

Key Family Wealth — Business Advisory Services (BAS)

Thinking About Taking Cash Off the Table? What to Know About Recapitalizing Your Business



Have you considered selling your business — or finding ways to diversify your wealth without giving up control?

Dividend recapitalizations, or “dividend recaps,” are an increasingly common option for middle market owners to take some chips off the table while maintaining a controlling position in the business. But dividend recaps are not without risks. Whether you’re considering one now or simply want to be prepared for the future, understanding how a dividend recap works can give you a serious advantage when the opportunity arises.

In this article, we break down the basics of dividend recaps, why buyers propose them, and, most important, what owners should consider if one ever crosses their desk.

What is a dividend recapitalization?

A dividend recapitalization is a financial transaction in which a company issues new debt and uses the proceeds to pay a dividend to its owners.

Here’s a simple way to think about it:

- You borrow money using the business as collateral.
- Instead of reinvesting that loan into growing the business, you (as the owner) take the proceeds as a cash distribution.
- You keep ownership (or most of it) and continue running the business, now with more leverage (i.e., more debt).

This structure is especially attractive to family-owned or closely-held businesses as well as to private equity firms that want liquidity without a full sale.

Thinking About Taking Cash Off the Table?

What to Know About Recapitalizing Your Business

Why are dividend recaps becoming more popular?

There are a few reasons dividend recaps are gaining traction in the middle market:

- **Liquidity without losing control:** It's a way to allow business owners to accelerate their returns through the value created in the business.
- **Market conditions:** In low-interest-rate environments, companies with low levels of debt, consistent profits, and strong cash flows can often access attractive loan terms that make dividend recaps viable.
- **Private equity strategy:** Buyers often use dividend recaps to “de-risk” their investment early. Pulling cash out after acquiring a business can accelerate returns to investors.

For owners who have spent decades building their businesses, a dividend recap can seem like a well-earned reward — liquidity today; continued upside tomorrow.

What should business owners watch out for?

While dividend recaps can be powerful tools to unlock private company wealth, they're not without real risks. Here's what you need to keep an eye on:

- **Higher leverage means higher risk:** Your company carries more debt after the dividend recap, which can increase financial strain, especially if profitability and cash flows fluctuate.
- **Impact on operations:** More debt can mean stricter lender covenants and less flexibility in your day-to-day business decisions.
- **Future sale complications:** Buyers looking down the road might view a highly leveraged company as riskier, potentially affecting your future exit value.
- **Tax considerations:** Depending on how the dividend recap is structured, there could be different tax implications based on the dividend you receive.

It's important to approach a dividend recap with a clear-eyed view of how your company's cash flow and operations could be affected, not just in the short term, but several years down the line.

Key questions to ask if you're presented with a dividend recap proposal

If you're thinking about structuring a dividend recap — or if a buyer proposes a dividend recap strategy for your business — here are some critical questions to ask:

- How much is your business worth?
- How much debt will the company take on and what are the repayment terms?
- How will the new debt affect the company's ability to invest in growth, weather downturns or fund new opportunities?
- What protections are built in for the company if business conditions change?
- Are there any prepayment penalties or restrictions on future financing?
- What are the tax implications for the dividend distribution?
- Will the recapitalization affect employee retention, customer relationships, or supplier agreements?

As with any major financial transaction, the details are critical. It's also essential to have a team of advisors who understand your personal goals and the operational needs of your business.

When might a dividend recap make sense?

A dividend recap isn't the right move for every business owner. But in the right situation, it can be a smart way to provide for partial or total liquidity for business owners without closing the door on growth or a larger sale down the road.

It might make sense if:

- You want liquidity but aren't ready to sell.
- Your company has strong, predictable cash flows that can comfortably support new debt.
- You're planning a sale in the next two to four years and want to reduce risk and diversify your privately held assets beforehand.
- You have expansion goals that could be better achieved with a new financial partner.

Thinking About Taking Cash Off the Table?

What to Know About Recapitalizing Your Business

Final thoughts

At first glance, a dividend recap can sound almost too good to be true. It provides liquidity, maintains control now, and still allows you to participate in a future sale. And in the right circumstances, a dividend recap can be a powerful tool for middle market business owners.

But — and this is crucial — the success of a dividend recap hinges on careful planning, a thorough understanding of your company's financial health, and a clear strategy for what comes next.

If you've received a dividend recap offer — or if you simply want to understand the options available to your business before the opportunity arises — it's worth having a conversation with advisors who specialize in helping business owners transition successfully. The right advice today could mean a much smoother — and more profitable — outcome tomorrow.

For more information, [please call your relationship manager](#).

The Key Family Wealth BAS team is dedicated to providing guidance and support to privately held business owners like you. Specifically, the BAS team helps owners prepare for an eventual business transition with strategies and advice on how to maximize the after-tax value of a business transition.



Key Wealth, Key Private Bank, Key Family Wealth, KeyBank Institutional Advisors and Key Private Client are marketing names for KeyBank National Association (KeyBank) and certain affiliates, such as [Key Investment Services LLC \(KIS\)](#) and KeyCorp Insurance Agency USA Inc. (KIA).

KeyBank and its affiliates do not provide tax or legal advice. This material is for informational purposes only and does not constitute tax or legal advice. The information contained herein should not be used in substitution for consultation with professional tax, accounting, legal, or other competent advisors. The strategies and concepts discussed herein are complex and may be speculative and involve a high degree of risk, including the risk of tax penalties. Before execution or implementation of any strategy discussed herein, you should consult with your personal tax and/or legal advisor.

Any models, projections, or estimates contained herein are hypothetical in nature, do not reflect actual investment results, and are not guarantees of future results. All results use simplifying assumptions that do not completely or accurately reflect your specific circumstances. Small changes in facts, assumptions, or circumstances can have a substantial impact on the results shown.

This information has been obtained from sources believed to be reliable, but its accuracy and completeness are not guaranteed. Any opinions or projections contained herein are subject to change without notice, are those of the individual author(s), and may not necessarily represent the views of KeyBank or any of its subsidiaries or affiliates. KeyBank makes no assurance that any particular strategy will be successful, and, to the extent this material concerns tax matters, it is not intended to be used and cannot be used for the purpose of avoiding penalties that may be imposed by law.

Investment products, brokerage and investment advisory services are offered through KIS, member FINRA/SIPC and SEC-registered investment advisor. Insurance products are offered through KIA. Insurance products offered through KIA are underwritten by and the obligation of insurance companies that are not affiliated with KeyBank.

Non-Deposit products are:

NOT FDIC INSURED • NOT BANK GUARANTEED • MAY LOSE VALUE • NOT A DEPOSIT • NOT INSURED BY ANY FEDERAL OR STATE GOVERNMENT AGENCY