



Talking Points when a Client asks about Selling their Company

When a business owner decides the time has come to sell their firm, you will be one of the first people they contact for advice. This will likely be the largest financial transaction of their lives, and the conversation gives you a golden opportunity to create significant value for your client.

Valuation. Deal pricing for middle-market companies often ranges from 2 to 10 times EBITDA, depending on size, growth, margins, customer concentration, cyclicity and industry dynamics. Some industries, such as aerospace, tend toward the high end. Best practice is to obtain a Quality of Earnings (QoE) report to normalize EBITDA, assess sustainability of earnings, and validate working capital. Identifying “add-backs” in a QoE can meaningfully increase value — though buyers will closely scrutinize them.

Process. A well-run sale process usually takes 6-9 months. It involves confidential marketing to a broad range of prospective buyers in a carefully controlled, sophisticated, multi-stage auction. During the final phase, the buyer will conduct “due diligence,” verifying everything they’ve been told about the company and negotiating the purchase agreement. At this stage, buyers will often come up with reasons why the value is actually lower than they thought. Sellers’ M&A advisors help them counter such arguments.

Buyers. Potential buyers fall into 2 categories, Strategic and Financial, and they require different marketing approaches. Strategics are operating companies in the same or similar industry as your client. They look for complementary product lines or additional customers to increase their market shares. Financial buyers (typically private equity firms and family offices) look for platform or bolt-on acquisitions to build a large, profitable company which they can then sell in 5-7 years.

Positioning. This is where money is made for the owner. Buyers will argue the value should be based on last year’s EBITDA, or at most the Trailing Twelve Months’ (TTM) EBITDA. But behind the scenes, sophisticated buyers run Discounted Cash Flow (DCF) analyses, estimating the future performance of the business and discounting it to the present to arrive at their maximum bid price. If the marketing materials offer convincing opportunities for improving the business (derivative products to leverage existing designs, reducing cycle times to free up working capital, entering new market segments to boost revenue, streamlining production to improve gross margins, etc.), buyers will build those into their DCFs and increase their bids.

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Consideration. Buyers' offers may contain several types of consideration: cash, rollover equity, seller notes, contingency payments and earnouts. When evaluating the bids received, sellers need to understand the value and risks represented by each component in light of the buyer offering it. While cash is king, many sellers have made significant returns on rolled equity.

Succession. Sellers should have workable plans for post-transaction leadership of the company, depending on the type of buyer. Strategic buyers will often fold an acquired company into an existing organizational structure, and thus may not look for existing leadership to stay beyond a 6-12 month transition period. Financial buyers typically will want existing leaders to stay, and will offer attractive employment terms during negotiation of the purchase agreement.

Financial Records. Very few middle-market companies have perfect, GAAP-compliant financial statements – their owners' top priorities have rightly been growing the business, not bookkeeping. But they need not worry. As long as they have ready access to relatively accurate and complete financial data in whatever form (QuickBooks files, Excel worksheets, tax returns, etc.), specialized accountants can perform a QoE analysis to restate the numbers in close to GAAP format. As previously mentioned, QoEs can result in higher Adjusted EBITDA, leading to increased bid prices.

Unsolicited Offers. Owners are frequently approached by people who say they want to buy their company. These inquiries often result in offers that are materially below what the company could bring in a professional, competitive process run by an M&A expert.

Intellectual Property. All buyers are looking for defensible market positions. Patents and other IP can be highly valuable, not in and of themselves, but because they constitute strong barriers to competition. Articulate specifically how your IP represents value for a new owner.

Desired Outcomes. Are other factors important to the owners beyond just highest price, such as retention of employees, continued strong treatment of customers, or ongoing support of the local community? Make sure these and their effects are identified and understood before your client enters a sale process.

There are many other questions your clients may have, such as “How will the proceeds be taxed?” But the above list covers the bulk of the ones you will likely encounter, and allows you to provide valuable guidance in the most important deal of your clients' lives. I would welcome the opportunity to discuss any of these topics in greater depth. To receive my bi-weekly newsletter with insights on running and selling a company, [email](mailto:kgould@peakstone.com) me or go to kevingouldadvisory.com



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