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OWNER^{to} OWNER

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Establishing a
Dividend Policy
for a Family-Owned Business:
What Your Approach Says to Shareholders

OWNER^{TO}OWNER

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Jeff Meskin / Partner

Dear clients and friends,

Earlier this year, BBH conducted its third annual Private Business Owner Survey. In total, 491 respondents from family-owned and privately owned companies ranging from under \$25 million to more than \$500 million in revenues shared insights on their plans for their businesses' and families' futures, how they navigate ownership strategy, and their approach to capital needs.

The results were fascinating:

- **Estate planning:** **38%** of owners say they've been completely open and transparent about their wealth and estate plans with the next generation, and **49%** feel the next generation is only somewhat prepared to manage their wealth.
- **Ownership strategy:** Although **62%** of owners plan to transition ownership of their business to the next generation, only **23%** have a formal succession plan for key executives.
- **Growth and capital:** **78%** of owners rank growth above liquidity or control as a priority for their business.

We also asked participants about their dividends practice and objectives, finding that **64%** pay annual dividends to shareholders. The results provide useful insights into how owners today are thinking about their dividend policies and highlight the importance of aligning dividend policies with company growth and ownership strategies in order to achieve long-term, sustainable success. In this issue's feature article, John Secor, head of Corporate Advisory, and Ben Persofsky, head of the BBH Center for Family Business, examine the different ways business owners are thinking through their approach – and what each says to shareholders.

Our survey also zeroed in on succession planning. Nearly **62%** of private business owners plan to transition ownership to the next generation, but engaging and preparing the next generation in the succession planning process can be daunting. We share several components that can help the process run smoothly.

In addition, this issue includes a roundup of the survey's key highlights – what the results reveal about common challenges for business owners and how they are planning for the future. As always, Michael Conti, Jack Goryl, and Christine Hourihan provide an overview of the economy, the credit markets, and the private equity and mergers and acquisitions markets thus far in 2025.

We hope you enjoy this issue. If you have any questions about the topics covered in this edition, my colleagues and I would welcome the conversation.

Sincerely,

Michael Conti, CFA / Investment Research Group

Jack Goryl / Corporate Advisory & Banking

Christine Hourihan / BBH Capital Partners Private Equity

The Business Environment Q4 2025

In each issue of *Owner to Owner*, we review aspects of the business environment on three fronts:

- Overall economy
- Credit markets
- Private equity (PE) and mergers and acquisitions (M&A) markets

The following article examines the state of the economy as we approach year-end, with improved expectations for economic growth and a reinstated rate-cutting cycle, caution among U.S. banks and trends of yield compression, and encouraging signals emerging for PE and M&A despite a mixed macroeconomic backdrop.

The economy

According to the U.S. Bureau of Economic Analysis, U.S. real gross domestic product (GDP) expanded at a quarter-over-quarter annualized rate of 3.8% in second quarter 2025. Driven by a surge in imports, which are a subtraction in the GDP growth calculation, first quarter GDP declined as companies bought goods ahead of the Trump administration's tariff policy.

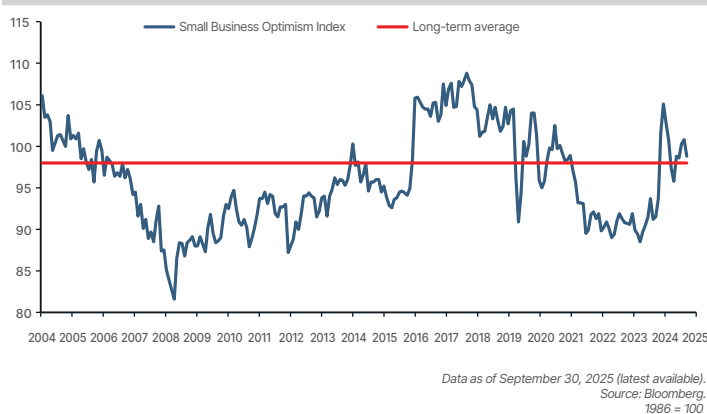
Second quarter 2025 real GDP growth was driven by a decline in imports and an increase in consumer spending. The personal consumption expenditure (PCE) component of GDP – which drives 70% of GDP over the long run – advanced 2.5%, an acceleration of the 0.6% growth reported in the first quarter, with increases in both services and goods.

Shifting to the U.S. labor market, after downward revisions to May and June, the three-month average gain in nonfarm payrolls declined to 29,000 in August,¹ the lowest in more than five years. The U.S. labor market is beginning to show more softness, particularly as the number of U.S. job openings has declined to 7.2 million, down by roughly 40% from its March 2022 peak and roughly 1% below its pre-COVID-19 peak set in January 2019.

Meanwhile, small business optimism, according to the NFIB Small Business Optimism Index, decreased by 2.0 points in September to 98.8. This was the first decline in three months, though it remains above the survey's 52-year average of 98.

Expectations for economic growth, lower inflation, and positive business conditions have improved under the pro-business policies of the Trump administration. While small business optimism has remained above the long-term average, 18% of business owners cited labor quality as the most important issue their businesses are facing today.²

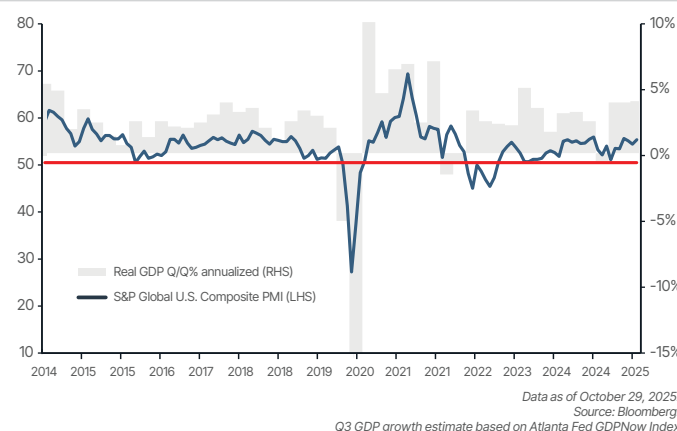
Small business optimism remains above long-term average



From 2025 to 2027, the Federal Reserve (the Fed) estimates real GDP growth of 1.6% in 2025, 1.8% in 2026, and 1.9% in 2027, down from a 2.8% real GDP growth rate in 2024, on expectations that tariffs may impact consumer spending and business investment. However, the Fed estimates reflect accelerating real GDP growth, suggesting 2025 may be the trough in economic growth. As such, the Fed does not currently forecast a recession over the next three years.

Macro data suggests the economy is expected to remain in expansion territory, which sets a positive backdrop for companies' earnings growth. The S&P 500 is estimated to generate earnings per share growth of 10.4% in 2025, 13.6% in 2026, and 13.6% in 2027.³

The U.S. economy remains in expansion phase



As it relates to monetary policy, in October 2025 the Federal Open Market Committee (FOMC) continued its interest rate-cutting cycle, after initiating its first rate cut of 2025 in September, by lowering its fed funds rate by an additional 25 basis points (bps)⁴ to a target range of 3.75% to 4.0%. In the post-meeting press conference, Chairman Jerome Powell noted that the outlook for employment and inflation has not changed since the Fed's meeting in September. However, he stated that a rate cut in December 2025 is not a guarantee. Nonetheless, the Fed has now rejoined global central banks in cutting rates; year to date as of October 29, 2025,, global central banks cut rates 118 times vs. 22 rate hikes, continuing the trend from 2024, when global central banks cut rates 198 times vs. 31 rate hikes.

As of October 29, 2025, the fed funds futures curve is pricing in that the fed funds rate ends 2026 at 3.0%. This implies a target range of 3.0% to 3.25%, which is below the Fed's target range rate guidance of 3.25% to 3.5% estimated in its September 2025 economic projections release.

There is much underway as we progress through the end of 2025 and enter 2026 – ongoing tensions in the Middle East, ongoing economic uncertainty in China, President Trump's policies (tariffs, immigration), and the impact of artificial intelligence (AI) on economic growth, to name just a few – and we will be watching inflation and global growth developments closely.

The credit market

Despite the "fog" lingering on the Fed's windshield, the FOMC's tendency to normalize interest rates over the coming policy meetings was evident in the latest "Summary of Economic Projections" (released September 2025) before the government shutdown. The nearby dot plot showed that most FOMC members (10 of 19) expected at least

¹ September 2025 nonfarm payroll is currently unavailable due to the shutdown of the U.S. government.

² NFIB.

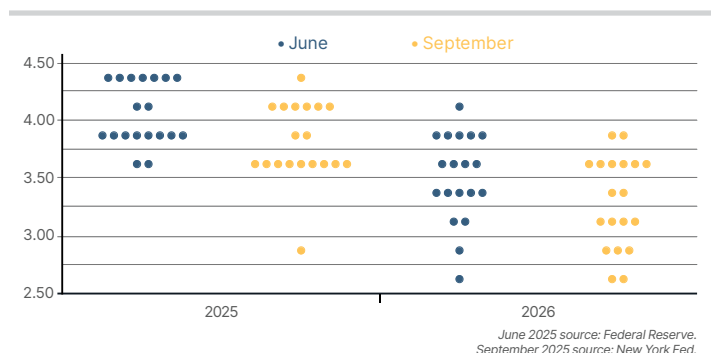
³ FactSet.

⁴ One basis point (bp) is equal to 1/100th of 1%, or 0.01%.

one more interest rate cut at the December meeting, with the median forecast suggesting a range of 3.50% to 3.75% by the end of the year. Although there was greater dispersion, the dot plot forecasts rates to fall further to 3.25% to 3.50% by the end of 2026, implying only one 25-bp cut.

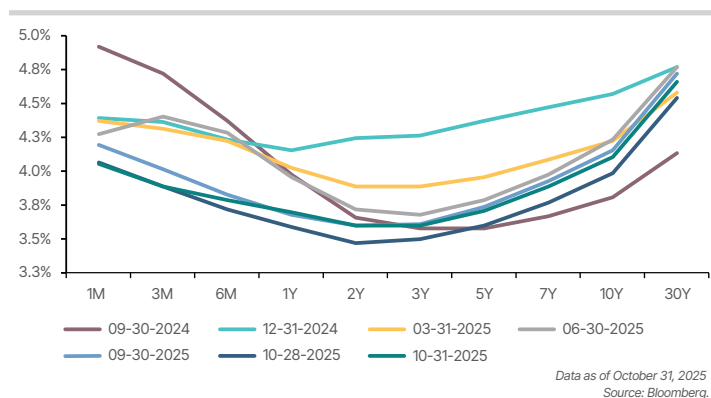
While Powell previously referred to future monetary policy decisions as a “meeting-by-meeting situation,” assessing the impacts of a cooling labor market combined with persistent inflation, the absence of new economic data has led the FOMC chair to push for a slowdown.

Federal reserve dot plot



History suggests that the Fed’s overnight lending policy rates have a meaningful influence on the yield curve for shorter maturities of approximately two years or less, while the market’s expectations of economic growth, inflation, and monetary policy take the lead for medium- and longer-term yields. The nearby chart of U.S. Treasury yield curves across various maturities illustrates this phenomenon.

Yield curves over time

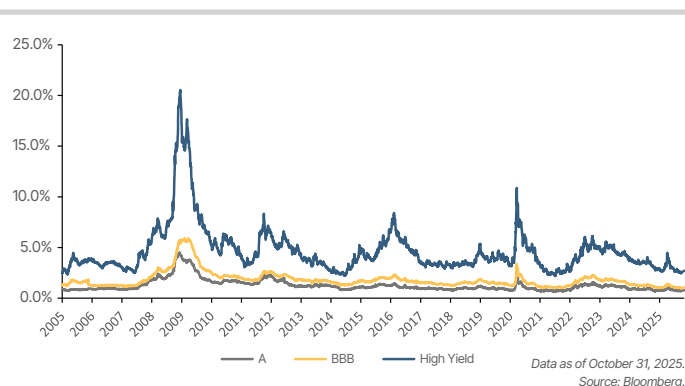


Despite the Fed’s control of the overnight lending window, short-term yields mostly declined ahead of the September and October 2025 meetings, as FOMC commentary, along with recent economic data suggesting rate cuts, spurred early market speculations on rates.

In contrast, longer-term yields experienced modest volatility over the past 13 months as investor sentiment fluctuated between pre-election uncertainty, post-election optimism, tariff concerns, and anticipation of economic growth fueled by tax cuts. Most recently, the yield on 10-year Treasuries decreased by 12 bps between the September FOMC meeting and the days following the October meeting, as investors adjusted their expectations following the Fed’s comments on the lack of precise data to guide its December policy decision. Still, longer-term yields have generally steepened since the beginning of the year, possibly reflecting the market’s outlook on stable or improving economic conditions and rising inflation.

Likewise, corporate bond prices have risen as investors anticipate yields to decline amid the Fed’s potential rate normalization cycle. As shown in the nearby chart, yield compression occurred across investment grade to junk bonds throughout 2025, with corporate spreads in September close to their narrowest levels in the past year. This trend signals that investors remain optimistic about the economy and corporate prospects and have increased confidence in lower credit risk across different bond categories.

Corporate spreads by quality



As of October 31, 2025, spreads for bonds rated high yield, BBB, and A stood at 2.7%, 1.1%, and 0.8%, respectively, compared with 3.1%, 1.2%, and 0.8% at the same time last year. For context, the current spread compression compares to the pre-Great Recession lows (2005 to 2006) of 2.3%, 1.2%, and 0.7%, respectively.

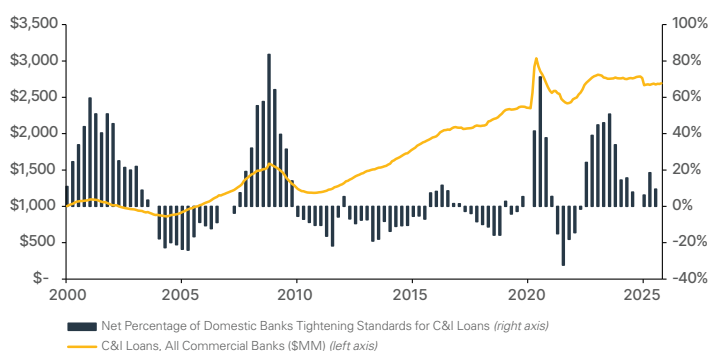
U.S. banks remain cautious, in contrast with these positive movements in the yield curve and corporate spreads. The nearby chart shows the historical trend in commercial and industrial (C&I) loans outstanding, along with the net percentage of U.S. banks that have adjusted their credit standards for loans to large and middle-market firms, according to the Fed’s Senior Loan Officer Opinion Survey (SLOOS).



[I]nvestors remain optimistic about the economy and corporate prospects and have increased confidence in lower credit risk across different bond categories.”

As with the previous two reports, the July 2025 SLOOS indicated that a majority of banks (net 9.5%) reported tighter standards during the quarter, citing economic uncertainty; industry-specific challenges; and legislation, regulation, and accounting changes. The combination of stricter standards and reducing corporate investment correlates with most respondents reporting weaker demand across all borrower types.

Amount of C&I loans vs. bank standards



Bar chart: Data as of October 31, 2025. Source: Federal Reserve, July 2025 Senior Loan Officer Opinion Survey on Bank Lending Practices.

Line: Data as of October 31, 2025. Source: Federal Reserve Bank of St. Louis (FRED), C&I Loans, All Commercial Banks.

As seen in the opportunities presented to BBH, many banks have adopted a flight-to-safety approach to partially curb lower demand, including trimming pricing and modestly loosening terms for the most creditworthy borrowers.

Given the comparatively stringent standards for traditional bank lending over the recent cycle relative to the past two decades, private credit has grown rapidly, now approaching \$2 trillion in lending balances – 10 times the level in 2009.⁵ The shift comes as private credit takes on more risk than traditional bank lending, albeit at higher adjusted yields to accommodate that risk posture. At BBH, the Corporate Banking team remains focused on partnering with premier, private companies, prudently growing with our clients, and helping them steadfastly navigate economic uncertainty, just as we have been doing for over 200 years.

The private equity and mergers and acquisitions markets

Over the past several months, general partners (GPs) have focused on evaluating the impact of tariffs across their portfolios by analyzing input costs, supply chain manufacturing footprints, pricing strategies, and related dynamics. While most firms reported having a solid understanding of how tariffs are affecting their holdings, a meaningful minority continue to work closely with portfolio companies to fully gauge the scope and long-term implications.⁶

As the year progresses, sentiment continues to shift toward a risk-on posture. The rebound in market volatility following “Liberation Day” on April 2, 2025, coupled with the Fed’s mid-September rate cut, has laid the groundwork for the exit window to begin to reopen. If exit activity accelerates in the final months of 2025, PE could re-enter the cycle of distributions, fundraising, and investment that underpins the asset class.⁷

PE entered 2025 riding the momentum of its late-2024 rebound. The year began with promising signs for dealmakers: Credit markets were open, financing costs were easing, inflation appeared contained, and interest rates were on a downward path. The optimism that carried through to first quarter 2025 faded in the second quarter. Uncertainty intensified following the tariff policy announcements on April 2, sparking volatility across global capital markets.⁸

In third quarter 2025, the macroeconomic backdrop remained mixed, but encouraging signals have emerged. The Fed’s measured rate cuts have propelled the major U.S. equity indices, reinforcing investor appetite for risk. The quarter closed with an estimated 2,347 announced and closed deals (including estimates), which are up 3.7% and 11.7%, respectively, from the prior year. Including estimates, aggregate deal value totaled \$331.1 billion, representing a 28% quarter-over-quarter increase and an even stronger 38% year-over-year rise. Year-to-date deal value climbed to \$869.4 billion, up 36.6% year over year and driven largely by megadeals valued at over \$1 billion. Total transaction volume through third quarter 2025 reached 6,862, a 9.7% increase in volume vs. the same period in 2024.

⁵ “The next era of private credit,” McKinsey.

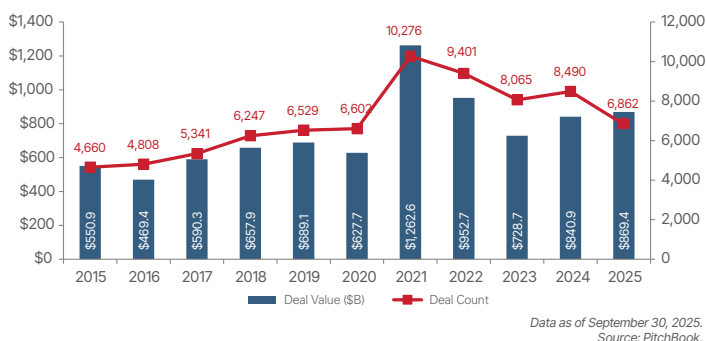
⁶ E&Y PE Pulse.

⁷ PitchBook.

⁸ Bain Insights PE Midyear Report 2025.

The elevated mix of billion-dollar transactions, combined with sustained strength from first quarter 2025, has been the primary driver behind 2025's impressive growth in total deal value. Dry powder, which surpassed \$1 trillion in 2023, has moved slightly lower as deal activity has increased. At 27.8% of total assets under management (AUM), dry powder now sits at its lowest share on record, signaling improved deployment efficiency.⁹

Annual U.S. PE deal volumes

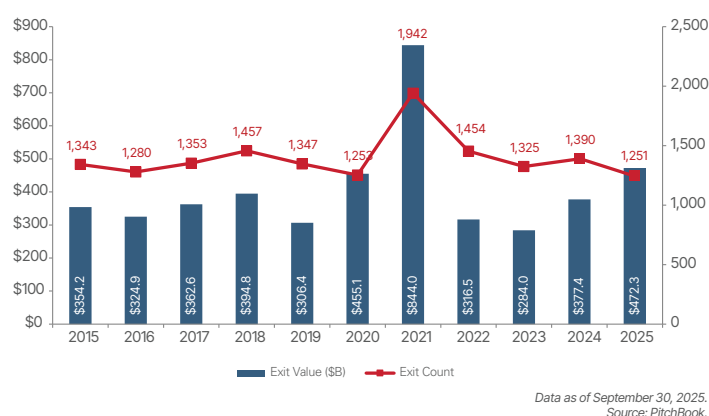


The slowdown in exit activity in 2025 reflects the renewed uncertainty weighing on long-term investment models. Over the past five years, investors have weathered a series of disruptive shocks, ranging from the COVID-19 pandemic and the war in Ukraine to persistent inflation and rapid interest rate hikes. Just as confidence was beginning to recover, tariff volatility reintroduced instability, once again complicating projections and exit timing.¹⁰ In a recent BDO survey, 84% of respondents stated that their average holding period increased over the last year.¹¹

In third quarter 2025, total exit value declined for the third consecutive quarter, falling nearly 40% from first quarter levels. However, exit counts rose 22.4% quarter over quarter, marking the first increase since 2021, suggesting that more portfolio companies are beginning to cycle through the market. On an annualized basis, exit volume is expected to exceed 2024 levels, setting the stage for another strong year of realizations.

Despite the recent dip in quarterly exit value, 2025 has already surpassed full-year 2024 totals due to megasized exits that have contributed a disproportionate share of overall value. IPO activity also regained momentum in the third quarter, with several notable listings; however, the government shutdown that began in October has temporarily halted IPO approvals, stalling what had been a slow but promising recovery in the public exit channel.¹²

Annual U.S. PE exit activity



The recent uptick in exit activity comes at a critical time, and investors are growing increasingly concerned about its implications for fundraising. Sentiment indicators point to a market under mounting pressure. In a recent EY survey, limited partners (LPs) cited fundraising as their biggest concern.¹³

Through third quarter 2025, 244 U.S. PE funds closed, raising \$214.4 billion, a mixed bag compared with the same period in 2024. While the number of fund closings increased, total capital raised declined, underscoring a broader structural shift in the market. LPs, constrained by allocation pressures, are concentrating commitments among established managers – particularly megafunds with \$5 billion or more in committed capital – while reducing exposure to smaller or first-time funds. In addition, roughly 76% of funds closed so far in 2025 have exceeded the size of their predecessor vehicles, with a median step-up of 43.4%, the strongest in several years. This reflects a widening gap between large, successful closings and the continuing challenges faced by smaller or emerging managers. The overall fundraising landscape is likely to remain constrained into 2026.¹⁴

“While the number of fund closings increased, total capital raised declined, underscoring a broader structural shift in the market.”

⁹ PitchBook.

¹⁰ Bain Insights PE Midyear Report 2025.

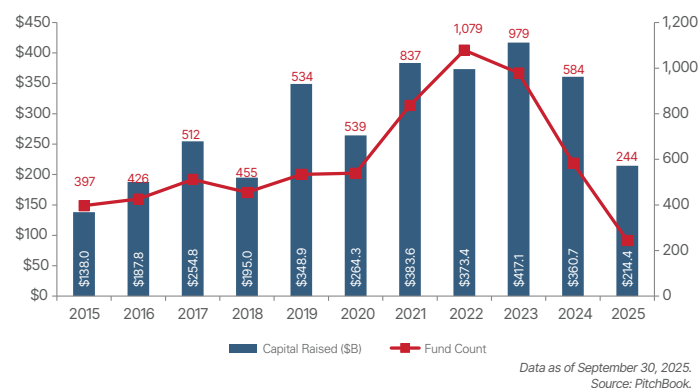
¹¹ 2025 BDO Private Equity Survey.

¹² PitchBook.

¹³ E&Y PE Pulse.

¹⁴ PitchBook.

U.S. PE fundraising activity by year



Conclusion

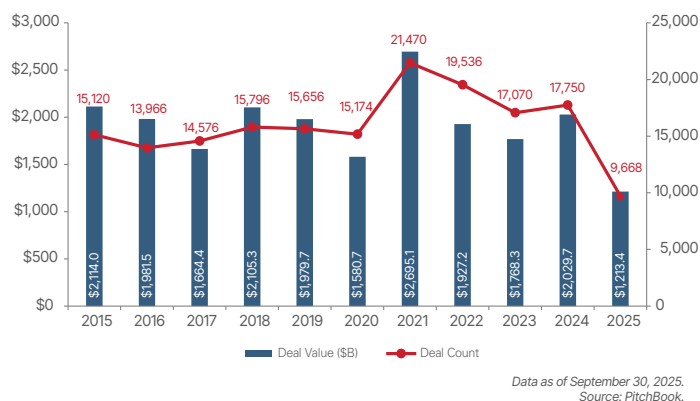
As 2025 draws to a close, the business environment continues to be shaped by global tensions, evolving policies, and technological change. The Fed's recent rate cut and cautious banking stance reflect ongoing uncertainty, while investor confidence is seen in compressed credit spreads and the growth of private lending. PE and M&A activity remain resilient, with strong deal volume and fundraising among established managers pointing to renewed optimism despite a mixed macroeconomic backdrop.

If you have any questions about navigating today's business environment, reach out to a BBH relationship manager.

In second quarter 2025, North American M&A activity cooled slightly from the prior quarter but remained strong year over year, with total deal value reaching \$596.8 billion across announced and completed transactions. While aggregate value declined 32% quarter over quarter, it rose 313% year over year as a result of several large transactions. Deal count dipped 0.8% quarter over quarter but climbed 10.7% year over year, reflecting steady appetite for dealmaking despite persistent volatility and recession concerns.

Market sentiment fluctuated sharply during second quarter 2025: Equities retreated in April amid renewed trade and recession fears before rebounding toward prior highs in June. M&A mirrored this trajectory and regained momentum in May as confidence improved. The top 10 North American deals in second quarter 2025 totaled \$155.5 billion, up 53.2% year over year vs. second quarter 2024. The technology sector led the way, accounting for the two largest deals and three of the top 10 overall. However, sector representation was broad, with financial services and business-to-business (B2B) each contributing two major transactions and energy, healthcare, and business-to-consumer (B2C) each contributing one.¹⁵

North American M&A activity



¹⁵ PitchBook.

Establishing a **Dividend Policy** for a Family-Owned Business:

What Your Approach Says to Shareholders

John Secor / Head of Corporate Advisory

Benjamin Persofsky / Head of the BBH Center for Family Business

Family business owners often ask us about the best formula to use in a dividend policy. Unfortunately, there's no single answer to that question. That's because dividends play an important role in defining the financial relationship between a private company and its shareholders. Good dividend policies protect the health of the business while also recognizing shareholders' broader capital interests. These decisions – whether to pay dividends, how much, and how often to pay them – send signals to shareholders about the magnitude, consistency, and reliability of those payments. But the structures chosen don't always align with all shareholders' preferences. Therefore, how these interests are managed can ultimately affect shareholder satisfaction. The “right” answer regarding how to do this depends on many factors.

In our third annual Private Business Owner Survey, we asked participants about their dividends practice and determinations. The results provide useful insights into how owners today are thinking about their dividend policies and highlight the importance of aligning dividend policies with company growth and ownership strategies in order to achieve long-term, sustainable success.

Here, we review the survey results and outline some common dividend policy approaches and their implications.

For the purposes of this article, “dividends” refer to cash returned to shareholders. In the context of a family-owned business and for the purpose of this article, this is further qualified as distributions above and beyond required to cover taxes in pass-through entities.



Dividend structures and their indications to shareholders

64% of private business owners surveyed pay annual dividends to shareholders

Dividend policies are a central component of ownership strategy. Overall, 64% of private business owners reported paying annual dividends to shareholders – and this jumped to 73% among larger firms (those with \$100 million or more in revenues); however, their methods for doing so varied widely. The most-cited approaches included a cash sweep method, a discretionary approach, and fixed amounts and/or formulas.

Cash sweep

41% distribute a variable amount above tax liabilities

Forty-one percent of private business owners' dividend policies involved distributing a variable amount above tax liabilities, based on profits and other factors. Also called a cash sweep or "residual" cash approach, in this method the distribution is equal to the amount of excess cash (if any) that is left after taking care of the business's capital needs.

This approach is a business-friendly policy that prioritizes reinvestment over short-term shareholder liquidity. It is good for companies that want to grow or pay off debt. When investment opportunities for the business are not available, the cash is returned to shareholders.

A cash sweep policy allows a company to sidestep having to pay dividends in down years but also avoids the accumulation of funds during good years. This policy tends to work best for more concentrated shareholder groups who are aligned on prioritizing business needs over providing liquidity to shareholders.

Consequently, dividends may vary greatly depending on annual free cash flow generation and business needs. As near-term shareholder needs are given the lowest priority, shareholders might have to wait for an extended period before they receive a dividend payment.

Indications to shareholders

- There is a hierarchy; the business's cash flow needs take priority over shareholders' desire for autonomy or diversification.
- Shareholders shouldn't rely on the amount or frequency of dividends. While there is a formula, the embedded subjectivity that can be applied by business leaders may cause dividend payments to lack correlation with business results.

No scheduled payments/special dividends only

23% determine dividend amounts on a discretionary basis

Under this structure, no scheduled dividend payments are made, but one-off payments may be made to shareholders as deemed necessary. Among survey respondents, 23% of owners reported using this discretionary approach.

Indications to shareholders

- We are in growth mode. All available capital should be reinvested into the business so we can hire additional staff, buy more equipment, or acquire companies. Our focus is on increasing the enterprise value. At present, growing enterprise value is a higher priority than returning capital.
- We want to reduce our cost of capital with our excess cash or reduce undesirable capital positions (debt, junior capital, shareholders). This is currently a higher priority than returning capital to shareholders for the foreseeable future.
- If we were to return capital to shareholders, it would be difficult (or impossible) to get it recontributed back into the business. Therefore, until we gain greater clarity on the best use of this capital, we plan to leave it in the business so we can maintain optionality.
- We don't rely on the business as a source of cash flow. If a dividend is paid, it will be due to an exceptional circumstance. No timeline for payment or amount can be committed.



This approach provides the most optionality for business leaders. For growth-minded shareholders, the delayed realization of value may also be expected. For shareholders who aren't growth-minded, this approach can create frustration or apathy given that the only pathway to extract value is to sell their shares (assuming there is a well-designed buy-sell agreement in place).

Fixed payout ratio

19% use a formula to calculate dividends

Nearly one in five private business owners said they used a formula to calculate dividends. One way this formula can be implemented is through a fixed payout ratio. Under a fixed or constant payout ratio policy, the business chooses a metric, such as percentage of earnings or free cash flow, which drives the amount of the dividend. The interval is typically scheduled (such as quarterly or annually). The percentage is set after considering broader capital strategy objectives, such as the annual reinvestment rate desired to support business plans.

This policy is most responsive to cyclical businesses, rewarding shareholders with a larger dollar amount in strong years and constraining payouts in more challenging years.

While this policy is dynamic and responsive, particularly in years or periods of underperformance, it can lead to inconsistent or irregular dividends. Because of this, a fixed payout ratio approach is ill-suited for shareholders that require more predictable liquidity streams. Additionally, this approach can cause some challenges for business leaders who use cash generated in periods of strong performance to build cash reserves or invest in large capital projects if there aren't adjustments in the formula that allow for them to do so.

Indications to shareholders

- The business will distribute cash periodically as it is generated. While the amount may vary, the frequency of payments is reliable.
- The owners will participate alongside the business in both the upsides and the downsides of performance.
- Because downturns can occur, shareholders should be prepared for wild swings and plan accordingly.
- If applicable, during periods of outsized performance, expect that payments will be larger. However, it may not result in a payout of excess capital in all cases – some excess capital may be retained for reinvestment.

“The best approach for a shareholder group and its business considers both shareholder interests and the needs of the business supporting them.

Fixed dollar amount



Fifteen percent of owners' dividend policies involved distributing a fixed amount above tax liabilities each year. Fixed dollar approaches pay shareholders on a predetermined schedule (such as quarterly or annually). When used, they are most common in mature companies that have stable earnings and steady cash flow. Given the implied predictability of payments, they are favored by shareholders who don't have other sources of income (e.g., employment) to support living needs.

In some cases, a reserve is created to support payments even when earnings are low or if there are losses. Some companies may even borrow in a market downturn to further assure the dividend payments. As a mitigant, some business owners also set the dividend at a modest amount relative to cash flow generated. This reduces the risk that business performance will affect whether dividends can be paid.

In theory, fixed payments may be adjusted, but tend to be "sticky upward" because of shareholder pressure to maintain dividends at or above the set fixed amount. Commitments to maintaining payments may become even stronger if owners had, at some point, agreed to relinquish some decision rights in exchange for guaranteeing the security of these payments.

Indications to shareholders

- Nonoperator shareholders may see some financial benefit from ownership, tied directly to the amount of dividends received.

- It's OK to view the payments as an annuity, which has implicit reliability (or volatility) based on how long the payments have been made without interruption. The amount paid and the frequency will be predictable.
- The business is healthy enough to support these payments. If weakness occurs and changes need to be made, it will be a hard pill to swallow. Be prepared for upheaval, as the implications of reducing the amount or frequency will likely be problematic for some.

Smoothing

Another dividend method not mentioned in the survey but still relevant is called smoothing. Smoothing is similar to the fixed payout ratio, but it also incorporates an averaging feature of the selected metric over time. For example, a company sets its annual dividend contribution ratio at 10% of that year's free cash flow. The actual payment made in that year is an average of the last three years' earnings.

Using an averaging approach removes the extremes of outlier years, either positive or negative. This makes payouts more consistent year over year while generally trending with business performance.

The strength of this approach is also one of its weaknesses. Shareholders may be upset by the lagged connection between business growth and dividend payouts. The smoothing method is also more difficult to change once implemented, given its dependence on the company's past performance. Tenured shareholders who have had to exercise patience may not be as willing to appease newer, more impatient shareholders. In addition, shareholders of companies with large earnings swings will naturally experience more dividend volatility than firms with more consistent cash flow.

Indications to shareholders

- The business will distribute cash periodically as it is generated. The amount may vary, but the frequency of payments is reliable.
- Both the business leaders and the owners will participate in the upsides and the downsides of performance, but the volatility will be more muted compared with some of the other approaches.

Conclusion

A business's dividend policy both implicitly and explicitly communicates expectations to shareholders regarding whether, how, and when cash flow generated will be distributed. The policy also reflects goals and priorities as they relate to owners' capital. Whose goals and priorities they represent is driven by the people who designed the policy.

It's also important to note that a policy exists for every business regardless of whether it is documented – the documentation is simply a formality. How businesses manage this issue in practice tells shareholders their specific approach to dividends.

There are numerous ways to set policies. Some policies have transparent and formulaic aspects, while others are more opaque and discretionary. One is not better than another. The best approach for a shareholder group and its business considers both shareholder interests and the needs of the business supporting them. Well-informed shareholders who are aligned on the business's overarching capital allocation policy will be able to unite around a dividend policy that best meets the owners' goals and enables the business to thrive long term.

Another important consideration is a policy's short- and long-term sustainability. In our survey, 83% of owners said their dividend formula or approach was sustainable, yet answers revealed this confidence was nuanced and conditional. Respondents said a dividend policy's sustainability depends on business growth, profitability, ongoing review, and generational dynamics. Like design, a dividend approach's long-term success is context-dependent.



83% believe their dividend policy is sustainable

Finally, even with the "right" policy in place, friction may still exist. A business may not be right for some shareholders the same way that some shareholders may not be right for a business. In this case, having a viable pathway to exit can help those who have differing interests from the larger ownership group. The existence of that pathway can also keep shareholder relations calm during times of uncertainty.

Regardless of what an ownership group decides to do about cash flow and its dividend policies, communication (or lack thereof) between business leaders and owners can largely determine how well any particular strategy is accepted.

Reach out to our Corporate Advisory & Banking team or Center for Family Business if you are interested in discussing this topic or the results of the survey further.

An earlier version of this article originally appeared in Family Business Magazine; the article has since been modified.

Changing of the Guard:

Collaborating with the Next Generation

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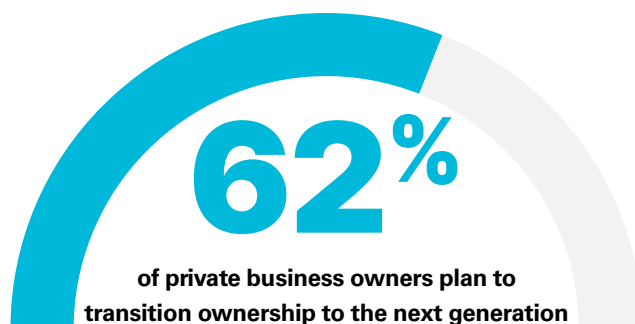
Benjamin Persofsky / Head of the BBH Center for Family Business

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In our third annual Private Business Owner Survey, nearly 62% of private business owners said they planned to transition ownership to the next generation when asked about their long-term strategy. Despite this intention, engaging and preparing the next generation in succession planning can be daunting for all parties involved – and indeed, 46% of respondents cited family dynamics as the biggest challenge to the process. The current generation may think, “I am not ready to retire. What will I do without this business?” Meanwhile, the next generation may get frustrated with the lack of planning and think, “We’re moving too slowly. The current generation is too controlling, and I feel stuck. When will I be able to go anywhere in this company?”

Of course, worries abound among both parties about where to start, what to do, and how to know it will work. While the questions are plentiful, and the anxiety is real, it’s important for family business owners to know that this is a standard evolution for any firm. At BBH, we’ve worked with thousands of family businesses, and this is the most normal and common event that we see. Yet individuals still hold off on transition planning, with our results finding that 46% were still in the process of putting together their plan, and nearly 30% saying they had no plan at all. Here, we share several components to help the process run smoothly.



Biggest challenges to the succession planning process

46% Family dynamics

41% Lack of clear successor

28% Emotional reluctance to exit

13% Tax implications

Establish a clear priority of ownership over management as everyone's focus

Current generation perspective: *How do we choose who will be the next CEO among our family members? I'm worried no one is prepared!*

Next generation perspective: *I want to be the next CEO, but so does my cousin. How can I make sure I am the chosen one?*

When thinking about engaging the next generation in succession planning, there's an inclination for family businesses to focus on management succession, or who is going to run the company. However, the first area of focus should be ownership succession. Executives are replaceable; owners of a family business are not.

In the event of death, the business passes down to family members, outlined in estate planning documents – and those individuals will assume ownership whether prepared or not. As such, as a first priority, the current and next generation of owners need to think about how they are going to own the business together and determine what is in their collective best interest and what they do next as owners. For example, when thinking about ownership first, the right answer to questions about who in the family is going to run the business may be that an outsider will be named CEO if no family members are qualified.

Frame decisions as best outcomes for owners

Current generation perspective: *I want my first-born to be CEO, but I'm not sure they're equipped to handle it. How do I make this decision?*

Next generation perspective: *All of my siblings are fighting over who gets to be the next leader, and it's unclear what the best decision is for the company.*

Once everyone has adopted the mindset of prioritizing ownership over management, it is important to have planning conversations and ultimately make decisions about how to achieve the best outcomes as owners. When asked about succession planning challenges, one survey respondent said that, "Specific to ownership succession, the biggest challenge is the education of the shareholders on the alternatives." For example, when examining how important it is that management, board members, and operating roles are filled by family members, think through the implicit trade-offs. A person who is a family member may have a greater commitment to the business, but do they have greater competence?

In certain situations, a family may be insistent on hiring a family member as successor. In other cases, even where family members are involved, the next generation may choose to participate in the business in another capacity – as board members, for example – and hire an outsider to take over management. Most importantly, the family should know this may change over time, as one respondent said, "We prefer succession from within. Historically, it has always been family-led. Going forward, it is likely that we will have periods of time when we have nonfamily members leading the business." No matter the situation, this is not an easy decision to make, so it is key to approach it in terms of what will deliver the best outcome for owners, particularly when there are multiple family members who have an interest in active employment.

Give the next generation a voice and, when they are ready, a vote!

Families might consider establishing owner and family councils that include the next generation so that from a young age they understand the business and the key strategic decisions that are made. This governance involvement also helps them understand that these structures give owners who aren't in management or leadership a voice. Remember that there is a difference between a vote and a voice, and as owners or successor owners of the business, next generation members can still play a significant role and provide input in terms of major governance issues at the company.

Engaging the next generation in these governance vehicles early also helps with issues where it appears as though the older generation is still completely in control – and unwilling to release any power. When multiple generations are involved in meetings and decision-making together, any perceptions that one generation has full control over another begin to disappear.

Get specific about roles and requirements

Current generation perspective: *How do we choose the next CEO among all of the next generation members? Should we just go with the oldest member of the generation?*

Next generation perspective: *I want to be CEO, but I have no clue what I need to go through to get there. Is it a game of favorites, or is there actual criteria I need to meet?*

In order to ensure that everyone is on the same page about the jobs that need to be done and the requirements involved, it's important that family business owners formalize and communicate the objective process through which they will choose individuals to fill vacant executive roles, as well as the skills and requirements that candidates must meet. Ideally, a retiring CEO or other executive has already gone through the process of outlining their role and forming a job description for successors, and the family can leverage this work. Exceptions should generally not be made, and if they are, the rationale for the exception should be made clear to all. Mapping out a process together that clearly states how you will choose successors, and that involves input from several people, helps foster buy-in among all generations.

It is important to make clear that the evaluation process is a legitimate one that everyone – family and nonfamily – must go through. For example, next generation owners who are interested in working in the business should be evaluated by the leadership team (family and nonfamily) to ensure an objective evaluation. For leadership roles, it is often advisable to put the next generation through an interview process with an outside recruiter just as you would in a search for an outsider. Having a clear, clean process that includes input from

all generations and outlines these elements is crucial for minimizing any assumptions of favoritism and emotional responses when the successor is named, which are almost inevitable in a family business.

Develop the next generation with intention

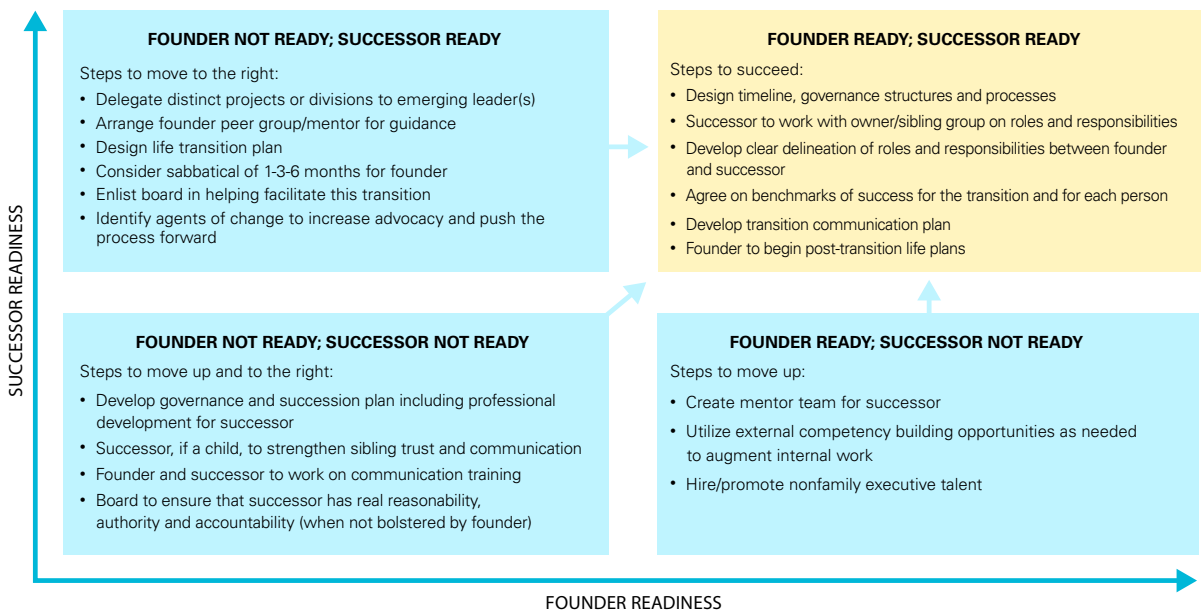
Current generation perspective: *My child does not seem ready to own this company that I grew from the ground up. I'm worried about how to prepare them so that they don't ruin it.*

Next generation perspective: *I grew up in this company. It's in my blood. I'll be a fine owner.*

Among those who hadn't shared the details, a lack of preparedness stood out, with one respondent saying that their "potential successor has not proved abilities to be able to operate the company." To the extent that family business owners have an interest in having family members fill critical company positions, they must decide what needs to be done in order to ensure the next generation is prepared to fill those roles and meet their requirements. This is an exercise in working together to determine how the current generation can push the next generation along so that they are eventually fully prepared to assume leadership.

Owners may know who they want to succeed current executives based on the process and requirements put in place, but how can they assess whether individuals are ready? Families who have gone through the earlier steps of understanding what's required of each role may have a better initial understanding of whether someone is prepared, and being armed with a job description or objective criteria can help alleviate some of the emotional impact around this decision.

Succession readiness matrix



At BBH, we also have a succession readiness matrix tool that we share with clients. Completing this exercise together helps families have honest conversations about the readiness of both parties – the founder and the successor – and outlines next steps should one not be ready.

Pivot the current generation's role from decision-maker to mentor

Current generation perspective: *I want to support the next generation as owners, but they approach things differently. I'm stuck on how to help.*

Next generation perspective: *The older generation wants us to do everything exactly the way they did it – they're stuck in history! How can I convince them I'm ready?*

When the next generation is ready to succeed the current generation as owners and operators, success requires the current generation to accept the differences in the next generation's approach and trust them to run the business in a way that delivers the best results for owners. Here, the goal is working together, as opposed to making the next generation operate exactly as the current generation did. Instead, the current generation must identify where they can best add value and support for the next generation as they shape the company's future. The current generation must accept that their new relationship with the business and how it functions is in an advisory capacity, while the next generation has finally stepped in as decision-makers.

Conclusion

While all family businesses are one day faced with the task of collaborating across generations on succession, the process is highly personal for each company. It involves family dynamics, which can be complicated, and there is no one-size-fits-all solution. However, know that there is a way to get through the experience, and often, getting assistance from outsiders – whether informal advice from other business owners or formal guidance from third-party advisors – can help owners in addressing many of the difficult questions or challenges that come up.

At BBH, we leverage our network of business owners to help our clients who are going through the succession planning process and also provide insight gleaned from our own experience as a private partnership that has gone through 13 generational transitions. We would be happy to help your family as well.



The current generation must accept that their new relationship with the business and how it functions is in an advisory capacity, while the next generation has finally stepped in as decision-makers.



A Look at BBH's Third Annual Private Business Owner Survey

Private businesses in the U.S. vary greatly in terms of size, sector, service, and product. So how do business owners plan for the future of their businesses and families based on common challenges?

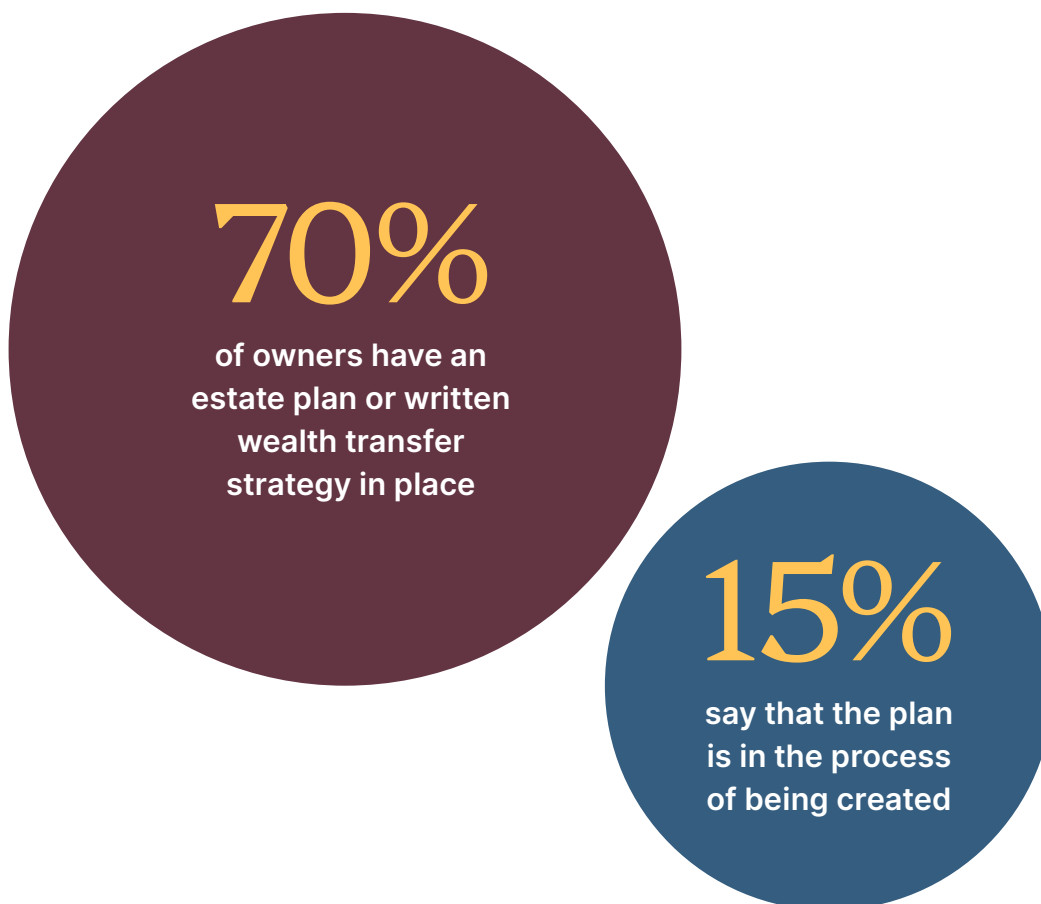
- Governance and succession
- Long-term strategic objectives
- Capital needs
- Complicated family dynamics

We set out to unearth how business owners, think, feel, and respond to both the challenges and opportunities that shape how they run their enterprises. The responses were fascinating. Here, we share some of the key highlights.

Preparing the next generation for family wealth

Most owners have formal estate plans in place to address tax, insurance, or asset protection issues – but they have not shared those plans with their families. For some, reluctance to share their plans comes from concern that disclosure can distort family dynamics, undermine work ethic, or complicate succession planning – all issues far more difficult to resolve than tax exposure.

Some owners fear that talking too soon may spark entitlement or anxiety instead of instilling gratitude and responsibility. When an estate plan breaks down, it's usually because of poor communication, not flawed tax strategy. Starting early with age-appropriate, bite-sized conversations makes it far easier to share the full plan naturally over time.



38%

of owners say they've been completely open and transparent about their wealth and estate plans with the next generation

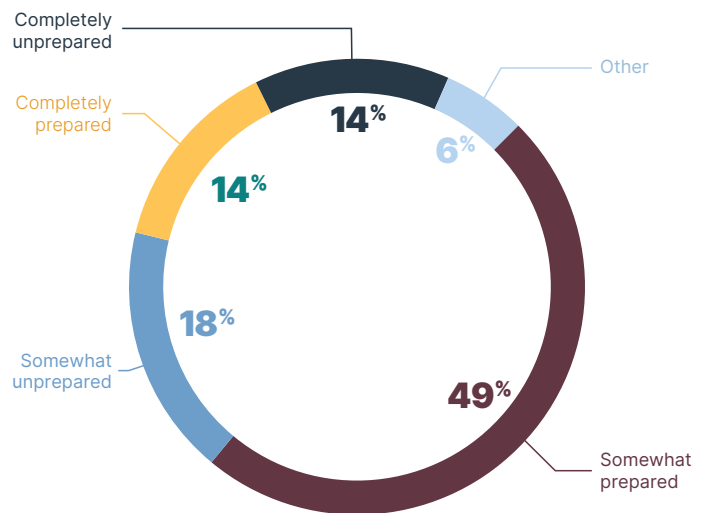
36%

have only been somewhat open and transparent

21%

have not shared details of their plans with the next generation

How prepared do business owners feel the next generation is to manage their wealth (if that is part of their estate plan)?



Succession planning for family businesses

As private business owners look to the future, succession planning emerges as a critical factor in preserving both the legacy and longevity of their enterprises. While many owners aspire to pass their businesses to the next generation, the strategies they consider – and the challenges they face – are as diverse as the families and organizations themselves.

How are private business owners thinking about the long-term ownership strategy of their business?

Transition ownership to the next generation **62%**

Sale to strategic buyer **14%**

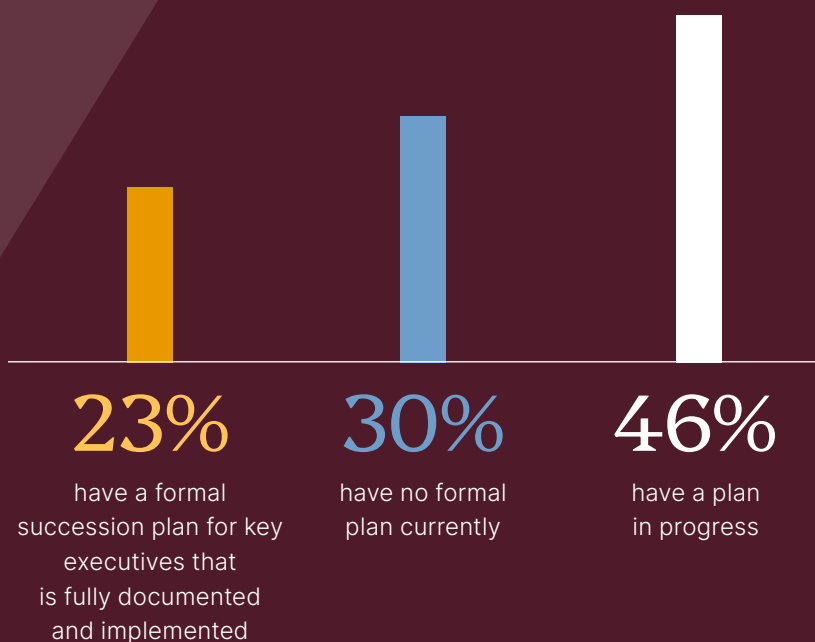
Opportunistic/noncommittal **12%**

Management (MBO) or employees (ESOP) acquire ownership of the business **8%**

Sale to financial buyer **2%**

Other **2%**

IPO **0.2%**



What do private business owners see as the biggest challenges to succession planning?

Family dynamics
46%

Lack of clear successor
41%

Emotional reluctance to exit
28%

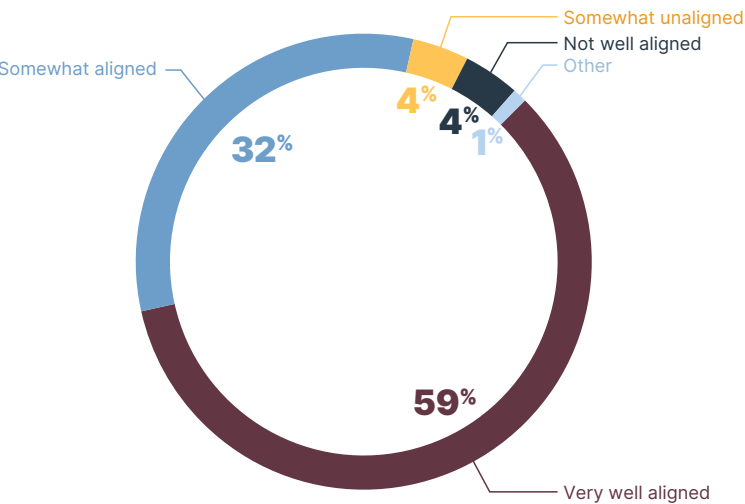
Tax implications
13%



Growing and sustaining the business

Private business owners overwhelmingly put growth first. In fact, 78% rank it above receiving dividends or retaining all of their equity if it means they can grow the business faster. That singular focus comes with trade-offs: Ownership groups are divided on long-term strategy, and many are turning to outside capital to fund transactions.

Private business owners feel there is mixed alignment on ownership strategy among their present ownership group.



When seeking outside capital, which sources are private business owners considering?



31%

cite control concerns as the single biggest barrier to accessing growth capital – indicating they are not willing to give up the control required to access capital

24%

see market conditions as the biggest barrier

Designing dividend strategies

Dividends are an important tool that private companies use to support the needs of shareholders. However, setting policies that effectively balance shareholder preferences with the preservation of business health can be quite complex. Too small, and shareholders get upset that there is insufficient financial benefit. Too large, and it can jeopardize the company's ability to operate. There is no one-size-fits-all formula to these policies. The best approach for a shareholder group considers both shareholder interests and the needs of the business supporting them.

64%
of owners pay annual
dividends to shareholders

19%
calculate the amount
using a formula

40%
distribute a variable amount
above tax liabilities

15%
distribute a fixed amount
above tax liabilities

23%
decide the amount each year
on a discretionary basis

83%
of owners believe their
approach to dividends
is sustainable ...

... although some owners say this sustainability is conditional on several factors, including:

- Alignment on ownership strategy
- Profits and expenses
- Business growth and performance

If you are interested in the full survey results, please visit bbh.com/businessownerssurvey.

In addition, we are happy to discuss the survey outcomes and what they might mean for you, your business, and your family, so please feel free to reach out to your BBH relationship manager.



Key Takeaways from the 2025 Owner to Owner Summit

Thank you to our clients and friends who made the 2025 Owner to Owner Summit in Chicago a big success! Business owners shared their insights on a host of topics including building and transitioning multigenerational businesses, being intentional about legacy, and juggling competing interests throughout the life of the business. Here, we share our top takeaways from the event.

“The Complexities of Running a Business in 2025” with Scott Mahoney, Chairman and CEO, Peter Millar

- **Entrepreneurial vision fuels strategic growth:** A clear, forward-thinking vision can turn opportunity into long-term success.
- **Brand expansion builds resilience:** Moving beyond a niche can position your business for sustained growth.
- **Customer loyalty is a competitive advantage:** Maintaining strong brand identity and deep customer relationships is critical for scaling revenue and attracting future investors or buyers.

“Passing the Torch: Family Business Succession” with Stanley Motta, Chairman, Motta Internacional and Copa Holdings; Carlos Motta, President, Motta Internacional; Billy Orgel, President, Tower Ventures; Benjamin Orgel, Vice President of Development, Tower Ventures

- **Succession is a gradual, values-driven process:** Success depends on open communication, trust, and instilling core values across generations.
- **Empower the next generation – let them learn and lead:** Allow the successor generation to take on responsibility, make mistakes, and innovate. This builds confidence and ensures the business adapts to new challenges and opportunities.
- **Legacy is more than business – it’s about community impact:** A true legacy can be measured by the positive contributions a family makes to its community. It’s also about passing down core values; establishing regular family meetings focused on values, history, and the reasons behind business decisions is one way to encourage this.

“From Sea to C-Suite” with Tom Ripley, Former Marine Officer and CEO, Ames Watson

- **Lead by taking responsibility:** True leadership is about owning outcomes and supporting your team directly, not just holding a title.
- **Focus on mission and people:** Successful turnarounds require prioritizing what matters most—staffing, inventory, and customer experience—while investing in frontline employees.
- **Build teams with judgment and humility:** Hire people who show sound judgment, courage, and a willingness to ask for help. Teamwork and openness are essential for solving real business challenges.

“Lessons from Great Leaders” with Walter Isaacson, Author and Historian

- **Foster diverse teams:** Creativity flourishes in environments that value diversity and collaboration.
- **Build collaborative leadership:** Sustainable success comes from teamwork and strong partnerships, not just visionary founders.
- **Embrace adaptability and lifelong learning:** Stay curious, adopt new technologies, and encourage continuous learning to thrive in a rapidly changing world.

“Harnessing AI in a Private Business” with Matt Rhodes-Kropf, Managing Partner, Tectonic Ventures, and MIT Professor of Entrepreneurship

- **AI-native companies set new standards:** A new generation of businesses integrates AI into every process, using it for efficiency and scalability. These teams are redefining what’s possible, and traditional businesses can learn from these practices.
- **AI and jobs – change, not disappearance:** Historically, technological advances have led to new kinds of work, not mass unemployment. The key for business owners is to focus on orchestrating AI to enhance productivity and prepare staff for higher-value roles.
- **Start small, focus on repetitive tasks:** Private businesses can begin by automating routine, repetitive tasks with AI. This frees up employees for higher-value work and helps organizations adapt to new opportunities and risks.

“Balancing the Trifecta: Growth, Liquidity, and Control” with Bill Condrón, CEO, The Granite Group

- **Balancing priorities:** Private business owners must continually navigate trade-offs between growth, liquidity, and control. Open communication is essential to resolve shareholder tensions.
- **Evolving growth strategies:** Leadership style and family dynamics shape growth approaches.
- **Personal decisions and legacy:** Decisions about control and liquidity are deeply personal and impact family legacy. Finding the right partner matters more than deal structure.

“When Legacy Means Letting Go: The Blommer Chocolate Story” with Peter Blommer, Blommer Chocolate Company

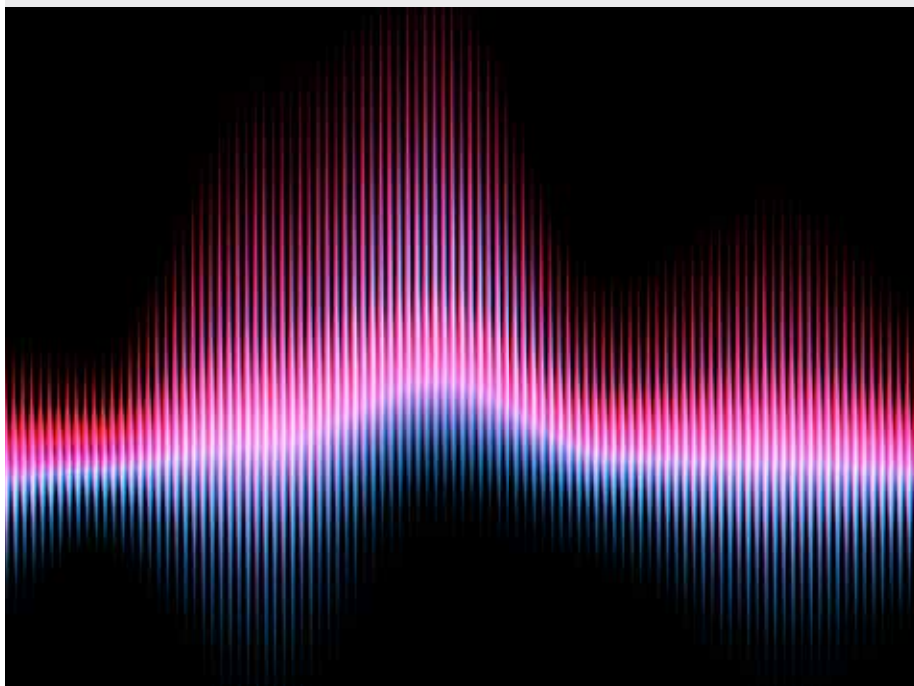
- **Family alignment and governance are critical for growth:** The Blommer family’s ability to regain control after a hostile takeover and then grow the business from \$100 million to \$1 billion was rooted in strong family alignment, clear governance, and a willingness to seek outside advice. Establishing roles, responsibilities, and advisory boards helped maintain unity and drive strategic growth.
- **Strategic change:** Recognizing industry shifts and being open to selling can maximize value and ensure long-term sustainability.
- **Legacy beyond ownership:** Letting go of ownership can be a success story when it enables continued entrepreneurial spirit and positive impact for family and community.

“A Playbook for Leadership” with Nick Saban, Legendary Football Coach

- **Trust is the foundation of leadership:** Without trust, meaningful relationships and effective leadership cannot exist.
- **Self-assessment can empower others:** Great leaders develop others by encouraging reflection and belief in their own potential.
- **Winning isn’t the goal – growth is:** True success on the field and in the boardroom comes from discipline, resilience, and a shared commitment to a clearly defined purpose.

If you are interested in learning more about the Owner to Owner Summit or what BBH can do for your private business, reach out to your relationship manager.

Owner to Owner Feature Update: Whitney Houston Returns with Moises



Moises, the consumer app for artificial intelligence (AI)-based music creation developed by Music.AI, recently made headlines with its groundbreaking partnership with the Whitney Houston estate. The collaboration will bring the legendary artist’s voice to life in a series of AI-powered concert experiences, blending archival recordings with cutting-edge generative audio tools.

In our summer 2024 *Owner to Owner* feature, Music.AI Co-Founders Geraldo Ramos and Eddie Hsu spoke with us about their vision for democratizing music creation and preserving iconic artistry through responsible AI. Their platform enables artists and producers to isolate, remix, and reimagine vocals and instrumentals with precision, ushering in a new era of creative possibility.

Scan here to revisit our conversation with Ramos and Hsu to learn more about their entrepreneurial journey, the origins of Music.AI, and their thoughts on the future of AI and music.





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