ESOPs create a competitive path to liquidity that can stand shoulder-to-shoulder with strategic or financial buyers. For many owners, this means securing value without having to choose between their people and their price.

We recently advised a manufacturing company whose founder was ready to diversify personal wealth but reluctant to sell to a competitor. Through an ESOP transaction, he achieved meaningful liquidity, rewarded long-tenured employees, and positioned the business for

continued growth under familiar leadership. A year later, the company is outperforming projections with stronger employee engagement and a renewed sense of shared purpose.

Driving Performance and Retention

The performance benefits of employee ownership are well-documented. ESOP-owned companies consistently demonstrate higher productivity, profitability, and employee retention than their peers. That's because ownership fosters alignment as every team member has a vested interest in driving enterprise value.

For middle-market executives and investors alike, this translates into a durable competitive advantage: a motivated workforce, stable leadership continuity, and a capital structure designed to sustain long-term growth.

Flexibility for Sponsors and Investors

Employee ownership also opens new doors for private equity and capital providers. Partial ESOPs, hybrid recapitalizations, or management rollovers can be structured to balance liquidity with upside participation, creating solutions that meet the needs

of sponsors, lenders, and management teams alike.

In short, ESOPs are not an endpoint but a platform that allows companies to recapitalize, align stakeholders, and position the company for continued investment and expansion.

Bridging Capital and Culture

At ButcherJoseph & Co., we believe the future of the middle market will belong to companies that successfully integrate financial strategy with human capital strategy. Employee ownership enables that integration by aligning purpose with performance, helping founders transition, investors innovate, and teams thrive.

As the middle market continues to evolve, ESOPs deserve a fresh look—not as an alternative to growth, but as a catalyst for it.

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