



BUSINESS OWNERS

Small Business Exit Strategy: How to Exit Your Business Through an M&A Process



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TAGS

Deal Advice

There are several types of exit strategies for small businesses, each requiring careful planning. Options include initial public offerings (IPO), management buyouts, and last-resort measures like bankruptcy or liquidation.

In this post, **we focus on developing an exit strategy to sell your business** through the mergers and acquisitions (M&A) process. This approach aims to maximize value and negotiate terms that align with your personal and financial goals.

In this post, we cover:

Exit planning, where you clarify your exit objectives and ensure your business is fully prepared for a successful sale.

Finding the best-fit M&A advisor who has the right experience to help you sell your business and to successfully execute your exit with guidance.

Executing the M&A process, which involves working with your advisor to obtain an accurate business valuation, create marketing materials, target buyers, evaluate buyer interest, negotiate sale terms, and structure and close the deal.

Your Small Business Exit Strategy: 3 Key Steps

Step One: Exit Planning

When we surveyed investment bankers about common reasons business sales fall through, they listed a [lack of formal exit planning](#) as a major factor. This makes sense, as during exit planning, you're defining what an ideal exit looks like to you and preparing your business for that exit.

As part of your exit planning, you will:

Understand your motivations to sell.

Involve your close circle in the decision-making process.

Prepare your business for exit by streamlining business operations, cleaning up financials, and implementing a handover plan that addresses key-man dependencies.

Understand Your Motivations to Sell

Understanding your motivations to sell will help you:

1. Assess whether it's the right time to sell your business.
2. Define your ideal buyer profile based on your goals for the future, both personally and for your company.

Common reasons for selling a business include retirement, personal health issues, significant life changes (such as a divorce or moving to a different state), outgrowing your business, and experiencing burnout. What they all have in common is a strong underlying motivation to sell, and that's key.

You don't want to be casual in your commitment to sell for two reasons:

1. **Selling your business is time-consuming and demanding.** We developed a [business exit timeline](#), which shows that, on average, it takes about 1-3 years to exit your business. In those years, you'll be streamlining operations, preparing your handover plan, and finding an M&A advisor. Once you have an advisor, you'll complete tasks like obtaining an accurate business valuation, creating marketing materials for buyer targeting, evaluating buyer interest, and negotiating the deal. Without a strong reason to sell, it's unlikely you'll make much progress in this process.
2. **Buyers want to know why you're selling.** They need to confirm your commitment to exiting. Buyers don't want to invest time and resources in due diligence — such as reviewing financials and conducting a valuation — only to have you back out of the deal. Without a strong reason to sell, a buyer is likely to pass on your business.

By understanding your motivations to sell, you can determine if now is the right time to work toward selling your business and develop an ideal buyer profile.

A buyer profile is a summary of the type of buyer you should target during the M&A process.

To determine your ideal buyer profile, you need to know:

What you want to happen to your business after the sale

What you need financially to achieve your post-sale goals

Think of buyer profiles as existing on a spectrum. On one side, there are **financial buyers**, and on the other, **strategic buyers**.

Strategic buyers acquire a business to grow their own. They often pay a premium price, but your business may cease to exist, which can affect your legacy and your team. For example, a competitor might be interested in your business if you have intellectual property (IP) they want to own, or they may want to add your product offering to their catalog. They'll buy your business to get what they need but may cut parts of the business they can't use.

Financial buyers generally focus on how much they can increase the long-term value of the business they're buying. This makes them a good option if you want a fair price for your business but also care about its legacy and the future of its employees post-sale.

Again, think of it as a spectrum. The key thing to understand is what you want for your business (its legacy and its team) and for yourself personally after the sale.

If you want the maximum sale price — perhaps to finance your retirement or another venture — and don't mind your business being absorbed to get that price, then you'll look for buyers closer to the strategic end of the spectrum. If you want your business to continue after you, and are concerned with brand and personal legacy, then you will look for buyers closer to the financial end of the spectrum.

To learn more about buyer profiles, read our post on: [How to find a buyer for your business](#), where we explore different types of buyers in more detail and how to attract them.

Involving Your Family in Your Decision Making Process

Selling a business isn't just a financial transaction; it's a life-changing event that impacts those close to you, especially your family members. Start by having open discussions with those who will be most affected by this change. Ensure everyone understands the timeline and what to expect both logically and financially.

Talk with your family about potential adjustments to daily routines and roles, such as how much more free time you may have once you're no longer running the business. Address any concerns about how their individual careers may shift following the sale. Acknowledge the emotional aspects of this transition, as doing so can help everyone feel more at ease throughout the process.

Preparing Your Business for Exit

Preparing your business for exit involves streamlining your operations, cleaning up financials, and implementing a transition or handover plan that addresses any key man dependencies.

Completing these tasks will not only increase the perceived value of your business but will also make it easier to address questions during the due diligence process.

1. Streamline your operations

Conduct a thorough assessment of your business processes, identifying both strengths and areas for improvement. Look for opportunities to cut costs (such as switching suppliers) and boost efficiency.

Streamlining operations is essential for increasing business value. You can learn more in our guide, [5 Ways to Maximize Business Value](#), where we discuss strategies for reducing costs, increasing revenue, and targeting the right buyers.

2. Clean up your financials and other key documents

Resolve any outstanding tax issues and ensure your financial statements are accurate and adhere to standard accounting practices. Confirm that any legal obligations, such as leases, contracts, intellectual property agreements, and supplier agreements are settled and well-documented.

3. Establish a handover plan to solve for key man dependencies

You want to make yourself redundant as the business owner. For example, if you're a business owner who is managing customer/client relationships, then you need to transition yourself out of that role and move another member of your team into that role or create a system or process that helps your company maintain those relationships without you.

Without this, a buyer may perceive too much risk regarding the potential loss of customers after the sale, especially if those relationships are tied solely to you.

Step Two: Finding an M&A Advisor

There are clear benefits to working with an M&A advisor to help you navigate the M&A process.

M&A advisors make it 75% more likely that your business will sell.

They can increase buyer coverage by 10x, which significantly boosts the chances of finding a buyer that fits your ideal buyer profile.

Advisors can increase your sale price by [6-25%](#).

By leveraging their expertise in selling businesses like yours, an M&A advisor can determine an accurate business valuation, create targeted marketing materials, negotiate sale terms, and structure and close the deal. More detail on the M&A process below.)

Most business owners struggle to find the right M&A advisor. They may rely on recommendations from other owners, which could lead them to a generalist with little experience in their specific industry. Alternatively, they may spend time researching advisors online without knowing how to properly vet and interview them, limiting their options. They'll also provide materials to help you interview the advisors on your shortlist, enabling you to build the right deal team and turn your exit strategy into a reality.

Resources to Help You Assess an Advisor's Fit for Your Exit

To determine if an advisor is the right fit for your business, it's crucial to conduct thorough interviews before making your decision. This will help you weigh the pros and cons of each advisor on your shortlist. Your Axial Exit Consultant is available to guide you, and we also offer several resources to support you during this process, including:

[Questions to ask before hiring an advisor](#)

[6 clauses to negotiate before signing with an M&A advisor or investment banker](#)

Step Three: Executing the M&A Process

Your exit strategy helps prepare you for the M&A process, which includes finding a buyer, negotiating sale terms, and closing the deal. All the steps we've discussed so far lead to this point, and understanding what to expect will help you see your exit strategy through to completion.

As part of the M&A process, you and your advisor will:

Determine an accurate business valuation within the context of a sale

Create marketing materials that appeal to the right buyers

Screen buyer interest and execute an LOI (Letter of Intent)

Negotiate the sale and close the deal

Triangulating an Accurate Business Valuation Within the Context of a Sale

While the specific valuation methods may change based on your business, an advisor will generally conduct three analyses to triangulate an accurate valuation range:

Discounted cash flow (DCF): This method estimates the value of a business based on its expected future cash flows. It involves forecasting your business's future profits and "discounting" those cash flows back to their present value using a discount rate. The discount rate reflects the risk and predictability of future profits while adjusting for inflation, showing how much future profits are worth today.

Comparable companies (comps): A comps analysis benchmarks your company's valuation against similar businesses in your industry, factoring in size, growth, geography, capital structure (including debt levels), and lifecycle stage. For small businesses, this can be challenging, as valuation data is more readily available for larger, publicly traded companies. To ensure a meaningful and accurate comparison, it's crucial to select the right set of comparables and adjust for size differences.

Precedent transactions: Precedent transaction analysis values a business based on the prices paid for similar companies in past sales, reflecting real-world exit valuations. Unlike the methods above, these figures represent premiums paid by buyers in competitive bidding situations. However, finding reliable data can be difficult without an advisor or analyst, as most transaction details are private.

These methods take into account valuation factors such as CapEx, the size of your business, historical financial stability, customer contracts, and more.

It's key to work with an advisor experienced in selling businesses like yours to get an accurate valuation, as they can use data from past deals to refine their estimate. You can learn more about this in our post on [how to value a company for sale](#), where we explore the three valuation methods in detail and cover common mistakes to avoid.

Creating Marketing Materials to Target Specific Buyers

This includes an [investment teaser](#) with an anonymized business overview and a more detailed CIM ([Confidential Information Memorandum](#)) for interested buyers who sign an NDA.

In both documents, advisors highlight the attractive features driving current value and potential future opportunities your company could offer.

Screen Buyer Interest and Executing a Letter of Intent (LOI)

One major time-waster for business owners looking to sell is dealing with buyers who aren't truly interested in making a competitive offer. M&A advisors work on your behalf to screen out "tire kickers" — buyers who pretend to be interested but will ultimately waste your time.

A typical week for an M&A advisor in screening and evaluating buyers might look like this:

Ending contact with a buyer who requested the CIM but then raised red flags in response to one of your questions.

Answering questions from another buyer preparing to submit an [IOI](#) while verifying their capital sources to ensure it's wise to proceed with them.

Receiving and reviewing an LOI from a third buyer and discussing their offer with you in detail.

Simultaneously fielding initial inquiries from other potential buyers who've just seen the teaser.

When the advisor brings a deal to your attention that you want to pursue, they'll help you [execute a LOI](#). The LOI outlines the proposed price and deal structure for buying your business, but it's not a purchase agreement.

By executing an LOI, you enter into an **exclusivity agreement** for a set period, usually around 90 days. During this time, you agree not to engage other buyers, allowing this buyer to conduct a full due diligence process on your company.

Negotiating and Closing the Deal

The next stage, if the process continues beyond an LOI, is final negotiations and closing the deal.

Advisors play a crucial role in negotiations, as they remain neutral and composed, often helping secure the most favorable terms. They know when to push for more, when to stand firm, and when to compromise, ensuring the best possible outcome.

As you go through negotiations, it's important to remember the motivations for selling that you outlined in step one of your small business exit strategy. The final sale price is not just a number; it also reflects what you want to leave behind and what's needed to fund the next stage of your personal life, whether it's a new investment, retirement, or securing your children's education.

During negotiations, you work with the buyer to align on the terms of the sale. This includes, but is not limited to:

Indemnification provisions: Specifying who is liable for issues arising after the deal closes.

Interim and post-closing covenants: Setting expectations for buyer and seller responsibilities during the transaction (including non-compete agreements and liability insurance).

Closing conditions: Detailing the requirements for both parties at the time of signing the purchase agreement and the closing of the sale.

Termination provisions: Outlining the circumstances under which either party can terminate the deal.

Transition period: Specifying how long the seller will remain involved in the business post-sale to assist with the transition, along with their compensation during this period.

Your advisor will guide you through the final decision-making process and help you structure the deal to meet your post-exit goals. An experienced advisor can help you objectively evaluate these offers, leveraging their knowledge of your business and the market to determine the best deal structure for you.