
EXIT PLANNING & SELL-SIDE READINESS

10 Things Owners Wish They'd Done Three Years Before Selling

*The decisions that move price are made long before the letter of intent –
and the buyer's questions are answered by the record you kept, and how well you can explain it.*

Most owners start preparing to sell about six months before they want to close, with the idea that the current state of the business is all that matters to a buyer. Buyers, on the other hand, generally look backward a minimum of three years, in addition to evaluating the full scope of current operations. Every quality of earnings report, every lender credit memo, and every purchase price adjustment is built on trailing financials you have already produced. By the time a letter of intent is signed, the record is written and the negotiation is mostly about how much of it the buyer is willing to believe. That is the gap this list is about: the work that quietly sets your price is done in the years when you are not selling anything.

Why three years, and not three months

Diligence is an audit of the past, not a pitch about the future. A buyer paying a multiple of earnings needs to know those earnings are real, repeatable, and transferable. Three years of consistent statements make that case on their own. Three years of inconsistent statements, unexplained swings, and unidentified adjustments make the buyer build a discount for the part it cannot verify – and that discount is applied at the multiple, not at the dollar.

The ten things

- 1. Separate personal spending from company spending.** Vehicles, travel, family payroll, and country club dues are all legitimate owner choices, and they are all add-backs a buyer will test. Add-backs supported by an invoice survive diligence. Add-backs supported by memory get scrutinized.
- 2. Put the financials on a consistent, accrual basis – and leave them alone.** Switching methods, changing revenue recognition, or reclassifying labor between cost of sales and overhead makes your own history tougher to compare. Buyers cannot trend what they cannot compare, so they are forced to make assumptions.
- 3. Have a reviewed or audited year on the books.** A review or audit does not guarantee a higher multiple, but it removes an entire category of doubt and materially eases diligence. On a \$1M-plus EBITDA business, the cost is usually minor compared to the value of a faster, quieter close.
- 4. Reduce customer concentration – or build the story that defends it.** A significant customer concentration (i.e., one customer generating half of revenue) may be the single most common reason a strong business trades at a weak multiple, or worse, scares a potential buyer away from putting in a bid altogether. If concentration cannot be reduced, the alternative is documented proof of stickiness: contract terms, tenure, share of the customer's spend, and win rates on rebids.
- 5. Institute a second layer of management.** If every quote, hire, and key relationship runs through the owner, the buyer is not acquiring a company; it is acquiring one with an operational hole to fill. A general manager and a named number two are worth more at closing than almost any capital expenditure, and

the decision of when to involve them while maintaining confidentiality and fulfilling diligence can create a real challenge.

6. **Clean up the balance sheet.** Uncollectible receivables, obsolete inventory, related-party balances, and shareholder loans all get scrubbed in diligence anyway. If able, clearing them early avoids the mid-deal conversation about what was really an asset.
7. **Get the working capital cycle under control.** Purchase agreements set a working capital target, typically based on a historical average. Erratic collections and stretched payables raise that peg, and a higher peg is money out of the seller's pocket at closing if the delivered working capital is lower.
8. **Fix legal and tax housekeeping items.** Signed leases, current minutes, a clean ownership ledger, assignable contracts, and resolved payroll or sales tax exposure: None of it is interesting; all of it becomes an indemnity, an escrow, or a delay if left unresolved.
9. **Invest in systems that the buyer can inherit.** A real ERP or job-costing system and documented processes let a buyer verify performance without you. Systems that are too specialized or incompatible create integration risk for some buyers.
10. **Determine what you actually want from a transaction.** Maximum price, a clean exit, protecting employees, and a firm timeline are all different objectives that lead to different buyers, structures, and outcomes. Owners who settle this early negotiate well.

What the difference is worth

The cost of skipping this work is easier to see side by side. Below are two identical companies with identical operations – the only difference is whether the numbers could be substantiated when a buyer's advisors went looking.

Two identical companies at closing	No preparation	Three-year head start
Adjusted EBITDA presented	\$1.50M	\$1.50M
EBITDA sustained in diligence	\$1.25M	\$1.45M
Multiple applied	~4.5x	~5.5x
Enterprise value	\$5.6M	\$8.0M
Held back in escrow / earnout	~25%	~12%
Cash at close	~\$4.2M	~\$7.0M

Illustrative only. Multiples, holdbacks, and diligence outcomes vary widely by industry, buyer type, and deal structure.

The unprepared seller did not lose \$250,000 of EBITDA; they lost the ability to prove it out. Unsupported earnings do not result in a dollar-for-dollar reduction in purchase price – the magnitude comes in when the multiple is applied and purchase price is materially impacted.

The bottom line

None of this requires a decision to sell; it is the same work that makes a company easier to borrow against and easier to hand to the next generation. But if a buyer does call, the answer to every question already exists in a folder – and the price reflects it.

If a sale is anywhere on the horizon, the practical starting point is to look at the company the way a buyer's advisors will: pull the last three years, identify every adjustment you would want credit for, and ask whether the support behind each one would survive an outside review. The matters that fail that test are the action items, and three years allows an owner enough time to understand and address nearly all of them.

Authors: Andrew Disque, Senior Analyst; Gerad Greco, Senior Analyst

Note: Figures in this piece are illustrative and are drawn from Strategic Advisors' sell-side and transaction advisory experience in the lower middle market. Multiples, holdback levels, and diligence outcomes vary widely by industry, buyer type, and deal structure. Nothing herein is a prediction of results in any specific transaction.

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