CORPORATE CARVEOUT
CONNECTION

PRESALE PREPARATION:

THE DIFFERENCE BETWEEN A SUCCESSFUL CLOSING AND A FAILED TRANSACTION

WHY PRESALE PREPARATION MATTERS

Selling a business takes extensive preparation. For a corporate carveout, the required preparation is much more intense and different than a sale of a stand-alone business. The level of preparation will oftentimes result in the difference between a successful deal and a failed transaction. It almost always drives a different valuation outcome. The preparation isn't the same for each carveout. To do this right, the preparation of a sale process requires meticulous planning, alignment across the organization, and foresight to anticipate potential obstacles. Companies that invest time and resources into thorough pre-sale preparation not only maximize value but also mitigate risk, streamline execution, and increase the likelihood of a smooth, successful closing.

UNDERSTANDING PRESALE PREPARATION

Presale preparation refers to the strategic and operational steps a company takes before formally entering the market with a divestiture. It encompasses financial, legal, operational, and organizational readiness, all aimed at presenting the business in the best possible light to potential buyers.

At its core, pre-sale preparation serves three objectives:

MAXIMIZING VALUE:

The foundation to drive a better valuation is to have financials that are credible, indicative of the business being sold, and a management team that can speak to them with confidence. While this sounds basic, it isn’t always easy with a business that is being split off from a larger company.

MINIMIZING RISK:

Every business has inherent risks. When selling a carveout, there will be risks. They might be harder to identify upfront or difficult to mitigate versus in a sale of a stand-alone business. Knowing what to look for financially, operationally, and legally are all critical to a successful process.

ENSURING SMOOTH EXECUTION:

When done right, a well-run corporate carveout becomes an efficient and successful process. The necessary upfront time and experience necessary to do this correctly differs for each deal. That said, in almost every carveout, it is a heavy lift to prepare the business for sale.

Companies that neglect these preparatory steps often encounter unforeseen obstacles that can lead to significant delays in deal closings, reduced sale prices, or, in some cases, complete deal failures.

KEY COMPONENTS OF PRESALE PREPARATION

Effective presale preparation is multi-faceted. Here are the core areas companies must address:

1 FINANCIAL READINESS

A buyer's first look is almost always focused on the financial statements. Clean, transparent, and well-documented financial statements are non-negotiable. Oftentimes, a carveout does not have stand-alone financial statements. They are typically not audited, include corporate overhead allocations, contain shared service costs, and do not take into account the stand-alone costs to run independently. Having the right professionals develop a clean set of financials that take into account proper accounting standards, clearly identify shared services or allocated costs (with supporting detail), and can articulate the necessary costs to run the business on its own are critical to success. Financial surprises discovered late in the process can trigger renegotiations, erode buyer confidence, and even collapse a deal. More importantly, if the management team is armed with credible stand-alone financial information, they will be able to be more credible and deliver a much higher level of confidence in the overall business.

2 OPERATIONAL READINESS

Buyers want assurance that the business can function smoothly post-acquisition. This might be much harder for a carveout than a pre-existing stand-alone business. Common areas that are unique to a carveout:

- Shared operating/manufacturing space with another part of the parent company business
- A sales organization that is supported by the parent company or shared between businesses
- Management teams that are not solely responsible for the carveout business
- Brand/tradenames shared with parent company which now need to be separated
- Accounting, legal, engineering and other professionals provided by the parent company but needed for the carveout
- Key areas such as supply chain continuity, customer relationships, and employee compensation and benefits must be clearly demonstrated as being effectively managed on a stand-alone basis

Operational transparency allows potential buyers to see the business as a turnkey opportunity rather than a project requiring substantial corrective work. The closer you can get the business to a turnkey operation prior to sale, the better the outcome.

3 LEGAL AND REGULATORY COMPLIANCE

Legal and regulatory diligence is critical. Failure to address these areas before a sale can stall or completely derail a transaction. This takes on more risk in a carveout. Contracts need to be reviewed to ensure they do not cause issues upon a sale. Areas of preparation include:

- Reviewing contracts, leases, intellectual property rights, and licensing agreements to ensure the contracts and agreements are transferable.
- Ensure that the contracts and agreements are not with the parent company but with the specific entity.
- Understanding and being able to support compliance with required labor, environmental, antitrust, and industry-specific regulations
- Resolving pending litigation or contractual disputes

Proactive legal preparation reduces uncertainty and protects the company from last-minute surprises that could jeopardize the deal.

4 STRATEGIC POSITIONING, BRANDING, AND MARKETING

Presale preparation also involves positioning the business in a way that appeals to potential buyers. The primary concern will center around the company's current positioning in the industry, specifically:

- Does the company have its own brand or is it sharing a brand with the parent company?
- Can it maintain its current sales as a stand-alone business?
- Does the company have specific marketing and will that be maintained? Conversely, if it shares marketing, there needs to be a plan to support the business going forward.
- Understanding market trends and competitive dynamics
- If possible, develop a strong growth forecast highlighting the opportunities for the business as a stand-alone business.
- Oftentimes, the business being sold was "orphaned" well before the sale. Highlighting the under-investment in the company and why this provides a significant area for growth is a key selling factor.

A well-prepared business tells a compelling story—one that aligns with buyer objectives and justifies a premium valuation.

5 ORGANIZATIONAL ALIGNMENT AND COMMUNICATION

Internal alignment is equally important. Employees, management, and key stakeholders must understand the process and their roles. This includes:

- Ensuring leadership teams are prepared to interact with buyers. It is common that management team members have worked in various roles for the selling company and not specifically for the business being sold. This is a significant hurdle due to lack of business knowledge.
- Understanding the depth of management and who is going to be in front of the potential buyers. Buyers will want to see a credible management team with depth and business insight.
- Developing a communication strategy to address employee concerns. Separating from a parent company to a new company will lead to a lot of questions for employees. Will they maintain benefits, pay, and other key employment factors.
- Ensuring that the parent company is ready to handle the speed of the sale process and can make decisions regarding the sale process in an expedited fashion.

When a team is aligned and informed, buyers gain confidence that the business is stable and well-managed. Additionally, an efficient sale process will keep buyers interested through a lengthy process.

ORGANIZATIONAL READINESS QUICK CHECKLIST

- ☑ **Leadership prepared to interact with buyers**
- ☑ **Clear depth of management team**
- ☑ **Employee communication strategy in place**
- ☑ **Parent company decision making**

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COMMON PITFALLS WITHOUT ADEQUATE PREPARATION

Companies that fail to prioritize pre-sale preparation face a variety of risks, including:

- **Financial surprises** leading to renegotiated or reduced sale prices
- **Operational inefficiencies** lowering perceived value
- **Legal or regulatory hurdles** discovered late, causing delays
- **Poor buyer engagement** due to unclear strategic positioning
- **Employee disruption** impacting performance and continuity

Each of these issues can slow the process, erode value, or result in the deal falling apart entirely.

THE ROI OF PRESALE PREPARATION

Investing in pre-sale preparation has clear returns:

- **Higher sale price:** Buyers pay more for a business that is organized, compliant, and strategically positioned.
- **Faster closing:** Reduced due diligence issues and smoother negotiations shorten the timeline.
- **Risk mitigation:** Early identification of potential deal breakers avoids costly surprises.
- **Reputation benefits:** Pre-sale diligence will support the management team and employees of the company. It will provide them with leverage to negotiate stronger post sale employment terms.

In essence, pre-sale preparation is not a cost—it's an investment in deal certainty and value creation.

CONCLUSION

In corporate divestitures, pre-sale preparation is the difference between a successful closing and a failed transaction. Companies that invest in financial, operational, legal, and organizational readiness position themselves to maximize value, reduce risk, and execute deals efficiently. The lesson is clear:

- Treating presale preparation as a strategic priority rather than a checklist item can determine whether a divestiture succeeds or stalls.
- Consult with the appropriate advisors who have experience in corporate carveouts. This is a different process than selling a stand-alone business and requires an experienced team to execute the process efficiently.

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