Episode 19:

Before the Letter of Intent

What a Nine-Figure Exit Requires Before the LOI, and Why Most of It Has Nothing to Do With the Buyer

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An owner approaching a nine-figure liquidity event is managing three timelines that rarely align. First, the business must be ready for institutional scrutiny. Second, the market must be in a phase that rewards the company rather than merely absorbing it. And third, the family must have completed the ownership, charitable, and tax positioning before a deal becomes certain.

A competitive process addresses the first two directly and points repeatedly to the third. The guiding principle of the episode, **build a business you plan never to sell but keep it ready to sell at any moment,** is an operating discipline rather than a sales tactic. The same holds true on the family side. The structures that determine what the next two generations receive are built years before a buyer appears, or they are not built at all.

EPISODE 19

Featuring:

John Christensen, JD CFP®

Cameron Bond, CFP®

Guest:

Pat Trysla

Founder & CEO

Frontier Investment Banking

Exit Readiness

Due Diligence Runs in Three Directions: Buyers examine a company historically, presently, and prospectively, and the scrutiny reaches past the financials into customers, contracts, systems, controls, and background checks on the management team. Missing documentation is not a disclosure problem. At best, missing documentation reduces the premium, and at worst, presents enough risk to stop the deal.

A "PG-Rated Great Movie": Predictable top and bottom line, a real compounded growth rate, and a defensible competitive advantage. Together, they make future cash flow projections believable to a buyer.

Quality of Revenue, Not Just Revenue: Quality of revenue is scored separately from quantity of revenue based on various factors, including recurring revenue under long-term contract, no customer concentration, and margin produced by a disciplined cost structure rather than by deferral.

Management Is the X Factor: The buyer will commission a quality of earnings report. Sophisticated sellers commission their own first. Strong management gathers data, tracks KPIs on a dashboard, and manages accordingly.

Entity Structure Has the Longest Lead Time: Entity structure is the readiness decision with the longest lead time. Structuring the company as an S corporation, a C corporation, or an LLC dictates which transaction structures, tax outcomes, and charitable vehicles are available to the seller years later.

Notable Quotes

"Build a business that you plan on never selling, but you are ready to sell at any one moment."
-Pat Trysla

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Family Positioning

Valuation Discounts Have an Expiration Date: Interests transferred while a sale is speculative are valued as illiquid minority interests in a private company. Once a letter of intent is signed though, that valuation argument becomes considerably more difficult. The ideal time to move interests to family or to irrevocable trusts is when the business is worth least and a sale is least certain.

Rollover Equity Has an Owner, and That Owner Should Be Chosen: Rollover equity is tax-deferred, not tax-free, and the second liquidity event can be larger than the first. Deciding whether the founder or a trust for the family holds it is a structuring decision that determines which generation ultimately receives it.

Several Doors Close at the Same Moment: Charitable commitments, state residency and income sourcing, and qualified small business stock positioning all depend on steps completed well before the contract for sale. None of them can be added at the closing table.

The Banker Maximizes the Number, Not What You Keep: An owner de-risking so that children and grandchildren are provided for is an estate planning objective, not a transaction objective. The investment banker can maximize the number, but what the family keeps, and who receives it, is decided elsewhere and earlier.

Charitable Positioning

Shares Give Better Than Cash: A gift of appreciated shares before a sale carries no capital gain to the donor and produces a deduction. However, the same generosity funded after closing comes out of after-tax proceeds. Families commonly move 10 to 20 percent of the company through gifts of appreciated stock.

The Vehicle Decides the Deduction: Closely held stock contributed to a donor advised fund is generally deductible at fair market value, subject to a 30 percent of adjusted gross income ceiling with a five-year carryforward. The same shares contributed to a private foundation are generally deductible at basis and capped at 20 percent. The more prestigious vehicle is usually the more expensive one for this particular move.

Entity Type Reaches Forward: C corporation stock is the clean contribution, while S corporation shares generate unrelated business taxable income for the recipient charity on both operating income and the eventual sale gain. Many sponsoring organizations will not accept them. Entity choice made years earlier decides what is possible here.

Timing and Documents Govern the Outcome: The transfer has to be complete before the sale becomes a foregone conclusion, and closely held shares require a qualified appraisal. Shareholder agreements, buy-sells, and rights of first refusal routinely restrict transfers to charity and must be cleared well in advance.

The Gift Has to Exist Before the Sale Does: A family selling for $65 million that contributes $20 million of stock before the sale removes that gain from the family return entirely and shelters a substantial share of the remaining gain, carrying any unused deduction forward for up to five years. The same $20 million given after closing accomplishes neither. The gift must happen before the sale.

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Market Window

Retirement Is Not a Market Signal: An owner who plans to run the company until retirement and sell on the way out is making a market timing bet without knowing it. If it works out, the seller was lucky.

Consolidation Has a Front Half and a Back Half: A private equity firm buys a $10 million of EBITDA platform, completes five acquisitions, integrates toward $50 million of EBITDA, and exits. Selling into the front half of that cycle, as the platform or as a priority add-on, is worth materially more than selling into the back half.

Capital Conditions Are Not Constant: More than a trillion dollars of dry powder sits with private equity firms, family offices, and corporate balance sheets, and private credit now finances transactions on terms regulated banks are not permitted to match. Capital availability is a condition of the market, not a permanent feature.

Deciding Not to Sell Is Still a Decision: If you decide not to sell, make that an informed decision rather than a default. A family that's never priced its business in the market hasn't actually chosen to hold it.

Preparing the Next Generation for Stewardship

Most Families Plan for the Wealth, Not the People: The financial side of planning gets most of the attention because it's tangible and measurable. Preparing people is neither, which is exactly why it gets skipped.

Stewardship Requires Deliberate Education: Future generations need to be developed and educated intentionally, with real opportunities to learn, participate, and gradually assume responsibility, not just a single conversation at twenty-five.

The Silver Tsunami and The Numbers Behind the Risk: 86% of family offices lack a clear succession plan for key decision makers, and an estimated $124 trillion is expected to transfer to the next generation by 2048. The transfer is coming regardless of whether the people are ready.

Assets Transfer. Wisdom Doesn't, Automatically: Assets can be transferred by trust agreement in an afternoon. Judgment and stewardship take years to build and can't be assigned by document.

Buyer Due Diligence

Not All Capital Is the Same Capital: Tier one and tier two firms have deployed across many funds and hundreds of portfolio companies. Others describe themselves as private equity without committed capital behind them.

Track Record Is Not Enough: Even a strong firm can be the wrong partner if its senior people are near the end of their careers and have not handed off to the next generation.

Family Offices Are a Category of One: Family offices are increasingly active as buyers, and they resist generalization. Mandates, hold periods, and governance vary in ways institutional funds do not.

The Deal Closes in a Day. The Partnership Runs for Years: When the founder rolls equity, the buyer becomes a long-term partner in the family's remaining wealth. The transaction closes in a day. The relationship runs for years.

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Buyer Competition

The Tell Is How Sophisticated Buyers Behave: Private equity works hard to negotiate one-on-one when it's buying. When it sells though, it runs a competitive process every time because failing to do so would breach the fiduciary duty it owes its investors. That asymmetry is evidence of what a competitive market is worth.

What Scale Actually Looks Like: On one recent recapitalization, a target list of 100 to 150 private equity firms expanded to more than 1,500 contacts, produced roughly 200 interested parties,75-plus offers, and narrowed through several rounds to three finalists. The sequence? Blind teaser, then an eight-to-ten page confidentiality agreement, then indications of interest, then successive rounds.

You Never See Their Model: Buyers price off internal models the seller never sees. A process does not reveal those models, but the pattern of questions discloses which information moves them. Competitive processes routinely produce a premium no one anticipated.

A Broken Deal Is Not Symmetrical: A one-on-one process that dies exposes pricing and competitive advantage to a party that may compete with you. A broad process that loses its lead bidder pivots to the runner-up with due diligence already complete.

Recapitalization Structure

The Number Most Owners Have Never Seen: An illustrative $100 million valuation on an 80/20 structure. The owner receives $80 million at closing and rolls 20 percent into the new entity. Because the buyer uses leverage, and the rollover is structured as tax-deferred, that 20 percent can convert into 30 to 35 percent of the go-forward equity.

Minority and Majority Are Both Live: A minority sale of 40 to 49 percent preserves control. A majority sale, which most financial buyers prefer at 80 to 85 percent, brings greater capital and a different governance relationship. A well-run process runs both in parallel so the owner compares real bids rather than hypotheticals.

The Next Leap Requires a Different Skill Set: An owner who has taken a company to $10 million of EBITDA usually has not taken one to $40 million. A financial buyer brings capital, an acquisition engine, and a network. What it does not bring is operating management, a client base, or community standing, which is why it needs the founder.

Concentration Becomes Diversification: The family exchanges a single concentrated asset for a diversified balance sheet plus a meaningful continuing position and holds real liquidity outside the operating business for the first time. The result: the family is playing with house money.

StoryOne® story-one.com hello@story-one.com (913) 544-0600