SILVA Capital Solutions

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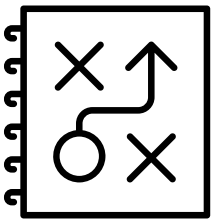
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THE FOUNDER'S 24-MONTH PLAYBOOK

HOW FOUNDERS SHOULD PREPARE FOR AN EXIT



Founders planning a sale in the 24 months should start now. The most successful results go to the sellers who understand their story and invest in readiness long before they enter the market. Engage a qualified M&A advisor early in the process. Thorough internal diligence helps PEOs to identify red flags, strengthen your position, helps you avoid costly mistakes.

THE GAME PLAN

1. Audit financials, licensing, and reporting to present precise, up-to-date EBITDA and clean adjustments.
2. Demonstrate stable EDBITA growth that has been built, not bought. Invest in your sales team.
3. Fortify client relationships. Solid client retention metrics are a deal multiplier.
4. Invest in compliance and risk controls, understand your Benefits and Workers' Comp plans' performance.
5. Prepare leaders & key team members. Buyers evaluate your full bench, not just executives.
6. Understand the deal structure, particularly rollover equity and the requirements of an earn-out.
7. Retain the three "A's": an expert Advisor, Attorney, and Accountant. They **protect your value**, ensure proper tax treatment and legal structure.

KPI CHEATSHEET – TRACK WHAT BUYERS TRACK

Buyers validate high multiples only when they can see and trust the value beneath the surface. Here are five key performance indicators (KPIs) every PEO should track:

1. **Gross Margin Percentage. Formula: (Gross Profit ÷ Revenue) x 100**
   - Buyers scrutinize margin structure. It shows whether your PEO is profitable or just busy.
   - High gross margin: efficient service delivery, lower perceived risk, and higher multiples.
   - Thin gross margin: under-pricing, overstaffing, or structural inefficiencies.
2. **Gross Profit per Worksite Employee (WSE). Formula: Gross Profit ÷ Total Worksite Employees**
   - Buyers want to see how much true profit is created for every WSE you service.
   - High GP per WSE: stronger unit economics and pricing power.
   - Flat or declining GP per WSE: despite WSE growth, this signals you are working harder for less profit.
3. **Client Retention. Formula (Churn Rate): (Clients Lost During Period ÷ Total Clients at Start of Period) x 100**
   - Recurring revenue is only valuable if it recurs. Client retention and churn directly impact revenue.
   - Low churn: sticky revenue, predictable cash flow, and satisfied clients are buyer magnets.
   - High churn: triggers questions around client satisfaction, revenue stability, and competitive vulnerability.

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KPI CHEATSHEET – CONTINUED

4. **Track Revenue by Service Line**
   - Breaking out revenue by service line clarifies margin quality, cross-sell strength, and pricing strategies. It also highlights over dependence on low-margin offerings or underutilized profit centers.

5. **Client Concentration. Formula: Revenue from Top Client(s) ÷ Total Revenue**
   - In the eyes of a buyer, revenue concentration is a risk multiplier.
   - Best-in-class PEOs generate less than 15% of revenue from any single client.
   - A high concentration means that one client walking away could materially impact your business.

6. **Bonus: Industry Mix Matters**
   - Industry mix matters: buyers favor sectors that weather economic uncertainty without major churn.
   - Diversification into stable, low-volatility sectors strengthens your revenue profile.
   - It's not just how many clients you serve, but the industries they represent.

ADVISOR'S NOTE *(as of 1/20/2026)*

The Bottom Line: 2025 marked a decisive transition from "market-share frenzy" to a period of disciplined operational focus. Discerning buyers are no longer chasing scale alone. They are hunting for **Durable EBITDA**: i.e. well-run PEOs that can deliver organic sales, manage risk, and demonstrate platform readiness. As we settle into 2026, data quality, operational readiness, and high ethical standards will be the value drivers that buyers look for in potential targets. These three themes will be crucial in the year to come.

1. **Readiness = Leverage**
2. **Durable Growth = Leverage**
3. **Alignment = Deal Multiplier**

Founders who begin preparing now with guidance will be positioned to secure the best possible outcomes.

Thank you for supporting our industry,

Scott E. Silva
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