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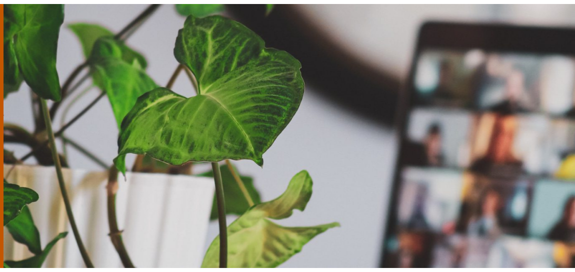

Getting Ready to Sell? Here is What You Can Prepare For

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If you are considering selling your business, preparation should begin well before receiving a letter of intent or entering buyer diligence. Buyers, lenders, and investors will closely evaluate the financial performance of the business, the sustainability of earnings, and the risks that could impact future cash flow.

A Quality of Earnings (QoE) analysis can help business owners prepare for this process by identifying the financial information, trends, and support that buyers are likely to request. Taking steps in advance can lead to a more efficient transaction process and may help reduce surprises once diligence begins.

As you prepare for a potential sale, consider gathering and reviewing the following:

Historical financial information

Buyers will typically want to understand revenue, gross margin, operating expenses, EBITDA, cash flow, and working capital trends over multiple periods. Having clean, organized financial statements and supporting schedules can help streamline diligence.

Revenue and customer trends

Buyers often focus on the sustainability of revenue. This may include customer concentration, recurring versus non-recurring revenue, pricing trends, lost customers, new customer growth, backlog, and contract terms.

Gross margin and profitability drivers

Changes in margins may raise questions during diligence. Understanding the factors driving margin fluctuations, such as pricing, labor, materials, vendor costs, mix changes, or operational efficiencies, can help explain the story behind the numbers.

Add-backs and non-recurring items

Sellers often adjust EBITDA for one-time, unusual, or owner-specific expenses. These adjustments should be well-supported and clearly documented before they are presented to buyers.

Working capital requirements

Working capital is often a key deal negotiation point. Reviewing accounts receivable, inventory, accounts payable, deferred revenue, and seasonal trends in advance can help sellers understand potential issues before they arise.

Owner-related and discretionary expenses

Owner compensation, related-party transactions, personal expenses, and other discretionary costs are commonly reviewed during diligence. Identifying these items early can help support normalized earnings.

Accounting policies and financial reporting practices

Buyers may review how revenue is recognized, how expenses are recorded, whether accruals are complete, and whether accounting policies are consistently applied. Addressing inconsistencies before diligence can help build credibility.

Preparing for a sale is not just about finding a buyer. It is about being ready to support the value of the business with clear, reliable, and well-organized financial information.

The Johnson O'Connor transaction advisory team can help business owners assess transaction readiness, identify areas that may require attention, and prepare for the financial diligence process. If you are considering a sale now or in the future, we would welcome the opportunity to discuss how we can help you prepare.

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