



EXIT READINESS AN M&A

GUIDE FOR TECH COMPANIES



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INTRODUCTION

One of the most important decisions a business owner one day will have to make, is whether to sell their business or not. Owners can have various reasons for wanting to sell their business, this could vary from retirement, engaging different activities, de-risking or capitalize on a lucrative offer from a potential buyer. Preparing for a sale at an early stage and not waiting too long is crucial, as the more a business is prepared for a sale, the better the transaction will be. Exit ready means that a company is well prepared to manage a significant change of ownership. More specifically, it implies that a company will pass due diligence without major problems or issues that may lead to price adjustments or excessive indemnifications or warranties. Preparing early is key. Experience shows that being exit-ready can easily boost a company's valuation by 10-30% (Marktlink, n.d.). Furthermore, a well-prepared company and M&A process attracts more buyers, can improve deal smoothness and the transitional phase after the transaction. This paper provides a practical roadmap for Technology companies to ensure they are exit ready.





DEFINING YOUR EXIT STRATEGY

Before taking any steps towards an exit, it is important to clearly know the underlying reason for the sale of the company. Understanding whether this is simply to cash out, a necessity due to the owner's retirement, or to find an experienced partner for growth that can take the company to the next level, is crucial. Besides knowing the underlying reason, the company owner should also have a clear vision of his role in the company after the transaction.

After defining the objective of the sale, a buyer profile should be formulated. A buyer profile can help to prepare the company in a way that aligns with buyer expectations and focus negotiations. Part of the buyer profile can be made of certain characteristics of the buyer, examples are managerial capabilities, sector knowledge, or market position. Additionally, the nature of the buyer is also important to take into consideration. Generally, there are two types of buyers:

- Financial Buyers, which are often private equity (PE) firms, who primarily acquire companies with the goal of improving the overall value of the company, and then selling it after several years. Financials buyers focus mostly on financial performance and growth potential.
- Strategic Buyers acquire companies to integrate them into their business with the goal of strengthening their market position or improve product offering. This is achieved through, acquiring intellectual property, skilled personnel or synergy benefits.

Finally, the last step to define an exit strategy is considering the cultural fit between the company and the potential buyer. According to McKinsey (2024), evaluating company culture effectively throughout the M&A process can increase the chance of meeting synergy objectives by 50%. When companies overlook cultural differences like corporate values, management styles, and work practices, it can lead to integration issues that negatively impact morale, team spirit, productivity, and overall value creation.



FINANCIAL READINESS

Most M&A deals in the tech industry are driven by growth potential, profitability, and scalability. Buyers primarily assess the financial track record of a company, but they also want clear visibility into future earnings and cash flow potential. Therefore, financials must be accurate, consistent, and optimized to present the company in the best possible light. This step is all about building mutual trust with potential buyers by ensuring transparency, eliminating financial red flags, and presenting a realistic but compelling growth story.

Up-to-Date Financial Statements

Buyers want accurate, consistent and timely financials to assess risks and opportunities. Buyers require up-to-date profit & loss statements, balance sheets, and cash flow statements according to the accounting standards applying to the region a company operates in. Ideally the company can show accurate financials from the last 3 years (Morgan & Westfield, 2024). Other important financials to focus on are:

- **Debt & Liabilities** – Minimize outstanding debt or restructure terms to present a stronger balance sheet.
- **Accounts Receivable & Payable** – Resolve overdue invoices and ensure consistent cash collection and payments to avoid liquidity concerns.

- **Working Capital Stability** – Buyers prefer predictability, so also working capital stability. Extreme fluctuations can raise concerns, as they indicate inconsistent revenues and poor financial management.

These financial factors directly influence business valuation and deal negotiations. A financially well-managed company appears less risky and is therefore more attractive to potential buyers. To ensure accuracy and increase credibility a company could also do an audit or even a vendor due diligence.

Optimizing Revenue Streams & Cost Structure

Optimizing revenue does not only simply mean increasing revenue, but also focusses on the distribution and nature of your revenues. One way to optimize revenue is to increase the amount of recurring revenues, especially for tech companies. Recurring revenue is seen as a key indicator for deal valuation as it increases predictability and reduces revenue volatility. Tech companies could boost their recurring revenue by offering additional SaaS products on top of their project-based work. SaaS businesses often generate predictable cash flows and higher gross margins, making them more attractive to buyers (Main Capital, 2025). Transitioning from one-time software development projects to subscription-based models can therefore improve business valuation.

Besides increasing revenue directly, a company can also increase financial performance by decreasing potential risk. For example, a high customer concentration risk can negatively impact valuation and scare off buyers. Generally, there is no problem if customer concentration is below 10%. Some buyers will also tolerate customer concentration up to 20% to 30%, in these cases buyers sometimes introduce protective measures to mitigate the risk on their side (Morgan & Westfield, 2024), like renegotiating a longer contract term.

When looking at the cost side, eliminating low margin offerings could improve the overall gross margin percentage. Renegotiating supplier contracts for better terms, bulk discounts, or alternative vendors can lead to immediate cost savings and an improved EBITDA. Critically evaluating non-core activities for outsourcing could also be beneficial, for example HR activities.





LEGAL & TAX READINESS

Legal and Tax preparedness are critical aspects in the M&A process, as buyers conduct thorough due diligence to assess risks related to contracts and compliance with regulations. Addressing these issues early enhances trust, reduces deal friction, and maximizes valuation.

Contracts with Suppliers and Customers

As earlier discussed, buyers look for stability and predictability. Therefore, contracts with both customers and suppliers should have clear term and conditions and be evaluated regularly to assess performance. Ensuring that contracts with both key suppliers and customers are transferable helps preserve business continuity post-acquisition. Finally, implementing effective risk management strategies can also contribute to operational stability and a smooth transition phase.

Tax Readiness

Tax planning is an important aspect of M&A readiness, it significantly influences deal valuation and post-transaction liabilities. Companies must assess their tax compliance, including corporate income tax, VAT, and transfer pricing policies. This can be done using a tax health check, tax health checks help identifying potentials taxation issues and offers resolutions for these potential problems. This can ultimately result in less uncertainty and increase corporate value (PWC, n.d.). Furthermore, structuring the transaction efficiently, whether as an asset or share sale, can optimize tax outcomes for both buyers and sellers.





PRODUCT & TECHNOLOGY READINESS

Ensuring product and technology readiness is a vital step to take, especially for tech companies. Offering an up to date, well documented, high quality and scalable product or solution increases interest and company valuation.

Technology Roadmap & AI Strategy

A clear product roadmap helps buyers understand future development plans, scalability potential, and innovation priorities. Moreover, describing the current and future use of AI in your strategy can also provide buyers useful insights. Companies who can successfully integrate and leverage AI create more value and receive higher overall valuation (McKinsey & Company, 2023).

Up-to-Date and Quality Code

By ensuring that the codebase is up to date and well-structured, companies can mitigate integration risks. Buyers look for scalable architectures, cloud-native solutions, maintainability, and adherence to industry best practices. A way companies can show their commitment to a secure and high-quality codebase is by regularly using a code scan. Code scans can uncover vulnerabilities and improve overall quality. By proactively searching for ways to improve a product or solution, tech companies can enhance buyer trust and maximize acquisition value.

Development & Technical Expertise

Besides financial and technological assets, investors also assess human capital. Buyers prefer well-structured and stable development teams, who have high levels of expertise. Documenting team roles and responsibilities can help achieve this. Retention strategies for key developers can also mitigate risk and increase attractiveness for the company.



IP and Open Source

IP is often a tech company's most valuable asset. Conducting an IP audit ensures ownership is well-documented, licensing agreements are compliant, and there are no pending disputes (WIPO, n.d.). If existing, companies should resolve (legal) issues regarding IP before selling to prevent deal breakdowns or devaluation. IP can also be stored in a different legal entity to protect it from operational liabilities. Lastly, open source software usage should be carefully assessed, with all dependencies disclosed early to avoid legal risks.



OPERATIONAL READINESS

A well-organized, efficient organization is easier to scale, simpler to transfer to a new owner and therefore, more valuable. By standardizing and automating key processes, companies can reduce inefficiencies, lower costs, and enhance operational resilience.

Operational Efficiency & Scalability

Streamlining operations can help to increase efficiency and reduce reliance on key players within a company. By automating routine tasks, the number of errors and dependency on key individuals can decrease. This results in higher buyer confidence. In addition to being streamlined, operations should be scalable to stay competitive and attractive for buyers. In general, a SaaS model is easiest to scale due to the relatively low requirement of human resources and its predictable revenue, this makes reinvesting less risky. Companies using an IT services business model should prioritize their recruitment processes and develop effective retention strategies. Lastly, managed services companies benefit most from standardized workflows and leveraging cloud-based infrastructure to scale efficiently without heavy capital investment.



Marketing

Having a structured marketing and sales process can help creating consistent lead generation, customer engagement and more accurate forecasting. Moreover, by implementing effective pipeline management, the visibility on sales opportunities and progression will increase. Defining and monitoring KPI's can also provide valuable insight on business performance. Examples of these KPI's are customer acquisition cost (CAC), churn and conversion rates. These KPI's are especially important for buyers of SaaS companies to measure the scalability of revenues. One practical way to achieve this is by implementing a CRM system with automated reporting, ensuring that data is centralized, and KPIs are continuously tracked.



CONCLUSION: PREPARING FOR A SUCCESSFUL EXIT

When preparing a company for an M&A transaction, a business owner should first define their exit strategy. A business owner should be able to define the reason for transaction, their role after transaction and a buyer profile including characteristics and cultural fit. Preparing the company itself is a strategic process that requires foresight, planning, and execution across financial, legal, product and operational dimensions. Companies who proactively review and optimize their company across these dimensions can increase business valuation, attract the right buyers and can enhance smoothness in the transitional phase. Exit readiness is not just about selling a company, it's about building a stronger, more scalable business that remains valuable in the long term.



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