PROTECT IT

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What an exit actually is, how businesses are valued, and wh makes you an offer.

What This Resource Covers

Most business owners think about exits the wrong way — either as failure, or as something so far off that it doesn't need attention yet. Both are wrong. An exit is a planned transition, and the businesses that exit well are the ones that started building toward it long before anyone made an offer.

This resource covers what an exit actually is, the different forms it takes, how businesses are valued, what buyers look for, how taxes affect what you actually walk away with, and what exit-ready looks like in practice. It lives in Protect It because the decisions made now — about structure, documentation, and financial clarity — are exactly what determines whether your exit creates wealth or leaves money on the table.

Section 1 — What an Exit Actually Is

An exit is the intentional transfer of ownership, control, or both. It is not the end of the business. It is not failure. It is not selling out. It is a transaction — one that converts the equity you have built into liquid capital, which can then be deployed however you choose: reinvested, donated, inherited, or used to build the next thing.

The confusion about exits comes from conflating the founder with the business. The business is an asset. Founders who understand this build differently — with cleaner records, documented processes, and less personal dependency — because they know a buyer is not just buying what the business does today. They are buying what it can do without the original owner in it.

Exit Types — What the Options Actually Look Like

Outright Sale

You sell 100% of ownership to a single buyer — an individual, a competitor, or a private equity firm. You may be asked to stay on for a transition period (typically 60–180 days), but ownership transfers at closing. This is the most common exit for small businesses.

Partial Sale / Equity Stake

You sell a percentage of ownership while retaining the rest. This brings in capital and a strategic partner without a full exit. Common when the founder wants resources to scale but isn't ready to leave. The risk is that partial ownership means partial control — know exactly what rights you are retaining before agreeing.

Merger

Two companies combine. Ownership typically becomes shared. The merged entity may operate under a new name or one of the originals. Mergers happen for scale, market access, or competitive positioning. They are more complex than outright sales and require significant legal work.

Acquisition by a Competitor or Strategic Buyer

A company in your space buys you — often to eliminate competition, acquire your customer base, or absorb your IP. Strategic buyers typically pay more than financial buyers because they are buying market position, not just revenue.

Management Buyout (MBO)

Your existing management team purchases the business from you. Common when the founder wants to exit but values continuity. The team typically uses a combination of their own capital, seller financing, and outside lenders.

Succession / Family Transfer

Ownership passes to a family member or designated successor. Not always a financial transaction — can be gifted or transferred at below-market value for estate planning purposes. Covered in more depth in the Business Succession resource.

Acqui-hire

A company acquires you primarily for your team's skills and talent, not your product or revenue. More common in tech. The business may be folded into the acquirer entirely. Founders typically receive employment contracts as part of the deal structure.

Liquidation

The business closes and remaining assets are sold. This is not a wealth-building exit — it is a wind-down. It generates some return from equipment, inventory, or IP, but does not transfer a going-concern business.

The Important Distinction: Extraction vs. Exit

There is a difference between a founder who builds intentionally and sells at the right time — converting equity into capital that funds the next chapter — and a founder who abandons a business that was never structured to survive them. One is an exit. The other is departure. An exit requires preparation. It requires that the business can operate without you, that records are clean, that value is documentable. That preparation takes years. The earlier you start building toward it, the more options you have when you get there.

Section 2 — How Businesses Are Valued

Valuation is the process of determining what a business is worth to a buyer. Most founders overestimate their valuation and don't know why — because they are valuing what the business means to them, not what it

represents to someone who has to run it profitably without them.

There is no single formula for business valuation. The method used depends on the type of business, the industry, the reason for the valuation, and who is buying.

Common Valuation Methods

Multiple of Earnings (EBITDA Multiple)

The most common method for small-to-mid-size businesses. EBITDA stands for Earnings Before Interest, Taxes, Depreciation, and Amortization — essentially, operating profit. The business is valued at a multiple of that number. A business generating $200,000 in EBITDA at a 3x multiple = $600,000. The multiple varies by industry, growth rate, customer concentration, and risk profile. Service businesses often trade at 2–4x. SaaS and tech companies can trade at 8–15x or more. Know your industry's typical multiple before any conversation about price.

Revenue Multiple

Used when earnings are negative or inconsistent, or for high-growth companies. Valued at a multiple of annual recurring revenue (ARR) or total revenue. Less favorable for the seller than an EBITDA multiple unless margins are strong, because revenue alone doesn't tell the buyer what the business actually earns.

Asset-Based Valuation

The business is valued based on the fair market value of its assets — equipment, inventory, real estate, intellectual property — minus liabilities. Most useful for asset-heavy businesses or as a floor for any valuation. Service businesses with few hard assets but strong cash flow are almost never valued this way.

Discounted Cash Flow (DCF)

Projects the business's future cash flows and discounts them back to present value. Requires reliable historical financials and defensible growth assumptions. Vulnerable to manipulation — aggressive growth assumptions produce inflated valuations.

Comparable Transactions

What did similar businesses in your industry sell for recently? This is the market-based approach. Brokers and M&A; advisors use this to benchmark what buyers are actually paying. It is the most grounded method but requires access to transaction data that is not always public.

What Increases — and Decreases — Your Valuation

INCREASES VALUATION	DECREASES VALUATION
+ Recurring, predictable revenue	- Owner is the primary relationship with all clients
+ Low customer concentration (no single client > 20% of revenue)	- Revenue is inconsistent or undocumented
+ Documented, repeatable processes (SOPs)	- Personal and business finances are mixed

+ Clean financials that match your tax returns	- One or two clients represent the majority of revenue
+ Registered IP and owned brand assets	- No documented processes — everything is in someone's head
+ Business operates without daily owner involvement	- Unregistered IP or contested trademarks
+ Strong margins relative to industry peers	- Pending litigation or unresolved legal issues
+ Contracts in place with customers and vendors	- Outdated or non-transferable technology systems
+ Clear employee structure with key person retention plans	- Key employees with no retention agreements
+ Consistent year-over-year revenue and profit growth	- Revenue declined in the last 12–24 months

On Owner Dependency

The single most common reason small business valuations come in below expectations is owner dependency. If the business cannot generate revenue without you actively working in it — if clients call your personal cell, if you handle service delivery yourself, if your team doesn't know what to do when you're not there — a buyer is not buying a business. They are buying a job. This is fixable. It requires documentation, delegation, and in some cases, time. But it has to start well before the exit conversation begins.

Section 3 — What Buyers Actually Look At

Before any transaction closes, the buyer conducts due diligence — a structured review of the business to verify that what you represented is accurate and to identify risks they may be inheriting. This process can last 30 to 90 days for a small business and longer for larger transactions.

Most deals that fall apart do so during due diligence — not because the buyer changes their mind about the opportunity, but because they find things the seller either didn't know or didn't disclose. The best exit preparation is running your business as if due diligence is happening right now.

What Gets Reviewed in Due Diligence

Financial Records

Three to five years of P&L; statements, balance sheets, and cash flow statements. Tax returns for the same period. The buyer's accountant will compare financials to tax returns — discrepancies are a serious red flag. Revenue should be traceable to actual transactions.

Legal Documents

Entity formation documents, operating agreements, shareholder or membership agreements. Contracts with customers, vendors, employees, or partners. Lease agreements. IP registrations. Any litigation history — pending, settled, or dismissed.

Customer and Revenue Concentration

Who are your top ten clients? What percentage of revenue does each represent? Buyers discount heavily for concentration — if one client leaving could destabilize the business, that is priced into the offer.

Operations and Processes

How does the business function day to day? SOPs, employee handbooks, vendor relationships, technology systems, and access credentials. If these exist only in the owner's memory, the buyer cannot assess transferability.

Key Personnel

Who are the critical people? What are their employment agreements? Are there non-compete or non-solicitation clauses? Buyers want assurance that the team survives the transition.

Intellectual Property

Trademarks, patents, copyrights, trade secrets. Domain names, social media accounts, branded assets. Are they registered? Are they owned by the business entity — not by you personally?

Liabilities and Obligations

Outstanding debts. Personal guarantees. Lease obligations. Deferred revenue. Contingent liabilities — anything that could become a financial obligation after the sale.

Asset Sale vs. Stock Sale — Know the Difference

How the deal is structured — whether a buyer purchases the assets of the business or the ownership interest (stock or membership units) — has significant tax and liability implications for both parties. In an asset sale, the buyer purchases specific assets (equipment, IP, contracts, customer lists) and assumes only the liabilities they agree to. Most buyers prefer asset sales because they get a clean start. In a stock sale, the buyer purchases ownership of the entity itself — including all liabilities, known and unknown. Sellers often prefer stock sales because proceeds are typically taxed at capital gains rates rather than ordinary income rates. Which structure applies to your deal affects what you actually walk away with. A business attorney and a CPA with transaction experience are required before agreeing to either.

Section 4 — What You Actually Walk Away With

The purchase price is not the number that matters. What matters is net proceeds — what you receive after taxes, deal costs, debt repayment, and any post-closing obligations. The gap between the headline number and what actually arrives in your account surprises most first-time sellers.

What Reduces Your Net Proceeds

Transaction Costs

Broker or M&A; advisor fees typically range from 5–10% of the purchase price for smaller deals. Plus legal and accounting fees. These are paid from proceeds at closing.

Debt Payoff

Any outstanding business loans, lines of credit, or equipment financing must typically be paid off at closing. This reduces net proceeds dollar for dollar.

Taxes on the Sale

How the gain is taxed depends on deal structure, how long you have owned the business, and how the purchase price is allocated across asset categories. Long-term capital gains rates apply to business interests held more than one year. Ordinary income rates apply to certain categories like inventory and non-compete payments. Depreciation recapture adds additional tax. Model this with a CPA before you sign anything.

Earnouts

A portion of the purchase price contingent on future performance. Common when there is a gap between what the seller claims the business will earn and what the buyer believes. Example: $500K at closing, $250K additional if revenue hits a target in year two. Earnouts delay proceeds and carry risk — the buyer now controls the conditions that determine whether you get paid.

Seller Financing

The seller accepts part of the purchase price in installments over time. Increases the probability of a deal closing but means your money arrives over years, not at closing. If the buyer defaults, you may be left pursuing a legal remedy.

Indemnification Holdbacks

A portion of proceeds held in escrow for 12–24 months to cover claims the buyer may make post-closing — for undisclosed liabilities or issues discovered after the transaction. If no claims are made, the holdback is released.

Terms Literacy Is as Important as Exit Literacy

Not all deals are equal — and the headline price is rarely the whole story. A $1M offer with 40% in earnouts, seller financing, and a 24-month holdback is a very different transaction than a $1M offer at closing with clean terms. Negotiating deal structure is where most value is won or lost. That means understanding what each term means, what you are agreeing to, and what happens if conditions change after closing. An M&A; attorney — not just any business attorney — is the right person in the room for this conversation.

Section 5 — How Exit Strategy Connects to What You're Building Now

Exit strategy is not a separate topic from business operations. It is the result of how the business was built. The founder who exits well is not someone who got lucky when a buyer showed up — they are someone who spent years making their business easier to own without them.

Exit Strategy + Legal Structure

How the business is legally structured affects how the sale is taxed and how cleanly ownership can transfer. A business with a current operating agreement, documented ownership, and no pending legal issues closes faster and at a higher multiple than one where the buyer's attorneys find problems in due diligence. The legal groundwork for the exit is laid years before the exit happens.

Exit Strategy + Financial Clarity

Clean, accurate financials are the single most important factor in a smooth transaction. If your books are mixed with personal expenses, if revenue is undocumented, if your reported income and your bank account don't tell the same story — the buyer will find it, the valuation will drop, and the deal may not close. Financial discipline is exit preparation.

Exit Strategy + Tax Planning

The tax treatment of a business sale is one of the most consequential financial decisions in the transaction. An asset sale and a stock sale have different tax implications. The allocation of purchase price between goodwill, equipment, and non-compete agreements affects what is taxed at capital gains rates versus ordinary income rates. A CPA who specializes in business transactions is essential before any purchase agreement is signed.

Exit Strategy + Business Succession

Succession planning and exit strategy address the same question from different angles. Succession planning covers who takes over and how — including involuntary transitions. Exit strategy covers the deliberate, planned transition on the founder's terms and timeline. The succession plan is the safety net. The exit strategy is the target. A business with both is prepared for whatever the transition looks like when it comes.

Exit Strategy + Wealth Transfer

A business sale creates liquidity — cash that can be deployed into the next venture, invested, placed into trusts for the next generation, or used to fund the life the business was always meant to support. The exit is not the end of the wealth-building story. It is often the most significant capital event in it. What happens to those proceeds — how they are protected, invested, and transferred — is governed by the estate plan, the investment strategy, and the family governance framework that should already be in place before the sale closes.

The Questions That Tell You If You're Exit-Ready

If someone offered to buy your business tomorrow, could you produce three years of clean financial statements that match your tax returns? Does your business generate revenue when you are not actively working — or does everything stop when you stop? Are your processes documented well enough that a new owner could run the business without you after a 90-day transition? Do you have a diversified client base — or do one or two clients represent the majority of your revenue? Is your IP registered? Are your contracts in order? Are there any pending legal issues a buyer would find in due diligence? Do you know what your business is worth right now — not what you hope it is worth, but what a buyer in your industry would actually pay? Do you have a CPA and a business attorney with experience in business sales? The answers to these questions are your exit readiness assessment. Every gap is a preparation opportunity. Start closing the gaps now — regardless of when you plan to exit.

A Note on How PEG Handles This Topic

This guide is educational. It is designed to give you the framework and vocabulary to understand exit strategy, recognize where your business stands, and have better-informed conversations with the professionals who handle these transactions. PEG does not provide legal, tax, or financial advice. Business valuations, deal structure decisions, and transaction tax strategy require a business attorney and a CPA with M&A; experience. No guide replaces those relationships — it prepares you to use them effectively. For live sessions on valuation, exit planning, and business transactions, check the PEP partner workshop schedule inside your membership.

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