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The M&A Exit: Sell-Side Process, Data Room, and Negotiating the Purchase Agreement

Investment banking selection, broad versus targeted process structure, the management presentation, QoE preparation, purchase agreement financial terms, and CFO governance through signing and closing

WHAT YOU WILL LEARN AND WHY IT MATTERS

The M&A; exit — the sale of the company to a strategic acquirer or a new PE sponsor at the conclusion of the holding period — is the most common exit path for PE-backed companies and a frequent exit path for venture-backed companies that do not pursue the IPO route. The sell-side M&A; process is the financial governance event through which the years of value creation work are converted into cash proceeds — and the quality of the process, the financial preparation, and the negotiation of the purchase agreement financial terms directly determines whether the full value created during the holding period is actually realized in the exit.

This part covers the sell-side M&A; exit process from the CFO's perspective: the investment banking selection, the process structure, the financial preparation, the management presentation, the purchase agreement financial terms that most directly affect the financial outcome, and the governance responsibilities from signing through closing. The focus is on the financial dimensions of the process — the analytical work, the financial negotiation, and the financial governance — rather than on the broader strategic and legal dimensions that are primarily the responsibility of the investment bankers and the legal advisors.

INVESTMENT BANKING SELECTION AND PROCESS STRUCTURE

The investment banker — the financial advisor who runs the sell-side process, markets the company to potential buyers, and advises on the negotiation of the purchase agreement — is the CFO's primary process partner in the M&A; exit. The selection of the investment banker and the design of the sale process structure are among the most consequential decisions in the exit preparation.

THE INVESTMENT BANKING SELECTION CRITERIA: The financial criteria for investment banking selection include the bank's M&A; track record in the company's industry (how many comparable transactions has this bank executed, at what valuations?), the quality of the buyers' universe that the bank can access (does the bank have relationships with the strategic acquirers and the PE funds that are the most likely buyers?), and the bank's analytical capability (will the bank provide the buy-side analysis and the financial modeling support that help the management team understand the buyer's perspective and prepare the most compelling financial narrative?). The CFO should participate actively in the investment bank selection process — the CFO will work more intensively with the bank's deal team than any other member of the management team, and the quality of the CFO-banker relationship is a direct determinant of the process quality.

THE BROAD VERSUS TARGETED PROCESS DEBATE: The process structure — whether to run a broad auction (contacting thirty to fifty potential buyers) or a targeted process (contacting five to ten high-conviction buyers) — is one of the most important strategic decisions in the sale process. The broad auction maximizes competitive tension and provides the most comprehensive test of market clearing value, but it creates more management distraction (each bidder requires significant time and information) and more confidentiality risk (more parties receiving confidential information means more paths for the

information to leak to customers, employees, or competitors). The targeted process minimizes distraction and confidentiality risk, but it relies on the advisor's ability to identify and engage the most motivated buyers without the benefit of competitive tension to drive valuation. The CFO should provide the financial analysis that informs this decision: the estimated range of buyer valuations, the competitive dynamics of the potential buyer universe, and the financial impact of the estimated timeline difference between the two process structures.

FINANCIAL PREPARATION: QOE AND DATA ROOM AT EXIT

The financial preparation for an M&A; exit is substantially identical to the preparation described in Part Twenty-Four for the PE exit preparation process: the twelve-month financial cleanup, the pre-sale QoE analysis, the data room assembly, and the management adjusted EBITDA bridge. At the point of the M&A; exit process launch, all of this preparation should be substantially complete.

THE SELL-SIDE QoE ENGAGEMENT: For a significant M&A; exit — typically a transaction above fifty to one hundred million dollars in enterprise value — most PE sponsors engage a financial advisory firm to conduct a formal sell-side quality of earnings analysis before the process is launched. The sell-side QoE serves two purposes: it identifies any accounting issues that need to be resolved before the process begins (preventing the due diligence discovery that would derail the transaction timeline), and it produces the management adjusted EBITDA documentation that the company will defend in the buy-side QoE negotiation. The CFO's role in the sell-side QoE engagement is to prepare the company's financial documentation, to brief the QoE provider on the historical financial adjustments and the accounting policies, and to review and challenge the QoE provider's preliminary findings before they are finalized and disclosed to buyers.

THE MANAGEMENT PROJECTIONS DISCIPLINE: The management financial projections included in the confidential information memorandum — the primary marketing document distributed to potential buyers — are the basis for the buyer's valuation model. The CFO must ensure that these projections are both credible (achievable under realistic operating assumptions) and compelling (representing the genuine upside potential of the business under the new owner's management). The most common error in CIM financial projections is the hockey-stick revenue trajectory that shows a sudden acceleration in the year immediately following the transaction closing, which sophisticated buyers will discount immediately and which creates a credibility problem that undermines every other element of the financial narrative.

THE PURCHASE AGREEMENT FINANCIAL TERMS

The purchase agreement — the definitive legal document that governs the M&A; transaction — contains numerous financial terms that directly affect the economic outcome for the sellers. The CFO must be actively involved in the negotiation of these terms, because they can significantly affect the final proceeds received.

THE PURCHASE PRICE ADJUSTMENT MECHANISM: Most M&A; purchase agreements include a mechanism for adjusting the purchase price after closing based on the difference between the actual working capital delivered at closing and the target working capital established in the agreement. The working capital adjustment is calculated as: actual closing working capital minus target working capital; if positive, the purchase price increases by the difference; if negative, the purchase price decreases. For a company with fifty million dollars of working capital, a two-percent measurement difference could result in a one-million-dollar post-closing purchase price adjustment — making the precise definition of the working capital calculation one of the most commercially significant negotiations in the entire purchase agreement.

THE REPRESENTATIONS AND WARRANTIES: The representations and warranties section of the purchase agreement is the seller's commitment to the buyer about the accuracy of the financial information and the absence of undisclosed liabilities. From the CFO's perspective, the most important representations are the financial statement representations (the financial statements fairly present the company's financial position in accordance with GAAP), the absence of undisclosed liabilities representation (there are no material liabilities not reflected in the financial statements), and the tax representation (all tax returns have been filed correctly and all taxes due have been paid). The CFO must review each financial representation carefully and must assess the company's ability to make each representation truthfully — a misrepresentation, even an inadvertent one, creates significant indemnification exposure.

THE EARNOUT STRUCTURE: When the buyer and the seller cannot agree on the purchase price because of disagreement about the company's future financial performance, an earnout — a contingent payment based on the company's actual post-closing financial performance against specified milestones — is sometimes used to bridge the valuation gap. Earnouts introduce complex financial governance obligations: the CFO must manage the post-closing financial reporting with the specific accounting discipline required to calculate the earnout metrics accurately and in accordance with the purchase agreement's definitions. Earnout disputes — disagreements about whether the earnout metrics were achieved — are among the most common and most expensive post-closing disputes in M&A; transactions, and the CFO's financial governance during the earnout period directly determines the probability of dispute.

FINANCIAL GOVERNANCE FROM SIGNING TO CLOSING

The period between the signing of the purchase agreement and the closing of the transaction — typically sixty to ninety days for regulatory approval and financing confirmation — is a period of heightened financial governance responsibility for the CFO. The company is operating under a signed purchase agreement that includes an interim operating covenant (a requirement to operate the business in the ordinary course without making material changes that could adversely affect the business), while simultaneously managing the diligence requirements of the closing process and running the normal operations.

THE INTERIM OPERATING COVENANT COMPLIANCE: The interim operating covenant restricts the company from taking certain actions between signing and closing without the buyer's prior consent — including making acquisitions, entering into material contracts outside the ordinary course, and making capital expenditures above specified thresholds. The CFO must review the interim operating covenant carefully and must establish an approval process that prevents the company from inadvertently taking a restricted action that could give the buyer grounds to terminate the agreement or seek indemnification.

THE CLOSING FINANCIAL DELIVERABLES: The purchase agreement typically requires the company to deliver certain financial documents at closing: the estimated closing working capital calculation (the preliminary calculation of actual working capital that will be finalized in the post-closing adjustment process), the officer's certificate confirming the accuracy of the representations and warranties, and the payoff letters from all existing lenders confirming the amounts required to repay the acquisition debt at closing. The CFO must manage the preparation of each of these deliverables with the precision required — an error in the closing working capital estimate or a delay in obtaining the payoff letters can delay the closing and create significant commercial and relationship damage.

ACTIONS TO TAKE BEFORE PART TWENTY-SEVEN

Build the banker selection framework: develop the specific evaluation criteria (industry M&A; track record, buyer universe access, analytical quality, team continuity commitment) and the specific questions that the CFO will ask each prospective banker in the selection process. The CFO's active participation in the banker selection — not merely attending the pitch meetings but driving the analytical evaluation of each candidate — is a governance contribution that significantly affects the quality of the selected firm.

Complete the working capital normalization analysis using the framework in Part Eighteen and document the company's proposed working capital target, the normalization methodology, and the supporting data. This analysis should be completed and reviewed by the CFO before the investment banking engagement begins, because the working capital target will be a key data point in the banker's buyer outreach materials and in the purchase agreement negotiation.

CLOSING PERSPECTIVE

The M&A; exit is the financial culmination of the private capital investment — the moment when the equity value created through years of operational, financial, and strategic management is converted into realized proceeds. The CFO who approaches this process with the analytical preparation, the financial documentation discipline, and the purchase agreement negotiation rigor described in this part is maximizing the probability that the full value created is actually realized. The CFO who approaches it reactively, without the preparation and the analytical depth required, is accepting the risk that the financial outcome will fall short of what the operational performance would justify.

COMING NEXT IN THE SERIES

Part 27 — Secondary Transactions: GP-Led Secondaries, LP Transfers, and Tender Offers

Part Twenty-Seven covers the secondary market for private company equity — GP-led secondary transactions and their financial governance requirements, LP transfer mechanics and the CFO's role in facilitating them, tender offers for employee liquidity, and the valuation and financial disclosure requirements associated with secondary transactions.