



\$250M+ IN CLOSED DEALS

The Eight-Figure Exit Guide

Exit on your terms. How to sell your \$2M–\$50M business without regret.

IN THIS GUIDE

01 Pre-exit preparation

02 Valuation factors

03 Structuring the deal

04 Buyer marketing

05 Negotiation

06 Closing the deal

Charting stress-free exits for hardworking entrepreneurs.



A NOTE FROM THE FOUNDER

Why we wrote this.

Breakwater M&A helps entrepreneurs buy and sell businesses.

But that is just the surface. What we really do is guide owners into the next chapter of their lives, and for most, that journey runs through the sale of their business. It is often the most stressful experience of their career.

When you have \$1M or more in EBITDA, your buyers are often private equity platforms, strategic acquirers, and family offices (we'll explain what these all mean).

At an M&A industry conference, I once heard a speaker call these buyers "the sharks" that we need to protect our clients from. They run acquisitions for a living, and they smell blood in the water the moment you show up unprepared.

I had already named my company Breakwater before I heard him speak, because that is exactly what we do: shelter our clients and chart them through unfamiliar waters. Most owners only ever sell one business in their lifetime. The sharks have done it hundreds of times. That gap in knowledge is where value is lost, not in the offer price, but in the terms nobody explained until it was too late to change them.

When you are ready, book a confidential valuation call with our team. We will chart a clear path of what your business is worth today, and what would move the number.

[Book your confidential valuation call →](#)

Morgan Tate

FOUNDER · BREAKWATER M&A



P.S. If you are more than two years from selling, start with the worksheet on page 15 and the checklist on page 30. Remember: the best time to start exit planning was yesterday.



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The six stages of an eight-figure exit

Selling a \$2M–\$50M company is a managed process, not a broker listing. Each step of the process should have a purpose and lead to higher success.

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\$2M–\$50M

REVENUE RANGE OF A
BREAKWATER CLIENT

\$1M⁺

EBITDA WHEN YOU CAN START
RUNNING A MANAGED PROCESS

4x–6x

EBITDA MULTIPLE RANGE FOR
QUALITY COMPANIES

INCLUDED RESOURCES

Valuation worksheet (page 15) · The Eight-Figure Exit Checklist (page 30) · Glossary (page 32) →



INTRODUCTION

Why 8-figure exits are different

A company with \$1M or more in EBITDA sits in a specific part of the market. It is too large for an individual buyer with a bank loan and too small for most public acquirers. It is exactly the right size for private equity platforms, bolt-on programs, strategic acquirers, and family offices. These buyers have investment committees, lenders, and quality-of-earnings providers. While you may only sell once in your lifetime, these buyers negotiate deals every day.

Roughly 70% of businesses brought to market do not sell.¹ That failure rate is not the result of a lack of interest. More often, it comes from a heart-breaking last-minute collapse: a signed Letter of Intent (LOI) that dies in diligence, a fundamental misunderstanding of working capital, or a deal structure so convoluted the owner is forced to walk away. The owners who sold and still regret it almost never ran a bad business. They ran their first process against a counterparty running its 40th deal in three years.

Five common regrets we hear from owners who sold without help

<i>"I sold to the buyer who called me."</i>	No competition resulting in poor deal terms: less cash at close, a heavier earn-out, and larger legal risk. The price looked "fair" because there was nothing to compare it to.	SECTION 04
<i>"The buyer's accountant found the issue first."</i>	No sell-side QoE. The buyer's provider cut their EBITDA calculation by 10% in week six of diligence, causing the purchase price to fall with it.	SECTION 01
<i>"The earn-out never paid."</i>	Targets were set on EBITDA after integration costs, a number the buyer controlled. For the last two years they never hit the target, resulting in zero pay-outs.	SECTION 05
<i>"I told my team too late."</i>	Key managers got a poor first impression of the buyer late in diligence. Two left within the year.	SECTION 02
<i>"I did the tax planning once I received an LOI."</i>	No time to purify for the lifetime capital gains exemption in Canada or to confirm QSBS treatment in the US, and zero time to put a family trust in place. The difference in after-tax proceeds ran to seven figures.	SECTION 03

The goal of each section of this guide is to prepare you to avoid each of these regrets.

1. Exit Planning Institute, State of Owner Readiness research; the 70% to 80% figure is widely cited across the exit-planning profession. Verify the current edition before publishing.



*You don't get what you
deserve. You get what
you prepare for.*

CHRIS VOSS • FORMER FBI LEAD HOSTAGE NEGOTIATOR

READ SECTION 01 • PREPARATION →

SECTION 01

Pre-exit preparation: anticipating what buyers will diligence

Preparation is where most of the value in an exit is created or lost. At \$1M+ in EBITDA, buyers arrive with a checklist, often exceeding 100 request items. Your job in the 12 to 24 months before going to market is to pre-populate the data room with as many of these files as possible.

1 Financial credibility

For Canadian businesses you will want reviewed or audited statements: compiled statements (what most accountants provide) are not enough at this scale. Move to reviewed statements at minimum. If you expect a purchase price above \$15M–\$20M or an institutionally backed buyer, you may need audited statements or a quality of earnings (QoE) completed. Three years of history is the standard ask, plus a current trailing-twelve-month view.

A sell-side QoE, completed before you go to market, validates your adjusted EBITDA before the buyer's accountant does, surfaces problems while you still control the narrative, and shortens diligence. Budget \$40K–\$100K depending on complexity. On a \$10M transaction, a QoE that defends \$200K of add-backs pays for itself ten times over.

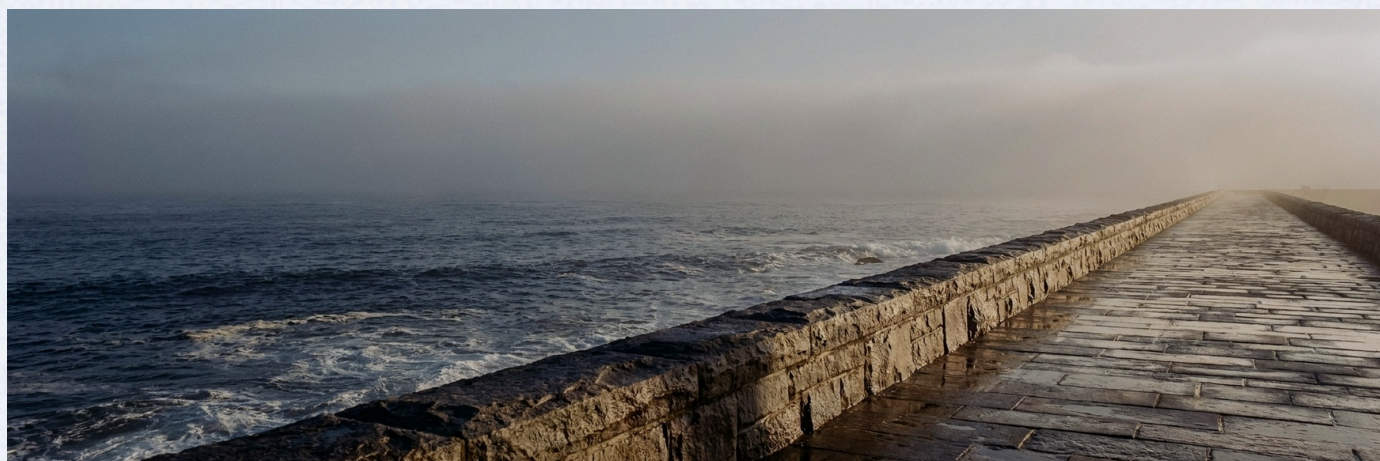
Normalized EBITDA schedule: Document every adjustment: owner compensation above market, one-time legal fees, related-party rent, discontinued lines. Each add-back needs a paper trail. An undocumented add-back is a buyer discount waiting to happen.

EXPERT NOTE • WHAT THE BUYER'S QOE ACTUALLY FINDS

We have sat in on meetings where the buyer's accountant walks through their "findings," which are never positive. On companies that have not done their own QoE, adjusted EBITDA can move by 5% to 15%, often decreasing the company valuation. The usual culprits: revenue recognized on invoice rather than delivery, inventory not counted at year-end, and an owner working two full-time jobs that the buyer will have to replace with a new salaried hire. A sell-side QoE finds the same items. Finding them first gives you the ability to fix the problem before a buyer does (which can destroy buyer confidence).

2 Management depth

Management depth is the single largest value driver at this scale, ahead of growth rate and profit margins. Buyers are rarely just buying EBITDA. They are buying the team that can keep producing and growing it after you leave. The test is simple: a second-in-command who can run the business for 90 days without you, functional leads in sales, operations, and finance who own their numbers, and long-term retention agreements signed before you go to market rather than negotiated as a condition of closing.



SECTION 01

Mitigating risk: four buckets a buyer evaluates

Every buyer runs the same mental exercise. They list what could go wrong after closing, underwrite that risk, and then reduce their offer or manipulate the deal structure. Their concerns fall into four buckets: financial, people, operational, and legal. Most companies at \$1M+ in EBITDA are not strong in all categories, leaving them money on the table. Your preparation is the same exercise these buyers run, just 18 months prior to running a process.

FINANCIAL

- Three years of review-engagement or audited statements
- Sell-side QoE complete, add-backs documented
- No customer above 25% of revenue; top 10 under 50%
- Monthly books close within 15 days, trailing twelve month (TTM) is up to date
- All legal liabilities cleared, leases (if applicable) are transferrable to a buyer

PEOPLE

- Employment agreements in place for all staff
- Retention and incentive packages signed with key managers
- Org chart with named succession for each function
- No open HR claims, grievances, or regulatory issues
- Severance exposure calculated and disclosed

OPERATIONAL

- Core processes documented (SOPs) and followed without owner input
- ERP, CRM, and reporting systems produce clean data
- Key supplier agreements assignable on change of control
- Clear forecast and understanding of annual CAPEX needs
- Cyber, privacy, and data policies current

LEGAL & CORPORATE

- Minute book and share register current and reviewed
- Intellectual property assigned to the company, not the founder
- Customer contracts assignable, or consent process mapped
- Leases reviewed for change-of-control and renewal terms
- No outstanding disputes with customers, suppliers, or staff



SECTION 01

Think like the buyer's investment committee

Every offer you receive has already been reviewed by someone before it reaches you. That someone might be the buyer's business partner, their accountant or lawyer, or on larger deals a formal investment committee or board. Working with your M&A advisor, your job is to make it easy for the buyer, who is now your advocate, to pitch and defend your business to them.

Common issues they may flag

- **Owner dependence:** Which relationships, decisions, and approvals still run through you. Buyers model the cost of replacing you and deduct it from EBITDA.
- **Customer concentration:** Any account above 20% of revenue triggers a call with that customer in diligence and, usually, an earn-out tied to their retention.
- **Change-of-control provisions:** Contracts, leases, and licences that require consent to assign. Each one is a closing condition you do not control.
- **Earnings quality:** How much of the EBITDA is recurring, how much is project-based, and how much depends on adjustments the buyer has to accept on faith.

Four moves to calm their concerns

Fix the structure early

Holding company, family trust, and share-class planning need 12 to 24 months of runway before a sale. Purification for the Lifetime Capital Gains Exemption in Canada, or qualifying for the Section 1202 QSBS exclusion in the US, cannot be done at LOI. Get your tax advisor and your M&A advisor in the same room a year before you plan to go to market.

Lock in the contracts

Convert verbal arrangements with your top 10 customers into signed multi-year agreements with clear assignment language. Do the same with critical suppliers.

Retain the team before market

Retention bonuses funded from proceeds, vesting 12 to 24 months after close, signed before the first buyer conversation. A buyer who sees the team already committed prices the business as a going concern rather than worrying about the "what if" scenarios if all the key employees leave.

Prove the growth, do not describe it

A new service line with six months of revenue is worth more than a five-year forecast of your idea for a new product or service. Buyers underwrite what they can see (real data) in the trailing twelve months and often give little credit to Excel forecasts.

EXPERT NOTE • THE "IF I WERE 10 YEARS YOUNGER" GROWTH PLAN

Ask yourself what you would build if you were 10 years younger. Then write it down, because that answer is the growth plan buyers want to see. You do not need to launch it. You need it on one page: the two or three moves you would make next, what each is worth, what it would cost, and why this business is the platform to do it. Buyers have capital and patience you may not. What they lack is your judgment about where the next decade of growth comes from. Put that in front of them and they price the upside.



*Price is what you pay.
Value is what you get.*

WARREN BUFFETT • CHAIRMAN, BERKSHIRE HATHAWAY

READ SECTION 02 • VALUATION →



SECTION 02

Valuation factors: what drives the multiple

Buyers do not pay for how much your business earns. They pay for how predictable, transferable, and defensible those earnings are once you are no longer in the building. Seven drivers decide where in the range you land.

1 EBITDA is the foundation

Companies of this size are valued on a multiple of adjusted EBITDA. Quality companies with \$1M–\$5M in EBITDA typically trade between 4x and 6x. Strategic acquirers and private equity platforms with a thesis to fill will pay above that range for the right fit. Below \$1M, multiples compress quickly and the buyer pool changes.

HOW IT WORKS

\$2M in EBITDA × 5x = a \$10M purchase price.

The same \$2M at 6x is \$12M. Earnings are largely fixed by the time you go to market. The multiple is where the process, the preparation, and the negotiation do their work.

ADJUSTED EBITDA	TYPICAL RANGE	WHO IS BUYING
Under \$1M	3x–4x	Individuals, search funds, small bolt-ons. Bank-financed. Often require seller financing.
\$1M–\$3M	4x–5x	PE bolt-ons, family offices, regional strategics. QoE often mandatory.
\$3M–\$10M	5x–6x	PE platforms, national strategics, independent sponsors. Competitive processes.
Strategic premium	6x–10x+	A buyer with an acquisition thesis that your business completes. Rare, but everyone knows that “one owner who sold for 10x.”

EXPERT NOTE • HOW TO ENHANCE YOUR MULTIPLE

Strategics and platforms pay 6x to 8x when your business fills a gap they have already decided to fill: a geography, a product line, a customer list they can cross-sell into. You do not create that premium at the negotiating table. You create it by knowing who those buyers are 18 months before you go to market and building a narrative to fit their thesis.

SECTION 02

Valuation factors

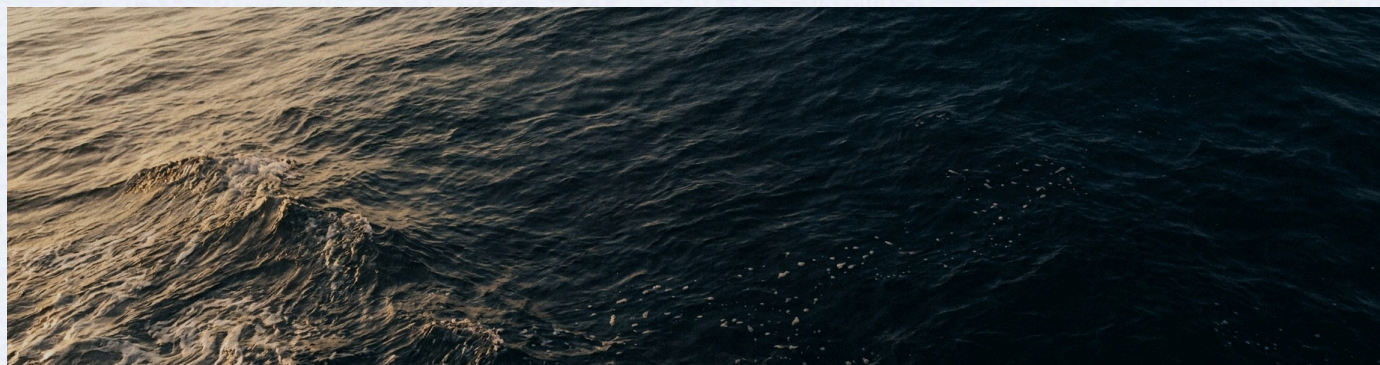
2 Owner involvement

The more the business depends on you, the less it is worth. If the top five customer relationships, pricing decisions, and hiring all route through the owner, the buyer models a general manager's salary as a deduction from EBITDA and applies a lower multiple to what remains. Building a management layer 18 to 24 months before market is the highest-return investment available to you.

3 Revenue quality and predictability

Buyers pay a premium for revenue they can forecast. The hierarchy is consistent across industries: contracted recurring revenue at the top, then repeat revenue from a diversified base, then project revenue with a visible pipeline, then one-time work. A business with 60% or more of revenue under contract or reliably repeating supports a higher multiple. Lumpy project revenue, however profitable, is discounted because buyers and lenders view it as unpredictable and risky.

- Multi-year contracts with defined renewal terms
- Net revenue retention above 100% on existing accounts
- Gross-dollar retention above 90%
- No customer above 25%; top 10 under 50%
- Pricing history that shows increases held
- Pipeline data exportable from a CRM, not a spreadsheet



4 Market position and defensibility

A business that leads a defined niche is worth more than one that competes on price in a broad market. Buyers look for the reasons a competitor cannot simply replicate what you do: regulatory licences, exclusive territories or distribution rights, proprietary process or technology, switching costs embedded in the customer's operations, and a brand that generates inbound demand. Be specific about the moat. "Strong relationships" is not a moat. A 14-year master service agreement with a hard-to-obtain customer is.

SECTION 02

Valuation factors

5 Systems and reporting infrastructure

Institutional buyers will integrate your reporting into theirs within 90 days of closing. If you've ever switched CRMs, you know the feeling: a root canal, except a root canal is over faster. They are looking for a cloud ERP, a CRM with clean pipeline data, monthly management accounts closed within 15 days, and a controller who can produce a 13-week cash flow on request. Together those signal a business that can be run from a board seat. Systems do not add a turn on their own. Their absence takes one off.

6 People and management retention

The buyer's worst outcome is acquiring a business whose key people leave in the first year. Low turnover, a defined organizational structure, and A+ talent with written agreements are worth more than any single customer contract. Before you go to market: confirm which employees are critical, put retention or equity agreements in place, and document formal onboarding, training, and performance review processes. Consult your advisor before raising a sale with staff, as it's important to get the timing right.

7 Brand, reputation, and inbound demand

Intangibles are priced when they produce measurable outcomes. A brand that generates 40% of new business inbound, a Net Promoter Score above 50, a review profile that a buyer can verify, and a professional digital presence all reduce the perceived cost of growth. They also signal a business run to a standard, which shortens diligence.

EXPERT NOTE • WHEN TO TELL THE TEAM

Most owners tell their key people too early or too late. Too early, and the business runs for a year on rumours. Too late, and the buyer meets a management team hearing the news for the first time in a diligence session. The window that works: retention agreements signed with two or three critical managers before market, framed as succession planning, and the wider team told after the purchase agreement is signed, alongside the new owner (buyer).

Same size, different multiple

A company with \$3M in EBITDA could trade at 3x or 6x within the same industry. Size of the business is not the sole driver of the valuation multiple. Ease of transferring the business and perceived risk (to the buyer) take priority. The 6x company has a general manager, three years of reviewed statements, a sell-side QoE, no customer above 15%, and a growth initiative with 12 months of data. The 3x company has a founder who knows every customer personally and a very good accountant. Buyers pay for the certainty that the earnings continue after the wire clears.



SECTION 02

If you have limited time, what should you prioritize?

Seven drivers is a long list. You will not fix all of them, and you do not need to. What you should do depends on your timeline. The two columns below are what we tell clients in the first meeting.

GOAL IS TO SELL IN THE NEXT 12 MONTHS

Protect the number you already have

- **Commission a sell-side QoE now.** It takes 6 to 10 weeks and sets the EBITDA the whole process is built on.
- **Paper your top 10 customers.** Signed agreements with assignment language. Where a contract is not possible, documented history of repeated purchases.
- **Sign retention agreements with key managers.** Explore sharing a portion of the proceeds of the sale at closing (have the payout vest on a schedule after the closing date).
- **Confirm the lease transfers.** Landlord consent on change of control is a closing condition. Start the conversation early.
- **Build the normalized EBITDA schedule** with documentation for every add-back.

GOAL IS TO SELL IN 1 TO 5 YEARS

Increase your EBITDA multiple, not just the earnings

- **Hire or promote a general manager** and give them 24 months to run the business while you step back. This is the single largest lever on the multiple.
- **Move to a higher standard of financial statements** so three clean years exist when you go to market.
- **Reduce customer concentration below 25%** through deliberate new-account growth, not by shrinking the large account.
- **Complete tax and estate planning:** holding company, family trust, share-class structure, LCGE purification in Canada or QSBS and rollover planning in the US. Give yourself 12+ months for planning this at a minimum.
- **Launch one growth initiative** that will have 12 months of revenue data by the time you go to market.

IF YOU ARE INSIDE 12 MONTHS

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IF YOU ARE ONE TO FIVE YEARS OUT

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EXPERT NOTE • THE HIRE THAT PAYS FOR ITSELF

A \$200K general manager reduces EBITDA by \$200K. On a \$3M EBITDA business, that costs roughly \$1M at 5x. If the same hire moves the buyer's view of transferability enough to add one turn to the multiple, the business sells for \$2.8M more than it would have. Better, you've widened your buyer pool by having an operator in place, leading to multiple competing bids (at times producing more than a 1x increase in the EBITDA multiple through a competitive bidding process).



SECTION 02 • BENCHMARKS

What “quality” looks like at \$1M+ in EBITDA

These are the rules of thumb buyers and their lenders use to sort a company of this size into the top or bottom of the range. Specific thresholds vary by industry.

<25%

TOP CUSTOMER CONCENTRATION

No single customer above 25% of revenue, and the top 10 under 50%. Above that, expect an earn-out tied to the account's retention or a price adjustment.

15–25%

EBITDA MARGIN

Healthy for services, distribution, and light industrial businesses. Software and specialized manufacturing should sit above 30%. Margin trend matters as much as the level.

60%+

RECURRING OR CONTRACTED REVENUE

Share of revenue under contract or reliably repeating year over year. Above 60% supports the top half of the multiple range and a lender's confidence.

10%+

ORGANIC REVENUE GROWTH

Two consecutive years above 10% supports a premium. Flat revenue caps the multiple at the low end regardless of margin, because the buyer's model has nothing to grow.

<45^{days}

DAYS SALES OUTSTANDING

Time from invoice to cash. Long collection cycles increase the working capital the buyer must fund, raise the peg, and reduce your cash at closing.

40⁺

RULE OF 40 (SOFTWARE)

Add your revenue growth rate to your EBITDA margin. Above 40, buyers accept whichever trade-off you have made: 30% growth at a 10% margin scores the same as 10% growth at a 30% margin. Below 40, growth is being bought rather than earned.

How to read these

Nobody clears every benchmark, and no buyer we've worked with expects you to. What they're pricing is the pattern. Miss one and you'll get a diligence question. Miss two and you're into a conversation about structure (an earn-out, a bigger holdback, less cash at closing). Miss three or more and it comes off your multiple. At the risk of sounding like a broken record: the best time to exit plan was yesterday. After all, the only downside is that you end up with a business that is easier to run and more predictably profitable.

NEXT TWO PAGES

Score your own business against these six, then put a range on it →



WORKSHEET • PART 1 OF 2

What is your business worth today?

Important note: this is not a replacement for a full valuation ([schedule one for free with Breakwater](#)), but this worksheet will give you a rough ballpark number.

Step 1 Adjusted EBITDA

Start from the income statement (found in your accountant-prepared financial statement package or tax returns). Start with the very bottom number: after-tax net income.

Reported net income, last fiscal year	\$
Interest, income taxes, depreciation, and amortization	
+ THE I, T, D AND A IN EBITDA	\$
Owner T4/W-2 salary	
+ DO NOT COUNT DIVIDENDS	\$
One-time or non-recurring costs	
+ LEGAL DISPUTES • RELOCATION • WRITE-OFFS • DISCONTINUED LINES	\$
+ Personal or discretionary expenses run through the company	\$
Rent adjustment to market rent	
± SUBTRACT IF OVERPAYING • ADD IF UNDERPAYING	\$
Cost to replace your role	
- MARKET SALARY AND BENEFITS FOR A GENERAL MANAGER	\$
= Adjusted EBITDA	\$

Step 2 Score the six drivers

Tick each statement that is true today, not after the changes you plan to make. Count the ticks.

☐ No single customer is above 25% of revenue, and the top 10 are under 50%.	CONCENTRATION
☐ Adjusted EBITDA margin is at or above 15% (30% for software or specialized manufacturing).	MARGIN
☐ At least 60% of revenue is under contract or reliably repeats year over year.	REVENUE QUALITY
☐ Revenue has grown more than 10% in each of the last two years, organically.	GROWTH
☐ Days sales outstanding are under 45, and the monthly close is done within 15 days.	CASH AND REPORTING
☐ A second-in-command could run the business for 90 days without calling you.	MANAGEMENT DEPTH

YOUR SCORE

_____ of 6 Carry it to the next page.

WORKSHEET • PART 2 OF 2

Put a range on it

Step 3 Find your multiple band

These bands hold for most services, distribution, industrial, and healthcare businesses with \$1M–\$5M in adjusted EBITDA. Software and specialized sectors run higher. Below \$1M, take half a turn off each band.

<p>0 TO 2 TICKS</p> <p>3x–4x</p> <p>Buyers will price the risk and push it into structure: earn-out, holdback, seller note. Expect a smaller buyer pool and a lower cash component.</p>	<p>3 TO 4 TICKS</p> <p>4x–5x</p> <p>A competitive process is possible. Fixing one or two of the unticked items in the next 12 months usually moves you up a band.</p>	<p>5 TO 6 TICKS</p> <p>5x–6x</p> <p>Top of the range for this scale. With the right buyer list, a strategic premium above 6x is realistic.</p>
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Step 4 Your range

Adjusted EBITDA from Step 1	\$
✕ Low end of your band	x
= Low end of your range	\$
✕ High end of your band	x
= High end of your range	\$

What the worksheet cannot tell you

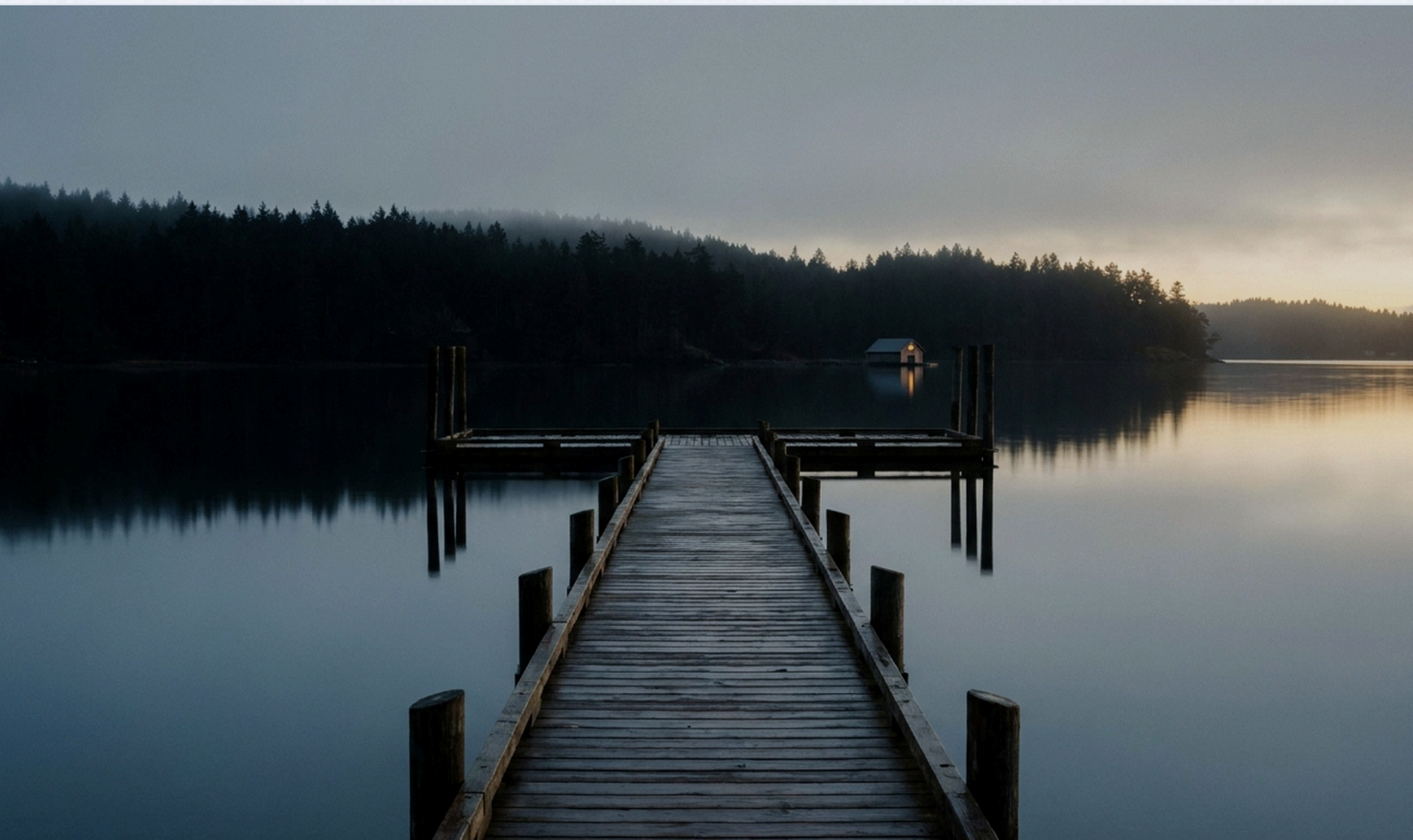
- **Which buyer's thesis your business completes.** The premium above the band comes from one or two specific acquirers, and only from finding them.
- **What you keep after tax.** The same price can produce very different after-tax proceeds depending on structure, timing, and what was set up two years earlier.
- **What the buyer's QoE will find.** Your Step 1 number is the claim. Diligence is the test.

SCORED 4 OR FEWER

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SCORED 5 OR 6

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*Structure beats price.
Every. Single. Time.*

BREAKWATER M&A • DEAL TEAM

READ SECTION 03 • DEAL STRUCTURE →

SECTION 03

Structuring the deal: asset sale vs. share sale

Once you are comfortable with your exit price, the next decision is how the transaction is structured. Structure determines your after-tax proceeds, the liabilities you carry after closing, and how much of the price you receive on closing day. It truly comes down to the saying, “the devil’s in the details.” This is especially true when it comes to a business transaction.

Two primary types of sale exist, and the real difference is who owns the company once the dust settles. In an **asset sale**, the buyer uses their own (or a new) corporation to buy the business out of yours: equipment, inventory, customer lists, contracts, and goodwill, which is your brand, name, logo, and reputation. Your legal entity stays with you, but once the goodwill is sold it is an empty shell. This is the part owners most often get wrong. You cannot sell the business and keep trading under the same brand. In a **share sale** (known as a stock sale in the US), the company itself does not move. The buyer purchases your existing shares and becomes the shareholder of the same company, so contracts, licences, employees, and history all carry on untouched. Most deals at this scale in Canada are share sales because of the tax benefits for sellers. In the US the split is more even, because buyers push for asset deals to get a tax step-up. Either way, expect a pre-closing reorganization to satisfy both sides.





SECTION 03

Asset sale vs. share sale, side by side

	ASSET SALE	SHARE SALE
What is sold	The business, not the company. Selected assets and liabilities move into the buyer's corporation, normally including goodwill: brand, name, logo, customer relationships. Your legal entity stays with you as a shell.	The company. The buyer purchases your existing shares and becomes the shareholder of the same entity, so everything inside it stays exactly where it is: contracts, licences, employees, history, and liabilities.
Buyer benefits	<ul style="list-style-type: none"> • Starts with their own corporation, carrying none of your entity's history • Tax step-up on depreciable assets and goodwill • Can leave unwanted contracts, lines, or liabilities behind in your company 	<ul style="list-style-type: none"> • Nothing has to be moved or re-papered, so contracts, permits, and staff continue automatically • Simpler closing mechanics • Often the only workable route for licence-heavy or regulated businesses
Buyer risks	<ul style="list-style-type: none"> • Every contract, lease, and permit has to be reassigned or re-signed, much of it needing third-party consent • Employees, in many cases, are terminated by you and rehired by them • Licences may not follow the assets at all 	<ul style="list-style-type: none"> • Buying the shares means buying the company's past: tax, employment, and litigation exposure come with it • Protection depends on reps, warranties, and indemnities • Heavier, more expensive diligence
Seller benefits	<ul style="list-style-type: none"> • Narrower reps and warranties, because you are selling assets rather than a company with a history • You keep the entity and can leave cash, real estate, or excluded assets inside it • Cleaner when only part of the business is genuinely for sale 	<ul style="list-style-type: none"> • Lifetime Capital Gains Exemption in Canada, currently \$1.25M per qualifying shareholder and multiplied through a family trust, or the US Section 1202 QSBS exclusion of up to \$15M per shareholder where the company is an eligible C corporation • Capital gains treatment on the full proceeds • A clean break: you stop being a shareholder on closing day
Seller risks	<ul style="list-style-type: none"> • No LCGE or QSBS exclusion • Proceeds land inside your corporation, triggering recapture and a second layer of tax to get the money out • You give up the brand with the goodwill, so there is no continuing under the same name • You are left winding up the shell 	<ul style="list-style-type: none"> • Broader indemnities with longer survival periods • Escrow or holdback of 5% to 15% for 12 to 24 months • Longer, more expensive diligence
Typical at this scale	The buyer's opening position on many bolt-ons. Standard for carve-outs, distressed situations, and sole proprietorships.	The seller's preference in both Canada and the US, and the norm for \$5M+ transactions with clean corporate records. Hybrid structures bridge the gap.

The tax outcomes above are illustrative and jurisdiction-specific. Confirm your own position with a qualified tax advisor in your country before you choose a structure.



SECTION 03

Deal points buyers use to negotiate price

At \$1M+ in EBITDA, few offers arrive as 100% cash for 100% of the shares. Expect one or more of the following in every serious LOI. Each shifts risk between you and the buyer. The art of deal making is finding the middle ground that is acceptable to both parties.

EARN - OUT

A portion of the price, usually 10% to 30%, paid over one to three years if the business hits agreed targets.

Reasonable when it bridges a real disagreement about growth. Dangerous when the targets are set on metrics the buyer controls, such as EBITDA after integration costs, rather than ones you influence, such as revenue or gross profit.

ROLLOVER EQUITY

You reinvest 10% to 30% of proceeds into the acquiring entity. It aligns you with the buyer through transition and gives you a **second bite**: when the business sells again four to six years down the road, your stake is sold again, often at a higher multiple. Watch the classification of your shares, the valuation, and their governance and liquidity rights.

MAJORITY RECAPITALIZATION

A private equity firm buys 60% to 80% of the company. You take substantial cash off the table, retain 20% to 40%, and keep running the business with growth capital behind you. The most common structure for founders who are not ready to leave. Done well, the second bite on the retained stake can exceed the first.

SELLER NOTE (VENDOR TAKE-BACK)

You finance 5% to 20% of the price at an agreed rate, typically subordinated to the buyer's senior lender. Lenders like this, as the owner keeps some "skin in the game." The downside is that it takes longer to get paid out, and there is a risk of not getting paid at all, as you sit behind the bank in the liquidation stack.

THE SECOND BITE, ILLUSTRATED

\$15M sale at 6x. You roll 25%, or \$3.75M, into the platform.

Five years later the platform has tripled and sells at a higher multiple. A rollover stake that grows 2.5x returns roughly \$9.4M on the second exit. Taken as cash at the first closing, that same 25% would have been \$3.75M before tax. But it is not always this rosy: you need to trust the new operators with your money.

EXPERT NOTE • READ THE WATERFALL, NOT THE HEADLINE

On any recapitalization or rollover, ask for the distribution waterfall before you sign the LOI. Preferred equity with an 8% accruing return sitting above your common shares changes what your 25% is worth. There are scenarios where founders who owned 30% of the company received less than 15% of the proceeds on the second exit (sometimes even nothing). Often the percentage ownership is not the most important aspect. Your position in the stack is.



*A business that doesn't
work without you is a
job, not an asset.*

JOHN WARRILLOW • AUTHOR, *BUILT TO SELL*

READ SECTION 04 • BUYER MARKETING →



SECTION 04

Buyer marketing: getting in front of the most qualified buyers

At \$2M–\$50M in revenue, your buyer pool is institutional. These buyers are not browsing listings. They are running acquisition programs with defined criteria, and they need to be found, qualified, and brought to the table where you control the timeline.

Who buys \$2M–\$50M revenue companies

Four buyer types account for most closed transactions at this scale. Each values different things, moves at a different speed, and structures differently. A well-run process puts all four in the room and lets them compete.

BUYER	WHAT THEY ARE LOOKING FOR	WHAT TO EXPECT
Private equity: platforms and bolt-ons	A platform is a standalone business with \$2M+ in EBITDA that a fund builds around. A bolt-on is a \$1M–\$5M EBITDA business added to a platform the fund already owns. Bolt-on buyers pay for fit, move quickly, and are often the most active bidders in this range.	QoE, a lender, and an investment committee. 90 to 120 days from LOI to close. Rollover or earn-out components are common.
Strategic acquirers	Competitors, suppliers, customers, or adjacent operators. They pay the highest multiples when your business fills a gap they have already decided to fill: a region, a capability, a customer base they can cross-sell into.	Slower, more political, and confidentiality matters most. Often prefer share sales for continuity. Integration is the risk to your team.
Family offices and independent sponsors	Longer hold periods, less pressure from a fund's clock, and flexibility on structure. Often the right buyer for founders who care how the business is run after closing and want to retain a stake.	Financing may need to be arranged deal by deal. Diligence is thorough but relationship-driven.
Search funds and entrepreneurial buyers	Investor-backed operators who will run the business themselves. Most relevant at the smaller end, \$1M–\$2M in EBITDA. Strong on culture continuity and employee care.	More financing risk. Expect seller notes and a longer transition. Verify the backing before granting exclusivity.

EXPERT NOTE • THE BUYER WHO FOUND YOU FIRST

Most owners I meet at this scale have been approached before, usually by a bolt-on buyer or a strategic who already knows the business. That inbound interest feels like validation, but treat it as a data point. A buyer who approaches you directly is hoping to avoid a competitive process (that is, to buy at a lower valuation). The best way to handle these buyers is to use the inbound interest to kick off a formal process and get as many competitive bidders into the room as possible.



SECTION 04

Run a process, not a listing

A business of this size does not sell through a marketplace. It sells through a managed, confidential process with a timeline the buyers follow rather than set. At Breakwater we do not list your business. We run the process below.

The Breakwater process

Step 01**Business review**

We put on the buyer's hat and stress-test the case to buy your business: financials, contracts, team, and growth opportunities. Anything that would cost you in diligence gets fixed prior to meeting with buyers.

Step 02**Data room and CIM**

We build the Confidential Information Memorandum (CIM) and a structured data room that anticipates the buyer's request list, so diligence confirms rather than discovers.

Step 03**Buyer search**

Using our database of 10,000+ buyers and targeted research, we identify and rank the PE platforms, strategics, and family offices most likely to pay for your specific business.

Step 04**Confidentiality**

Every buyer signs an NDA before learning your name. Access to the data room is tiered and released only to qualified parties with the capital and mandate to close.

Step 05**Competitive tension**

Buyers work to fixed dates for management meetings, indications of interest, and final offers (LOIs). Deadlines remove tire-kickers and produce comparable bids at the same time.

Step 06**Managed diligence and closing**

Once an LOI is signed, we coordinate your accountants and counsel, manage the request list, and protect the agreed terms through to funds landing in your account.

A 25% higher sale price

A study by researchers at the University of Alabama and Northern Illinois University found that sellers who engaged a professional M&A advisor received, on average, a **25% higher sale price** than owners who sold on their own.² The difference is not the advisor's charm (as much as we'd like to believe). It is the number of qualified buyers at the table and holding them to a strict timeline.

EXPERT NOTE • THE SECOND-BEST OFFER SETS THE PRICE

A typical Breakwater process contacts 150 to 300 qualified buyers, signs 30 to 60 NDAs, and produces three to six written offers. The winning bidder does not pay what your business is worth to them. They pay slightly more than the next-best bidder was willing to. One buyer is a negotiation, three is a market.

2. Agrawal, Cooper, Lian and Wang, "Does Hiring M&A Advisers Matter for Private Sellers?" University of Alabama and Northern Illinois University. Confirm citation and edition before publishing.



*In business as in life,
you don't get what you
deserve. You get what
you negotiate.*

CHESTER L. KARRASS • NEGOTIATION RESEARCHER AND AUTHOR

READ SECTION 05 • NEGOTIATION →



SECTION 05

Negotiation: the best deal, not the highest number

A qualified buyer has reviewed the data room and submitted an LOI that you accept. In the best case, your sale should close in 60 to 90 days. How you negotiate, however, will dictate the final amount of cash you receive at closing.

Start with the working capital PEG

Most owners believe the negotiation ends at the LOI price. But the single most common place a deal is re-traded is the **working capital PEG**: the level of receivables, inventory, and payables, net of cash, that is left in the business on closing day. Deliver less than the PEG and the shortfall comes off the price dollar for dollar. Set the PEG too high and you hand the buyer working capital they should have paid for.

Negotiate the methodology in the LOI, not the purchase agreement: the trailing period (12 months is standard), the treatment of seasonality, and exactly which accounts are included. A \$500K PEG dispute is a 5% price cut on a \$10M deal.

The levers beyond price

DEAL TERM	WHAT IT IS	WHAT TO WATCH
Cash at closing	The portion of the price wired on closing day.	The only number that is certain. Many owners trade a big headline price with complicated terms for a simple all-cash deal at a lower price, for peace of mind.
Earn-out	Deferred payment contingent on future performance over one to three years.	Structure it so it is measured on revenue or gross profit, not EBITDA. Defined accounting. Acceleration if the buyer sells or changes the business.
Seller financing	You lend the buyer part of the price, repaid with interest over time.	Security, subordination terms, and what happens on default. Cap it at a level you can afford to lose.
Rollover equity	Proceeds reinvested into the buyer's entity for a second exit.	Share class, valuation of the roll, governance rights, and the distribution waterfall.
Holdbacks and escrow	5% to 15% of price held for 12 to 24 months against indemnity claims.	Amount, duration, and the claims process. Rep and warranty insurance can replace most of it above \$10M.



SECTION 05

The six key LOI terms to know

A Letter of Intent is mostly non-binding. The exclusivity clause is not, and once you sign it your other buyers often go quiet. Everything you want in the final agreement should therefore be in the LOI, in writing, before exclusivity begins. These are the six terms we negotiate hardest at this stage.

01 • EXCLUSIVITY

30 to 60 days, tied to milestones: QoE complete by day 30, draft purchase agreement by day 45. Exclusivity that renews automatically hands the buyer control of the clock.

02 • STRUCTURE AND CONSIDERATION

The split between cash at close, earn-out, rollover, and seller note, with the mechanics of each. Watch out for vague language like “up to \$12M.” Instead, push for specific numbers, for example: \$9M cash, \$2M earn-out on gross profit targets over 24 months, and \$1M of rolled equity.

03 • WORKING CAPITAL PEG METHODOLOGY

Define the calculation period (trailing 12, 24, or 36 months), which balance sheet items are included, and the treatment of seasonality and cash. Agree the method now and the number is arithmetic later. Leave it open and it becomes a second negotiation or a deal killer.

04 • INDEMNITY CAP AND SURVIVAL

The maximum you can be asked to pay back and for how long. Market at this scale is a cap of 10% to 20% of price surviving 12 to 24 months, with fundamental reps surviving longer.

05 • YOUR ROLE AFTER CLOSING

Transition period, compensation, title, and reporting line. Whether you are an employee, a consultant, or a board member. This is where founders discover they have sold the company and kept the job.

06 • FINANCING AND CONDITIONS

Whether the offer is subject to the buyer obtaining debt, and from whom. A financing condition is a free option to walk. Ask for a commitment letter or a fund with committed capital before granting exclusivity.

EXPERT NOTE • A \$12M OFFER THAT IS NOT A \$12M OFFER

\$9M at close, a \$2M earn-out on post-integration EBITDA, and a \$1M holdback is not a \$12M offer. It is a \$9M offer with \$3M of options the buyer controls. We negotiate certainty first, then price. We have worked with clients who would prefer a \$10.5M all-cash offer. While it means less money in their pocket, it allows them to sleep better for the next two years.

Negotiation at this level is rarely about tactics. It is about arriving with a second buyer, a complete file, and a clear view of which terms carry risk and which carry value.



SECTION 06

Closing the deal: from LOI to funds in your account

You have prepared the business, run a competitive process, and negotiated an LOI you can live with. Now comes the stretch first-time sellers underestimate most. More deals fall apart between LOI and closing than at any other stage, and almost always over something that could have been surfaced earlier.

01 Due diligence

- The buyer's verification of everything in the CIM: financial (their QoE), legal, commercial, HR, tax, IT and cyber, and environmental where relevant. Expect 60 to 90 days and a request list of 100 to 300 items.
- A data room built before market means most requests are answered on day one. Speed and completeness maintain momentum and buyer confidence in diligence.

02 Final terms

- The working capital PEG is trued up against actual closing figures, with a post-closing adjustment 60 to 90 days later. Model it monthly beforehand so there are no surprises.
- Indemnity caps, baskets, and survival periods are finalized. Rep and warranty insurance is available on most transactions above \$10M and can reduce or replace escrow.
- Diligence findings become either price adjustments, specific indemnities, or closing conditions.

03 Purchase agreement and closing

- Counsel drafts the share or asset purchase agreement, disclosure schedules, non-competition and non-solicitation covenants (three to five years is typical), and your employment or consulting agreement.
- You give representations and warranties about the business. The disclosure schedules qualify them. Everything disclosed is carved out of your exposure.
- A transition plan covers your involvement, customer and staff communication, and the first 90 days. Then the conditions are satisfied, documents are released, and the wire clears.



SECTION 06

Where deals fall apart after the LOI

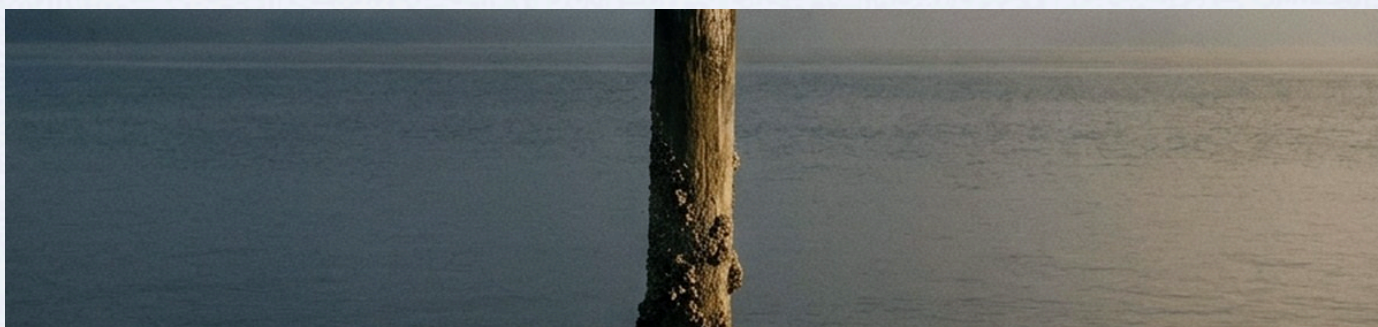
A re-trade is a price or terms change after the LOI is signed. Buyers do not need to invent a reason. Diligence hands them one. Four triggers account for most of the re-trades we see, and every one of them can be taken off the table before the first buyer conversation.

TRIGGER	WHAT HAPPENS	HOW TO TAKE IT OFF THE TABLE
The QoE gap	The buyer's QoE lands 8% below your adjusted EBITDA. On a \$2.5M EBITDA business at 6x, that \$200K difference is a \$1.2M price cut.	A sell-side QoE before market. Same standard, same findings, six months earlier, while you have time to fix the problem.
The working capital PEG	The PEG was set on an annual average. Closing falls in your seasonal low. The shortfall comes off the price dollar for dollar, in the last week.	Twenty-four months of monthly net working capital analyzed before market. PEG methodology written into the LOI.
The customer call	Your largest account tells the buyer it is "reviewing options at renewal." An earn-out tied to that account appears in the next draft of the purchase agreement.	Contracts papered with your top 10 before market. Start transferring key customer relationships from yourself to your sales managers, so the customer is already used to working with someone other than you.
The surprise	A tax reassessment, an employment claim, an environmental report, an unregistered lease. Anything the buyer finds that you did not mention becomes a specific indemnity or a larger escrow.	Disclose it first, in the buyer presentation materials. A known problem shared with a buyer is perceived differently than a surprise.

EXPERT NOTE • DISCLOSURE SCHEDULES ARE YOUR INSURANCE

Owners treat the disclosure schedules as paperwork. Treat them as the most important document in the closing binder. Every fact you disclose is removed from the reps you are giving and from the indemnity that backs them. Over-disclose.* The buyer already knows about the problem from diligence. Putting it in the schedule is what stops them from claiming for it later.

*Not legal advice. Speak with your counsel about the best strategy for disclosure schedules.



BEFORE YOU DECIDE

Three reasons owners wait to sell their business

We hear the same three reasons in almost every first conversation with business owners for why they wait to sell. Here are our most common answers and the impact of the decision.

“The buyer who approached me is offering a fair price.”

Fair compared to what? Without a second bidder there is no market price, only the number one party was willing to say out loud. Sellers with an advisor and a competitive process receive roughly 25% more than those who sell on their own. Less visible, and usually more expensive, is what a single buyer does to the terms: less cash at close, a heavier earn-out, and an indemnity package nobody pushed back on.

“I’ll run the process myself and save the fee.”

A process is 150 to 300 buyer contacts, 30 to 60 NDAs, a CIM, a data room, and four months of managing institutional buyers to a timetable, while running the company well enough that the numbers do not slip. Buyers know when they are dealing with a first-time seller. They price for it. The fee is a fraction of the premium a process produces, and it is paid from proceeds that would not otherwise exist.

“I’ll wait until next year. Revenue will be higher.”

A year of growth adds to EBITDA. A year of preparation adds to the multiple. Waiting only helps if you do both, and most owners who wait do neither. What you do not control: interest rates, buyer appetite in your sector, a competitor selling first, and your own energy for a process that will take most of a year.

ONE CALL SETTLES ALL THREE

A confidential valuation call puts a number, a buyer list, and a timeline on your business. [Book it here →](#)



BUILD YOUR EIGHT-FIGURE EXIT

The Eight-Figure Exit Checklist

For owners of \$2M–\$50M companies and businesses with \$1M+ in EBITDA. Every item below is something a buyer's diligence team will ask for. Complete it before they do.

Financial readiness

- ☐ Sell-side quality of earnings (QoE) completed
- ☐ Three years of review-engagement or audited financial statements
- ☐ Normalized EBITDA schedule prepared, with documentation for every add-back
- ☐ Functioning monthly bookkeeping system; trailing-twelve-month reporting current
- ☐ Net working capital analyzed month by month for the past 24 months
- ☐ Debt, leases, and contingent liabilities scheduled

Management and people

- ☐ Second-in-command able to run the business for 90 days without you
- ☐ Key managers retained and incentivized; retention or equity agreements signed
- ☐ Written employment agreements for all staff
- ☐ Organizational chart with named succession for every function
- ☐ Severance exposure calculated; no open HR claims

Process readiness

- ☐ Valuation range established with an M&A advisor
- ☐ Target buyer list drafted: PE platforms, strategics, family offices
- ☐ Data room structure built before the first buyer conversation
- ☐ Your post-closing role and timeline decided

Customers and revenue

- ☐ No single customer above 25% of revenue; top 10 under 50%
- ☐ Recurring and contracted revenue quantified and documented
- ☐ Key customer contracts assignable on change of control
- ☐ Pipeline, retention, and pricing data exportable from a system, not a spreadsheet
- ☐ One growth initiative with at least 12 months of revenue data

Legal and corporate

- ☐ Minute book and share register current and reviewed by counsel
- ☐ Intellectual property assigned to the company
- ☐ No outstanding disputes, claims, or regulatory matters
- ☐ Leases and supplier agreements reviewed for change-of-control terms
- ☐ Insurance, privacy, and cyber policies current

Tax and structure

- ☐ Tax planning completed with 12+ months of runway before market
- ☐ LCGE or QSBS eligibility confirmed for each shareholder with your CPA
- ☐ Holding company and family trust structure reviewed
- ☐ Asset sale and share sale modelled after tax with your advisors
- ☐ Post-sale wealth and estate plan started with your CFP and CPA

FREE • 3 MINUTES • CONFIDENTIAL

See how your business would score. [Take the free Exit Audit →](#)



THE NEXT STEP

Find out what it's worth. Keep it to yourself.

A 45-minute confidential valuation call. You leave with a valuation range, the two or three items holding your multiple down, and the buyers most likely to pay for your business.

BOOK YOUR CONFIDENTIAL VALUATION CALL



Not ready for a call? [Take the free Exit Audit →](#)

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This guide is general information about selling a business. It is not tax, legal, or accounting advice and does not account for your specific circumstances. Tax and corporate rules differ between Canada and the US and change over time. Speak with a qualified tax, legal, and accounting professional before acting on anything recommended in this guide. Breakwater M&A is not a law firm or an accounting firm.



REFERENCE

The terms buyers will use

Buyers and their advisors move fast and assume you know the language. These are the terms that appear most often in this guide and in your process.

TERM	WHAT IT MEANS
EBITDA	Earnings before interest, taxes, depreciation, and amortization. The profit measure most buyers price off at this scale.
Adjusted or normalized EBITDA	EBITDA restated to remove one-time and owner-specific costs, so the number reflects what a new owner would actually earn. Each removal is an add-back.
Add-back	A cost removed from reported earnings because it will not continue under new ownership. Every add-back must be documented or the buyer will reject it.
TTM	Trailing twelve months. Results for the most recent 12 months rather than the last completed fiscal year.
QoE	Quality of Earnings. An accountant's independent validation of your adjusted EBITDA. A sell-side QoE is one you commission before going to market.
NDA	Non-disclosure agreement. Signed by a buyer before they see confidential information about your business.
CIM	Confidential Information Memorandum. The detailed document describing your business, sent to buyers after they sign an NDA.
LOI	Letter of Intent. The buyer's written offer setting out price, structure, and exclusivity. Mostly non-binding on price, but binding on exclusivity and confidentiality.
Due diligence	The buyer's verification of everything you have told them, running from signed LOI to closing.
Working capital PEG	The normal level of working capital you agree to leave in the business at closing. Deliver less and the price is reduced dollar for dollar.
Earn-out	Part of the price paid later, contingent on the business hitting agreed targets after closing.
Holdback or escrow	A portion of the price withheld for a set period to cover claims under your representations and warranties.
Rollover equity	Proceeds you reinvest into the buyer's entity instead of taking as cash, positioning you for a second exit.
Recapitalization	A sale of a majority stake where you retain a meaningful minority position and stay involved.
Representations and warranties	Your written statements about the business in the purchase agreement. If one proves false, the buyer can claim against you.
Disclosure schedules	The exhibits listing exceptions to your representations and warranties. Accurate schedules are your main protection after closing.
Investment committee	The internal group at a private equity fund or strategic buyer that approves or rejects a deal. Your buyer contact has to sell your business to them.
LCGE	Lifetime Capital Gains Exemption. A Canadian provision sheltering a set amount of capital gain per qualifying shareholder on a share sale.
QSBS	Qualified Small Business Stock. The US Section 1202 provision excluding gain on eligible C corporation stock.