

Preparing for the Next Generation Starts with Being Investor-Ready

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The most important investor may be your own successors. Investor readiness supports smooth transitions, builds trust, enhances enterprise value, and keeps strategic options open—whether you sell, recapitalize, or stay independent.

Some businesses are launched with a specific goal of achieving an exit. Others, especially family businesses, are often launched with no intention of ever selling. The goal is continuity, not exit. Regardless of whether your goal is to sell, transition to the next generation, or simply stay independent, there are compelling reasons to be investor-ready.

For our purposes, investor-readiness could influence a complete or partial sale, a management buyout, a shareholder liquidity event, a capital raise, taking on debt, or ultimately, any corporate transaction, including a transition to an employee-owned company. Uniquely, when it comes to family businesses, an investor could be the next generation. That transition to a family member can occur via a sale, a gift, or another mechanism.

If you are contemplating any of the above or simply want to be ready should an opportunity arise (and you should be!), you should be investor-ready. If the unexpected call comes in and the price is right, you do not want to miss an opportunity because you're unprepared. Worse, you might be forced to scramble during due diligence, only to find that some issues are insurmountable. Similarly, if a family health matter or other circumstance forces an untimely transition, you need to be ready. Time kills deals, as does poor governance, weak reporting, and compliance issues, just to name a few.

While a large service industry exists to help businesses get investor-ready, most businesses can make meaningful progress on their own before calling in an outsider.

While a potential transaction, planned or opportunistic, is a great reason to be investor-ready, there's another, and possibly more compelling one. Before we explore that, what do we mean by investor-ready?

Being Investor-Ready: What It Really Means

Investor-readiness requires a clear understanding of how your business would be valued and which financial or operational factors could influence that valuation. Being investor-ready means you are thoughtfully prepared to engage in meaningful discussions with investors or family members. While it is rare to be fully investor-ready, given changing market conditions and evolving investor preferences, you can do many things to prepare and close the potential gap.

Each acquirer, investor, banker, or strategic partner will have a different view of this based on their expectations, experiences, and goals, but they will all require some fundamental elements. A deal killer for one investor may not even be on another's radar.

However, it is not difficult to address the most common requirements ahead of time. Here are some non-negotiables. These topics each go very deep, so continuing to drill down on each is important and will be dictated by your size, complexity, regulatory environment, investors you are dealing with, and your goals.

Strengthening Reporting and Transparency

You need accurate, timely financial statements, ideally as part of a comprehensive reporting package that includes metrics and analysis. Audited, or at least CPA-reviewed annual financial statements are critical, as are tax returns. While the nuances of due diligence will vary by party, there is no question that without an accurate baseline of financial performance, the process may very well end before it gains momentum.

Without this information, projections are a challenge and that in turn makes valuation and investor expectations hard to manage. Revenue opportunities, cost savings, and other value drivers can be unclear, which only hinders the process and limits your chance of success. As an owner, you need to be able to articulate all accretive opportunities and clearly demonstrate why you deserve a premium valuation.

This exercise will also help you zero in on potential EBITDA addbacks, which are always of interest to an investor. A peer group analysis, including margins and both financial and operating indicators, would be included in this category. If you examine the reporting of your publicly traded peers, regardless of size, you can glean insights that will help shape this analysis. Modeling your reporting after theirs will also facilitate analysis and reduce hurdles.

It will also allow you to get in front of the valuation discussion and optimize your presentation and story. You will be speaking the same language as your investor and that will be valuable. For example, I once worked with a company that netted pass-through revenue and associated costs within their expenses. However, industry practice required gross revenue and expenses to be recorded separately. While not impacting the bottom line, this adjustment boosted their revenue and, consequently, their valuation, as their industry valued companies based on revenue multiples rather than EBITDA.

Valuation adjustments also come into play when a family business carries expenses that are not core to operations. Some families use company resources to support investment activities, personal services, or administrative functions that resemble an embedded family office. These costs are typically added back to EBITDA during a valuation or transaction process, since an outside investor would not need to continue funding them. Identifying and documenting these items early strengthens credibility and helps present a normalized

earnings profile.

Building Governance That Inspires Confidence

Strong governance and education are essential, both within the business and within the family. In family enterprises, clarity around decision-making and roles is as important as financial results. As ownership expands across generations, good governance helps preserve relationships and enterprise value.

At the family level, this starts with establishing structures that separate family dynamics from business decisions. Shareholder agreements, family employment policies, and regular family meetings provide transparency and reduce conflict among siblings or cousins as ownership evolves. A shared understanding of how decisions are made ensures the business stays aligned with both family values and long-term strategy.

Within the company, formal governance practices signal discipline and credibility. Investors and future successors alike want to see evidence of active board meetings, detailed minutes, and well-maintained corporate documents. Operating agreements, recorded votes, and compliance records should be complete and accessible.

Finally, governance extends to risk management. Disaster recovery plans, business continuity strategies, and cybersecurity protocols all demonstrate that you take stewardship seriously. Many industries also require specific audits, licensing, or regulatory reporting. Being proactive about these requirements strengthens confidence that your business is resilient and well-managed, qualities that matter as much to the next generation as they do to outside investors.

A Lesson in Governance and Consequences

A real-world example illustrates why governance and transparency matter. A company founded and owned by two brothers had relied on informal reporting practices for years. Financial information was inconsistent, disclosures were limited, and the lender increasingly questioned the credibility of what it received. Although improvements were eventually made to strengthen reporting and rebuild transparency, the long-standing erosion of trust proved difficult to overcome. The situation ultimately resulted in a forbearance agreement,

a workout, and a forced sale of the company. Although the sale did not fully recoup the bank's investment, the lender agreed to release the brothers from their personal guarantees, which was a favorable outcome given the circumstances. Strong governance, reliable reporting, and transparent financial practices could have given them more options and prevented a distressed transaction in the first place.

Clarifying Strategy and Long-Term Intentions

A clear business plan and budget will also help expedite this process, demonstrating your understanding of the business and outlining opportunities for growth. A business plan need not be hundreds of pages. Covering the basics and then using that as a discussion starter will generally suffice.

What are your growth plans? Are there gaps in your product offering that you will address? Are you entering new markets or planning to offer new solutions? Are you modifying how you go to market? Is your supply chain strong, and can you affordably source all that you need to meet your customers' needs? Do you have an accurate and sufficiently detailed demand forecast? What does the competitive landscape look like? Are there any regulatory or legislative issues on the horizon?

Are you adequately resourced to implement your plans? Is there a material spending decision on the horizon -- and if so, what does the ROI look like? Are you developing any intellectual property? Is your current IP properly protected? Addressing issues like these provides insight into your capacity to execute and can help make your business more attractive to investors.

Assessing Organizational Capacity

The importance may vary depending on type of transaction, but providing an up-to-date organizational chart with any open roles is critical. Investors will want to know if you are staffed appropriately for current and future business needs. Along with bios for key employees, identifying retiring or at-risk employees is also particularly important, as are contingency plans to fill the potential void.

Combining employee stats with other metrics will also be useful. Revenue and expenses per employee, utilization and capacity measures and other insights can help tell your story. This can also highlight a disconnect

between your plan and ability to achieve it.

If your revenue is dependent on a certain number of employees, you need to ensure that you have accounted for those bodies in your hiring plan, while accounting for time to hire metrics. For family employees, documenting market-based compensation and realistic expectations about future roles also helps preserve fairness and clarity during any transition or transaction.

Preparing the Next Generation

Investor-readiness also reinforces succession readiness. A well-run business that produces timely, accurate information, has clear roles, and maintains disciplined planning is one that can transition leadership smoothly. For family firms, this means your next generation inherits not just ownership, but a high-performing, transparent enterprise, one that invites pride rather than pressure. The same disciplines that attract investors also make your business more "handover-ready."

Selecting the right advisors can also accelerate investor-readiness. Valuation experts, tax professionals, estate and trust attorneys, wealth advisors, and governance consultants each bring perspectives that families may not have internally. Their guidance helps ensure that financial statements, ownership structures, compensation practices, and long-term plans are aligned with both family goals and market expectations.

Managing Emerging Issues

While there are other items that may be needed, these are a good start and can also filter out the uninterested parties and help others get more excited about the opportunity. In addition to prepared materials, be ready to discuss current issues. While the documents you provide should be updated periodically, they will always be lagging. Showing that you are on top of emerging issues will add to your credibility. How will tariffs impact your business? Is AI a threat or an opportunity for you?

Maintaining Optionality for Every Generation

You have likely gleaned the alternate reason to be investor-ready that I alluded to earlier. It should be readily apparent that following this advice will lead to a better-run, more efficient, and effective business. This process forces you to identify inefficiencies and refine your operations. A well-run business is more profitable

and more attractive to investors. By improving your governance, financial reporting, and strategic planning, you can increase your valuation, whether or not you plan to exit. De-risking your business and improving transparency is invaluable.

Furthermore, this ongoing process should help you identify opportunities, and you may decide to flip the script. Maybe you should grow your business organically or through acquisitions instead of exiting. Should you create incremental value and then exit? Perhaps you will see not only higher revenue and profit, but also multiple expansion as a reward for doing the right things and taking the business to the next level.

Conclusion: A Stronger, More Resilient Enterprise

Whether you ever sell or not, being investor-ready is one of the best ways to honor your family's legacy. It safeguards the business you've built, clarifies governance for future generations, and keeps strategic options open. In a family business, the ultimate return isn't only financial: It's generational. Investor-readiness will also allow you to control the narrative and reduce friction in the transition process, while importantly allowing all parties to focus on the truly strategic issues. So even if you are not looking to exit or raise capital, be investor-ready. You, your employees, your management team, and most importantly, your family will be glad you did.