

The Family Enterprise  
Initiative Series

# THE EXIT READINESS PLAYBOOK



The Trusted Advisors Guide to  
Preparing Your Company for Sale

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# The Exit Readiness Playbook

## Turning Preparation Into A Successful Exit

Many Business Owners decide to sell before they—or their companies—are truly ready. The result is predictable: disappointing offers, broken deals, or transactions that never close.

The Exit Readiness Playbook is designed to prevent that outcome. It's a structured process for Business Owners and their Trusted Advisors to identify and fix the gaps that destroy value and kill deals. This Playbook has been developed based on insights from a variety of other Trusted Advisors and national Exit Planning organizations we work with.

Your Trusted Advisor Team—including your Exit Planning Attorney and your Financial Team—works together to help ensure that both you and your Company are positioned for a successful, tax-efficient, and well-prepared sale—whether this is to an outside third party, key employees or family.

The Exit Readiness Playbook gives you and your Trusted Advisor Team a clear roadmap for continuing to build or adjust your Company so it is sale-ready every day—ready for a buyer, an investor, or the next generation.

The Playbook organizes the most common Deal Killers into 7 Readiness Steps. Each step describes the Main Focus, Key Deal Killers and Trusted Advisor Assignments—all aimed at eliminating the Deal Killers. The Trusted Advisor Team usually includes the Exit Planning Attorney and the Financial Team—which may include the Company CFO, outside CPA and the Business Owners' Personal Financial or Private Advisor (as well as the Market-Maker or Investment Banker for a sale to an outside buyer).

The best time to prepare your Company for sale is long before you intend to sell it. Companies that are “always ready to be sold” are also the ones that are best run, most valuable, most profitable and most resilient.



### Step #1 Owner Readiness & Mindset



**Main Focus:** Ensuring the Business Owner's personal, financial, and business readiness to transition, and aligning exit goals with reality.

A sale cannot succeed if the Business Owner is not personally or financially ready to let go. This section focuses on helping the Business Owner define readiness, clarify objectives, and build an Exit Plan that balances financial outcomes, legacy goals, and personal fulfillment.



#### Key Deal Killers

- Business Owner is not personally ready to transition or release control.
- Price or term expectations are unrealistic.
- Business Owner unwilling to remain involved post-sale for a smooth transition.
- Sale proceeds will not meet post-exit lifestyle or wealth objectives.
- Sale conflicts with personal, career, or family priorities.
- No Estate Plan in place to allow or direct a sale if the owner dies or becomes incapacitated.

### Trusted Advisor Assignments



#### Exit Planning Attorney

- Design and document the Business Owner's Exit Plan and Estate Plan coordination.
- Draft Emergency Succession Plan (incapacity, death, or sudden exit).
- Create Shareholder or Member Agreements supporting sale flexibility.
- Facilitate “Readiness Assessments” for personal and business alignment.



#### Financial Team

- Model after-tax proceeds under various deal structures.
- Prepare cash flow and retirement projections.
- Quantify financial readiness based on lifestyle requirements.
- Coordinate valuation benchmarking and sensitivity analyses.

# The Exit Readiness Playbook

## ✓ Step #2 Legal, Structural & Governance Readiness



**Main Focus:** Cleaning up the Company's legal foundation, structure, and governance so a buyer can proceed with confidence.

This section helps ensure the Company's ownership, contracts, and compliance are organized and defensible. A strong legal and governance framework builds buyer trust and minimizes negotiation friction.



### Key Deal Killers:

- Entity structure misaligned with what is being sold or retained.
- Majority and minority owners lack "drag-along" or "tag-along" rights.
- Right-of-first-refusal or other ownership restrictions block sale.
- Third-party consents not obtained and permits or licenses not transferable.
- Pending litigation, unresolved liabilities, or unaddressed "skeletons."
- Incomplete legal records, missing minutes, or inconsistent filings.
- Intellectual property not properly owned or protected.

### Trusted Advisor Assignments



#### Exit Planning Attorney

- Review and restructure corporate entities for sale efficiency.
- Draft or revise governance agreements (drag-along, tag-along, buy-sell, rights-of-first refusal).
- Audit and correct IP ownership and registrations.
- Conduct pre-sale due diligence and address legal "clean-up."
- Prepare disclosure schedules and consent plans in advance.



#### Financial Team

- Align financial records with legal entities.
- Confirm historical tax filings and reconcile intercompany accounts.
- Review exposure for sales, payroll, and income taxes.
- Develop and maintain due diligence data room for buyer review.

## ✓ Step #3 Leadership & Succession Strength



**Main Focus:** Building a capable and committed Leadership Team that can operate successfully without the Business Owner.

Buyers invest in leadership continuity as much as they do in profitable cash flow. This section evaluates the Leadership Bench Strength, Succession Planning, and Retention Incentives that reassure buyers the business can thrive post-closing.



### Key Deal Killers

- Company is too dependent on Business Owner's personal involvement.
- Key roles misaligned with Business Model or strategic needs.
- Lack of depth or capability in Leadership Team.
- Leadership unwilling to stay post-sale.
- Compensation or incentives not aligned with value creation.

### Trusted Advisor Assignments



#### Exit Planning Attorney

- Design executive employment, retention, and incentive agreements.
- Implement non-compete and non-solicitation agreements.
- Develop Succession Plan and Leadership Continuity framework.
- Review or create equity participation or phantom stock plans.



#### Financial Team

- Structure incentive compensation and retention bonuses in line with profitable cash flow.
- Model post-sale performance-based payouts.
- Quantify leadership impact on value and buyer confidence.
- Evaluate internal succession buyout feasibility (MBO/ESOP).

# The Exit Readiness Playbook



## Step #4 Business Model & Competitive Position



**Main Focus:** Demonstrating that the Company's Business Model, Execution Systems, and Value Proposition are sustainable and scalable.

Buyers pay for companies with a clear, defensible Business Model that can grow without the seller. This section focuses on documenting how the Company works, why it succeeds, and where its next profitable pivots will come from.



### Key Deal Killers:

- Competitive advantage is weak or unsustainable.
- Business Model has peaked with no next growth phase.
- Leadership cannot clearly articulate how or why the Business Model works.
- Forecasting and KPI systems are weak or non-existent.
- Key processes undocumented or inconsistently executed.
- Innovation and scalability not embedded in Company Culture.

### Trusted Advisor Assignments



#### Exit Planning Attorney

- Document Business Model legal impacts and licensing structures.
- Review contracts supporting scalability (vendors, partners, franchises).
- Protect proprietary systems, trade secrets, and IP-based assets.
- Advise on joint ventures or strategic partnerships to expand markets.
- Address Company's Business Model Forecast.



#### Financial Team

- Build and validate multi-year forecasts.
- Implement KPI dashboards tied to valuation metrics.
- Identify underperforming products or services for pruning.
- Quantify ROI of new initiatives and recurring revenue streams.



## Step #5 Financial Performance & Tax Optimization



**Main Focus:** Strengthening financial credibility, reporting accuracy, and tax efficiency well before buyers start their due diligence.

The Financial Statements must tell a clear and trustworthy story. This section helps ensure the Company's accounting, reporting, and tax positioning withstand buyer scrutiny and optimize after-tax outcomes for the seller.



### Key Deal Killers

- Financial Statements inaccurate or incomplete.
- EBITDA trends flat or declining.
- Tax strategies implemented too late to benefit sale.
- Inconsistent accounting practices or poor audit readiness.

### Trusted Advisor Assignments



#### Exit Planning Attorney

- Coordinate tax structure for sale (asset vs. stock).
- Implement pre-sale reorganizations and holding structures.
- Integrate estate, trust, and ownership planning with transaction design.
- Determine preferred Deal Terms or Letter of Intent objectives affecting business, financial and tax outcomes.



#### Financial Team

- Prepare reviewed or audited Financial Statements.
- Normalize EBITDA and eliminate non-recurring items.
- Implement pre-sale tax strategies (QSBS, S-Corp election, spin-offs, etc.).
- Support valuation and buyer financial modeling.

# The Exit Readiness Playbook



## Step #6 Market Position, Brand & Customer Dynamics



**Main Focus:** Elevating customer relationships, brand perception, and recurring revenue to maximize buyer appeal and valuation.

Buyers want growth, loyalty, and brand credibility. This section strengthens the Company's positioning with customers and in the marketplace to help ensure that goodwill translates into enterprise value.



### Key Deal Killers:

- Brand does not convert into customer acquisition or loyalty.
- Customer relationships and satisfaction are only "good," not "great."
- Limited recurring or contract-based revenue.
- Margins or cost structure not optimized.
- Reputation or online presence fails to differentiate.

### Trusted Advisor Assignments



#### Exit Planning Attorney

- Review and standardize customer and vendor contracts.
- Secure trademark and brand protections.
- Address risks in marketing claims, warranties, or guarantees.
- Review non-compete and confidentiality agreements with key partners.



#### Financial Team

- Analyze customer concentration and lifetime value.
- Model revenue stability and recurring income metrics.
- Evaluate pricing, margin, and product mix profitability.
- Track cost structure improvements and ROI of marketing spend.
- Consider Quality of Earnings Report.



## Step #7 Deal Process Understanding & Buyer Readiness



**Main Focus:** Preparing the Business Owners, Company, and Advisor Team to navigate the sale process with discipline, readiness, and control.

A successful sale depends on the seller's ability to anticipate buyer concerns and present a complete, well-documented Company story. This section prepares the team for due diligence, negotiations, and execution.



### Key Deal Killers:

- Business Owners do not understand how sale process works or how value is maximized.
- Key partner relationships are not strategically aligned.
- Change-of-control provisions or contingencies create hidden risks.
- Advisor Team is uncoordinated or reactive rather than proactive.

### Trusted Advisor Assignments



#### Exit Planning Attorney

- Develop due diligence binder and disclosure schedules.
- Coordinate data room and buyer confidentiality agreements.
- Draft or review LOI, term sheet, and transaction documents.
- Lead coordination among the legal, tax, and financial Advisor Team members.



#### Financial Team

- Prepare due diligence financial packages and management reports.
- Assist in responding to buyer Q&A and financial analyses.
- Support transaction structure modeling and working capital adjustments.
- Assist Investment Banker ("Market Maker" or "Deal Maker") in preparation of deal marketing materials ("CIM").
- Monitor closing adjustments and earn-out tracking.

*To deploy The Exit Readiness Playbook, please reach out to us and let's begin to move you and your Company into the best position for your successful exit.*

# Your Decision Point On Exit Readiness

## The Hidden Gap Between Intention and Outcome

Every Business Owner will at some point exit Ownership and Leadership. The intent for both of those exit points is to be on your own terms — at the right time, for the right price, and in a way that rewards years (or decades) of hard work. Yet, the reality is far different. According to multiple national studies, most Business Owners never complete a successful exit.

- Only about 30–40% of companies that go to market actually sell.
- Approximately 70% of Business Owners who attempt to sell are unable to find a buyer, or they walk away when the offers come in far below their expectations.
- Even among successful sales, approximately 75% of Business Owners report some form of “seller’s remorse.” They either feel they sold too low, lost control too fast, or failed to protect the people and legacy they cared about.
- About three out of four owners have no solid Exit Plan.
- Many have done no real planning at all beyond saying, “Someday, I’ll sell.”

(Sources: Business Enterprise Institute, Exit Planning Institute).

These statistics are not just numbers — they represent thousands of Business Owners who worked a lifetime to build value, only to discover too late that value is not the same as saleability.

## The Saleability Gap

Every Business has two values:

- **Operational Value** – What the business produces for the owner in income, control, and pride of ownership.
- **Transferable Value** – What the business is worth to someone else who doesn’t have the owner’s name, relationships, or daily involvement.

The difference between the two is often called the Saleability Gap — and it’s almost always wider than Business Owners realize.

Business Owners often assume that a good year of profits will translate to a strong sale price. But when they decide to sell, they discover issues that reduce value or stop buyers altogether:

- Key relationships that depend on the owner personally.
- Weak or outdated financial records.
- Customer concentration.
- Overreliance on a few key employees.
- No documented systems or processes.
- Limited strategic growth story.
- Unclear corporate structure or unresolved legal issues.

These issues might not surface when running the Business day-to-day — but they will surface when it’s time to exit. At that point, it’s usually too late to correct them.

## The Clock Runs Faster Than You Think

Business Owners generally underestimate how long it takes to prepare for a sale. From start to finish, an exit that produces maximum value and minimum disruption often takes two to five years of advance planning.

Why? Because value-building and exit-readiness are not single events — they are parallel tracks that require the actions included in this Playbook.

A Company can be profitable today but still be unsellable tomorrow if these steps are ignored.

## What Buyers Are Really Buying

Buyers do not buy the **past performance** of a Company — they buy its **future capacity** to produce results without the present Business Owner.

A well-run Company commands a higher multiple not just because it earns more, but because it is de-risked. It has repeatable systems, professional leadership, documented contracts, clear legal ownership, stable, diversified customers and growth momentum that continues after the sale.

When these elements are missing, buyers lower their offer or walk away.

When they are present, buyers compete for the acquisition — and that’s where premium pricing happens.

## The Personal Side of Readiness

Exit Readiness is not just about numbers. It’s about identity, timing, and family.

Business Owners are normally deeply tied to your company. You’ve built it, weathered challenges, and see it as an extension of yourself. When it’s time to step away, many discover they are not personally ready to do so — even if the Business is.

Without the correct, precise Exit Plan, this creates confusion and hesitation, which can kill deals. Buyers want confidence and clarity. Advisors want direction. Employees want stability. The Business Owner needs readiness in all of these three areas:

1. **Business Readiness** – The Company can run very well without you.
2. **Financial Readiness** – The sale after-tax proceeds will meet your personal and family needs and objectives.
3. **Personal Readiness** – You know what’s next in life after the sale.

The absence of any one of these can cause an otherwise strong Business to fall short of its full value and can cause you to fall short of your expectations.



## The Decision Point

Most Business Owners will face one of two futures:

1. **The Unplanned Exit** — Forced by age, health, or external events; rushed, reactive, and rarely on the Business Owner’s terms.
2. **The Planned Exit** — Guided by preparation, aligned with the Business Owner’s values, and executed with confidence.

The choice is made long before the sale occurs — it’s made the day the Business Owner decides to start preparing for this “trip”.

The Exit Readiness Playbook is the first step in that preparation. By assembling your Trusted Advisor Team and beginning the process, you can turn years of effort into enduring value.

## PRE-SALE / EXIT PLANNING AND MERGERS, ACQUISITIONS & DIVESTITURES PRACTICES

McGrath North's Pre-Sale/Exit Planning and Mergers, Acquisitions & Divestitures practices represent clients nationwide. Some of the industries we work in include food & beverage, construction, real estate, distribution, human resources, agribusiness, farm & ranch, industrial manufacturing, commodities, commercial manufacturing, retail, services, franchise, security, banking, energy, consumer products, biofuels, insurance, technology, accounting, healthcare, telecommunications, leasing, education, warehousing, finance, consulting, hospitality and information processing.

We have worked on hundreds of transactions, ranging in size from a few hundred thousand dollars to several billion dollars.

We have advised public companies, private companies, entrepreneurs, family businesses, private equity groups and others in a myriad of transactions, including mergers,

tender offers, initial public offerings, stock and asset purchases and divestitures, joint ventures, ESOP transactions and reorganizations. We have worked on transactions with most of the other "big name" M & A law firms across the country.

The McGrath North Pre-Sale/Exit Planning and M & A teams are recognized regionally and nationally for their experience, high quality service and practical business insight.

These include a top rating from Best Lawyers® in Mergers & Acquisitions Law, and the highest ranking from Chambers USA in the Corporate / Commercial category. Our team members are also individually recognized as Best Lawyers®, Super Lawyers®, BTI Consulting Group Client Service All-Stars and M&A Client Choice Award Winners.

We have worked on transactions in nearly all 50 states.



We have worked on transactions in 6 of the 7 continents.



### ATTORNEYS FROM OUR PRE-SALE / EXIT PLANNING AND BUSINESS SALE OR PURCHASE TEAMS

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# FAMILY BUSINESS LEADERS

## Results Not Wanted



## Results Wanted



## Results Achieved By



## What Is The Financial + Personal Cost of Being Too Late or Out of Time?

## What Is The Financial + Personal Value of Each Great Play Deployed In Time?

### Inspired By Excellence. Committed To Your Success.

When we work with Family Business Leaders, we ask about your story and the story of your Family Business. We get to see the heart and soul of America's Family entrepreneurs, that is, America's new breed of Family Business Pioneers.

We get to see your passion and your excellence. We get to see the grit and determination which drive you. We get to see the love and respect you have for your colleagues and for those you serve. In short, we get to see the pioneer spirit which drives you and your team. Just as it has driven me and our team.

For over 60 years we have been working with our nation's food companies, restaurants, farmers and ranchers to feed people better. We have been working with contractors and companies to build better and more affordable homes and new business facilities.

We have been working with technology companies to develop new ideas that improve lives. We have been working with inventors, startup companies and health care providers to develop patented medical devices, leadership teams and joint ventures that save lives. We have been working with energy companies to help fuel our homes and the businesses we all rely on.

We have been working with bankers, key partners, manufacturers,

distributors, retailers and transportation companies to finance, produce and deliver better products and services to communities around the world. We have been working with Family Business Pioneers and their other Trusted Advisors to transform, grow, carry on and transition the Family Business Dream, the backbone of our great country.

We have been working with our community leaders to improve our cities and our schools. We have been working with our elected leaders to improve the business climate to create and attract new and better jobs for Families.

For over 60 years, this has been the McGrath North Law Firm.

Working quietly behind the scenes closely with the talented leaders of great organizations around the world to make lives better.

Working together. Working stronger. Working faster. Working better. Overcoming Roadblocks. Avoiding Train Wrecks.

Inspired by Excellence. Committed to your Success.

Our diverse team isn't waiting for the future. We are helping to produce new, incredible, sustainable results right now.

We invite you to join us as we move quickly ahead towards the next 60 years.



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Membership Experience with:  
Vistage International Family Business Network  
Family Business Advisors Alliance  
Family Firm Institute  
CEO Space International  
Business Enterprise Institute  
Exit Planning Institute  
Maxwell Leadership  
Strategyzer AG  
Secret Knock

### Our Vision (Ultimate Goal)

That every Family and Family Business we serve will build a lasting Family Enterprise of generational wealth, leadership, and legacy.

### Our Culture & Code of Conduct

- Tenacity—We never give up on Families.
- Respect—We honor both tradition and innovation.
- Trust—We earn and safeguard trust in every relationship.
- Enthusiasm—We bring energy and optimism to every challenge.
- Courage—We face difficult issues with clarity and resolve.
- Generosity—We offer our best ideas and efforts.
- Compassion—We remember that Family is always at the heart.

### Our Mission (Why, What and How)

We "look into the future" with Family Business Leaders and your Trusted Advisors to discover, decide and deploy what's missing and still needed for you, your family, and your colleagues to achieve the full greatness of the Family Business Dream.

### Our Mission Mindset

- "Begin with the end in mind."
- "Start with simple. Only add what's needed."
- "Go for great. Don't wait for perfect."
- "All plans are firm...until changed."